DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 1: FINANCIAL ACCOUNTING

MONDAY 8 JUNE 2026

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to carefully study the examination paper so that you understand what to do in each question.

2. This paper is divided into TWO (2) sections:

   Section A: Ten (10) Compulsory multiple choice questions.
   Section B: Five (5) Optional questions. Attempt any Four (4) questions.

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

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

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

6. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A - (COMPULSORY)

Attempt all ten (10) multiple choice questions.

<u>QUESTION ONE – (COMPULSORY)</u>

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

1.1 What is the main aim of accounting?

A. To maintain ledger accounts for every transaction.

B. To provide financial information to users of accounting information.

C. To provide a trial balance.

D. To record every financial transaction individually.

(2 marks)

1.2 Which of the following is a non-profit making entity?

A. Sole trader.

B. Tennis club.

C. Partnerships.

D. Corporate entity.

(2 marks)

1.3 An increase in inventory of K500, a decrease in the bank balance of K800 and an increase in the payables of K2,400 will result in:

A. A decrease in working capital of K2,700.

B. An increase in working capital of K2,700.

C. A decrease in working capital of K2,100.

D. An increase in working capital of K2,100.

(2 marks)

1.4 The accumulated funds are equal to:

A. The excess of receipts over payments in a not-for-profit organization.

B. Retained profits in a limited company.

C. The book value of net assets in a not-for-profit organization.

D. The bank balances of an organization.

(2 marks)

1.5 Which one of the following is an error of original entry?

A. A credit sale debited to the bank account and credited to the sales account.
B. The purchase of a non-current asset debited to the inventory account and credited to the suppliers account.
C. An electricity bill debited and credited to the correct accounts but duplicated.
D. An invoice for K592 debited and credited to the correct accounts, but for K529.

(2 marks)

1.6 XYZ's computerized accounting system automatically updates the non-current asset register when additions to property, plant and equipment are made. A machine costing K120,000 with a useful life of five (5) years and an estimated residual value of K12,000 is acquired at the year end.

Which of the following statements is correct in relation to the recording of this asset in the non-current asset register?

A. The journal entry to record the cost is Dr Asset K120,000 and Cr Bank K120,000. The 5-year useful life is recorded.
B. There is no journal entry but the cost of K120,000 and the 5-year useful life are recorded.
C. There is no journal entry but the cost of K120,000, the 5-year useful life and the estimated residual value of K12,000 are recorded.
D. The journal entry to recorded the cost is Dr Asset K120,000 and Cr Bank K120,000. The 5-year useful life and estimated residual value of K12,000 are recorded.

(2 marks)

1.7 ABC has a payables control account balance of K12,500 at 31 December 2025. However, the extract of balances from the payable's ledger totals K12,800. Investigation revealed the following errors: purchases for week 52 of K1,200 had been omitted form the control account; a supplier account of K900 had been omitted from the list of balances.

What is the correct payables balance at 31 December 2025?

A. K12,500.
B. K13,400.
C. K12,800.
D. K13,700.

(2 marks)

1.8 Sales returns of K1,380 have unintentionally been posted to the credit side of the purchase returns account, although the correct entry has been made to the accounts receivable control. What is the account balance on the suspense?

A. K1,380 debit.

B. K1,380 credit.

C. K2,760 debit.

D. K2,760 credit.

(2 marks)

1.9 If the owner of the business takes out inventory for his own use, how is this dealt with?

A. Credited to drawings at cost.

B. Credited to drawings at selling price.

C. Debited to drawings at cost.

D. Debited to drawings at selling price.

(2 marks)

1.10 A company has the following information about property, plant and equipment.

	2025	2024
	K'000	K'000
Cost	750	600
Accumulated depreciation	(250)	(150)
Carrying value	500	450

Plant with a carrying value of K75,000 (original cost K90,000) was sold for K30,000 During the year.

What is the cash flow from investing activities for the year?

A. K95,000 inflows.

B. K210,000 inflows.

C. K210,000 outflow.

D. K95,000 outflow.

(2 marks)

[Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

Chili is in the manufacturing business. His trial balance as at 31 December 2025 was as follows:

		Dr K	Cr K
Motor van delivery expenses		12,320	
Light and heat:	Factory	50,540	
	Office	10,430	
Manufacturing wages		504,700	
General expenses:	Factory	56,700	
	Office	13,580	
Commission		81,816	
Purchase of raw materials		400,470	
Rent:	Factory	42,700	
	Office	18,900	
Machinery (cost K280,000)		200,200	
Office equipment (cost K63,000)		57,400	
Office salaries		124,180	
Receivables		239,400	
Payables			65,800
Bank		112,994	
Sales			1,363,600
Motor van (cost K47,600)		43,400	
Inventory 31 December 2024:			
Raw materials		92,820	
Finished goods		289,100	
Drawings		169,400	
Capital		-	1,091,650
		2,521,050	2,521,050

Additional information:

(1) Inventory at 31 December 2025:

- Raw materials, K101,570.
- Finished goods, K311,430.
- There was no work-in-progress.

(2) Depreciation on machinery was K21,000; Office equipment K4,200; and Motor van K8,400.

(3) Manufacturing wages due but not paid at 31 December 2025 were K3,850 and office rent prepaid were K980.

Required:

(a) Chili's manufacturing account for the year ended 31 December 2025. (4½ marks)

(b) Chili's statement of profit or loss for the year ended 31 December 2025. (6 marks)

(c) Chili's statement of financial position as at 31 December 2025. (9½ marks)

[Total: 20 Marks]

QUESTION THREE

Mr. Robert Chanda owns and runs a farm supplies store. There is a mark-up on cost of sales of 50% on everything he sells. Chanda does not keep proper records for his store. Upon investigation, the following has been provided to you:

Summarized statement of assets and liabilities as at 31 December 2024

	K
Non- current assets	70,000
Inventory of farm produce	20,000
Cash in till	1,000
Cash in bank	3,800
Trade payables	3,600
Capital	91,200

In the year to 31 December 2025:

(1) There were no sales on credit.

(2) K156,500 of sales was lodged to the bank.

(3) The following bank payments were made:

	K
Trade payables	130,000
Repairs and maintenance	8,000
Insurance	4,800
Light and heat	6,000
Personal house insurance	1,000

(4) Cash payments made out of the till:

Trade payables	6,800
Wages	30,000
Drawings	10,800

(5) The closing cash till balance was K900 and the closing trade payables were K4,200. All trade payables transactions related to the purchase of farm produce.

(6) Depreciation for the year amounted to K3,000.

(7) The value of the closing bank balance and closing inventory were not known.

Required:

(a) Prepare the cash account and bank account that capture the transactions of Mr. Chanda during the year ended 31 December 2025. You should balance off the accounts at the end of the year. (7 marks)

(b) Prepare a statement of profit or loss for the year ended 31 December 2025. (8 marks)

(c) Prepare a statement of financial position as at 31 December 2025. (5 marks)

[Total: 20 Marks]

QUESTION FOUR

Rodrick, Joseph and Kasuba are in partnership sharing profits and losses in the ratio of 2:2:1 respectively. At 1 January 2025 their capital and current account balances were as follows:

	Capital account	**Current account**
	K	**K**
Rodrick	32,000	2,400 Credit
Joseph	40,000	1,100 Debit
Kasuba	48,000	1,900 Credit

The partners are entitled to interest on capital at the rate of 5% per annum.

On 1 July 2025, Rodrick increased his capital by paying a further K6,000 into the partnership bank account, while Joseph reduced his capital to K26,000 and left the value of his withdrawn capital in the partnership as a loan bearing interest at 5% per annum.

Partners are allowed to withdraw from current accounts at any time during the financial year but are charged interest on the amounts involved.

Details of drawings made and interest chargeable in respect of each partner for the financial year ended 31 December 2025 are:

	Drawings	**Interest on Drawing**
	K	**K**
Rodrick	6,000	270
Joseph	5,700	220
Kasuba	8,100	330

Joseph was paid an annual salary of K18,000. The profit before interest for the year ended 31 December 2025 was K56,420.

Required:

(a) Prepare the profit or loss appropriation account of the partnership for the year ended 31 December 2025. (9 marks)

(b) Prepare partners' current accounts for the year ended 31 December 2025. (8½ marks)

(c) Prepare partners' capital accounts for the year ended 31 December 2025. (2½ marks)

[Total: 20 Marks]

QUESTION FIVE

The trial balance for Mr. Muleli, a sole trader, for the year ended 31 December 2025 did not balance. Mr Muleli identified the following issues but was not sure how to account for these and has approached you for assistance:

(1) Purchases returns of K964 had been debited to the purchases account in error.

(2) A non-current loan received of K10,000 was credited to equity by mistake.

(3) A payment of K1,000 to a trade payable, T. Musonda, was credited to a trade receivables of R. Musonda by mistake.

(4) In reviewing his cheque jounal, Mr Muleli realized that he accidently recorded repairs and maintenance of K900 as insurance.

(5) Mr. Muleli took purchases of K1,000 to his home for a personal party. No adjustment for this transaction had been included in the financial statements.

(6) Deposit interest of K400 that related to a personal deposit account was included in the business trial balance by debiting bank interest expense and crediting suspense.

Required:

(a) Prepare journal entries for Mr. Muleli to record and correct errors and omissions for the year ended 31 December 2025. (14 marks)

(b) Prepare the suspense account and deduce its opening balance. (3 marks)

(c) Identify three (3) accounting errors that can be detected by preparing a trial balance. (3 marks)

[Total: 20 Marks]

QUESTION SIX

Mr. Lulamba has been trading for some years now as a meat merchant. The list of balances below has been extracted from his ledger as at 31 December 2025.

	K
Capital	251,661
Sales	779,610
Trade Payables	59,520
Returns Outwards	40,221
Allowance for irrecoverable debts	1,536
Discount allowed	6,918
Discount received	5,250
Purchases	407,040
Returns Inwards	16,872
Carriage Outwards	13,686
Drawings	55,320
Carriage Inwards	35,490
Rent, rates and insurance	77,919
Heat and lighting	33,030
Postage, stationary and telephone	7,230
Advertising	17,940
Salaries and wages	115,563
Irrecoverable debts	6,024
Cash in hand	1,602
Cash at bank	13,320
Inventory 31 December 2024	46,962
Trade Receivables	73,500
Fixtures & Fittings at cost	362,220
Provision for depreciation	189,060
Depreciation	36,222

You are also given the following information:

(1) Inventory at 31 December 2025 was valued at K53,250.

(2) Insurance premiums had been prepaid by K3,360.

(3) Heat and lighting had been accrued by K4,080.

(4) Rates have been prepaid by K16,305.

(5) The allowance for irrecoverable debts was to be adjusted to 3% of trade receivables.

Required:

(a) Prepare the statement of profit or loss for the year ended 31 December 2025. (10½ marks)

(b) Prepare the Statement of financial position as at 31 December 2025. (6½ marks)

(c) List six (6) factors that have shaped the development of financial accounting. (3 marks)

[Total: 20 Marks]

END OF PAPER

DA 1 FINANCIAL ACCOUNTING

SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) Chili's manufacturing account for the year ended 31 December 2025

	K	K
Inventory of raw materials at 1 January 2025		92,820
Add: Purchases		400,470
		493,290
Less: Inventory of raw materials 31.12.2025		(101,570)
Cost of raw material consumed		391,720
Manufacturing wages (K504,700 + K3,850)		508,550
Prime Cost		900,270
Factory Overheads:		
Factory light & heat	50,540	
General factory expenses	56,700	
Factory rent	42,700	
Depreciation: Machinery	21,000	170,940
Production cost of goods completed		1,071,210

(b) Statement of profit or loss for the year ended 31 December 2025

	K	K
Sales		1,363,600
Less cost of goods sold:		
Inventory of finished goods 1.1.2025	289,100	
Add: Production cost of goods completed	1,071,210	
	1,360,310	
Less: Inventory of finished goods 31.12.2025	(311,430)	
		(1,048,880)
Gross profit		314,720
Less Expenses:		
Office salaries	124,180	
General office expenses	13,580	
Office rent (K18,900-K980)	17,920	
Light & heat	10,430	
Commission	81,816	
Delivery van expenses	12,320	
Depreciation: Office equipment	4,200	
Motor Van	8,400	
		(272,846)
Net profit		41,874

(c) Statement of financial position as at 31 December 2025

	Cost K	Accum'd Dep'n K	N.B. V K
Non-Current Assets:			
Machinery	280,000	(100,800)	179,200
Office equipment	63,000	(9,800)	53,200
Motor Van	47,600	(12,600)	35,000
	390,600	(123,200)	267,400
Current Assets:			
Inventory: Finished goods		311,430	
Raw materials		101,570	

Receivables	239,400	
Prepayment	980	
Bank	112,994	
		766,374
		1,033,774
Financed by:		
Capital	1,091,650	
Add: Net profit	41,874	
	1,133,524	
Less: Drawings	(169,400)	
		964,124
Current Liabilities:		
Payables	65,800	
Accrued Expenses	3,850	
		69,650
Total Capital and Liabilities		1,033,774

Workings

Depreciation workings:
Machinery: K280,000-K200,200=K79,800+21,000= K100,800
Equipment: K63,000-K57,400=K5,600+K4,200= K9,800
Motor Van: K47,600-K43,400=K4,200+K8,400= K12,600

SOLUTION THREE

(a) Cash and bank accounts

	Cash	Bank		Cash	Bank
	K	K		K	K
Balance b/d	1,000	3,800	Cash sales banked	156,500	-
Cash sales banked		156,500	Trade payables	6,800	130,000
			Repairs and	-	8,000
			Maintenance	-	4,800
Cash sales	204,000		Insurance	-	6,000
			Light and heat	30,000	-
			Wages	10,800	1,000
	----------	----------	Drawings	900	10,500
			Balance c/d		
	205,000	**160,300**		**205,000**	**160,300**
Balance b/d	900	10,500	Balance b/d		

(b) Mr. Robert's statement of profit or loss for the year ended 31 December 2025.

	K	K
Revenue		204,000
Cost of sales:		
Opening inventory	20,000	
Purchases	137,400	
	157,400	
Closing inventory	(21,400)	
Cost of sales		(136,000)
Gross profit		68,000
Expenses:		
Repairs and maintenance	8,000	
Insurance	4,800	
Light and heat	6,000	
Wages	30,000	
Depreciation	3,000	
		(51,800)
Net profit		16,200

(c) Mr. Robert's statement of financial position as at 31 December 2025

	K	K
Non –current assets:		
PPE (K70,000 – K3,000)		67,000
Current assets:		
Inventory	21,400	
Cash and cash equivalent (K10,500 + K900)	11,400	
		32,800
Total assets		99,800

Capital and liabilities:

Capital at beginning	91,200
Profit for the year	16,200
Drawings (K10,800 + K1,000)	(11,800)
	95,600
Non-current Liabilities	-
Current liabilities:	
Trade payables	4,200
Total capital and liabilities	99,800

Workings

(1)

Sales	150%	= 204,000		204,000
Cost of sales	100%	= ?	Therefore, 204,000/1.5 = Cost of sales	136,000
Gross profit	40%	= ?		
68,000				

(2) Payables Account

Bank payments	130,000	Balance b/d	3,600
Cash payments	6,800	Purchases- Balancing figure	137,400
Balance c/d	4,200		-
	141,000		**141,000**

(3) Cost of sales

Opening inventory	20,000
Purchases	137,400
Closing inventory	x
Cost of sales	136,000
Therefore, Closing inventory	= 21,400

SOLUTION FOUR

(a) Profit or loss appropriation account

		K	K
Net profit less loan (K56,420 – K350)			56,070
Add interest on drawings (K270 + K220 + K330)			820
			56,890
Less Joseph salary			(18,000)
			38,890
Less interest on capital			
Rodrick (Note 2)		1,750	
Joseph (Note 2)		1,650	
Kasuba (5% x K48,000)		2,400	
			(5,800)
Residual profit			33,090
Sharing of profit:			
Rodrick	2/5 x K33,090	13,236	
Joseph	2/5 x K33,090	13,236	
Kasuba	1/5 x K33,090	6,618	
			33,090

Workings

(1) Interest on loan

Amount of loan	14,000
Interest on loan	5%
No. of months of interest on loan	6
Interest on loan	**350**

(2) Interest on capital

Rodrick	K32,000 x 6/12 x 5%	800
	K38,000 x 6/12 x 5%	950
		1,750
Joseph	K40,000 x 6/12 x 5%	1,000
	K26,000 x 6/12 x 5%	650
		1,650

(b)

Partners' current account

	Rodrick	Joseph	Kasuba		Rodrick	Joseph	Kasuba
	K	K	K		K	K	K
Balance b/f	-	1,100	-	Balance b/f	2,400	-	1,900
Interest on drawings	270	220	330	Interest on capital	1,750	1,650	2,400
Drawings	6,000	5,700	8,100	Salary	-	18,000	-
				Profit sharing	13,236	13,236	6,618
Balance c/f	11,116	26,216	2,488	Loan interest	-	350	-
	17,386	33,236	10,918		17,336	33,236	10,918

Partners' capital account

	Rodrick	Joseph	Kasuba		Rodrick	Joseph	Kasuba
	K	K	K		K	K	K
Capital withdraw	-	14,000	-	Balance b/f	32,000	40,000	48,000
				Capital introduced	6,000	-	-
Balance c/f	38,000	26,000	48,000				
	38,000	40,000	48,000		38,000	40,000	48,000

SOLUTION FIVE

(a)

	Dr	Cr
Error 1		
Suspense	1,928	
Purchases returns		964
Purchases		964
Error 2		
Equity	10,000	
Bank loan – non-current		10,000
Error 3		
Trade payables	1,000	
Trade receivables	1,000	
Suspense		2,000
Error 4		
Repairs and Maintenance expense	900	
Insurance expense		900
Error 5		
Drawings	1,000	
Purchases		1,000
Error 6		
Suspense	400	
Bank interest expense		400

(b) Suspense account

Purchase returns	964	Opening balance	328
Purchases	964	Trade payables	1,000
Bank interest expense	400	Trade receivables	1,000
	2,328		**2,328**

(c) The following are the errors that can be detected by the trial balance:

(1) Errors of transposition
(2) Errors of partial omission (if omission is one sided)
(3) Errors of commission (if one side, or say two debit entries are made for example)

SOLUTION SIX

(a) Mr Lulamba's statement of profit or loss for the year ended 31 December 2025

	K	K
Sales (K779,610-K16,872)		762,738
Less cost of goods sold:		
Inventory	46,962	
Purchases (K407,040-K40,221)	366,819	
Carriage inwards	35,490	
	449,271	
Less inventory	(53,250)	(396,021)
Gross Profit		366,717
Discount received		5,250
		371,967
Less Expenses:		
Salaries and wages	115,563	
Rent, rates and insurances (K77,919-K3,360-K16,305)	58,254	
Heat and lighting (K33,030+K4,080)	37,110	
Carriage outwards	13,686	
Advertising	17,940	
Postage, stationary and telephone	7,230	
Irrecoverable debts	6,024	
Increase in allowance for irrecoverable debts	669	
Discount allowed	6,918	
Depreciation	36,222	(299,616)
Net profit		72,351

(b) Statement of Financial Position as at 31 December 2025

	K	K	K
Non-Current Assets:			
Fixtures and fittings	362,220	(189,060)	173,160
Current Assets:			
Inventory		53,250	
Trade receivables (K73,500-K2,205)		71,295	
Prepayments (KK16,305+K3,360)		19,665	
Bank		13,320	
Cash		1,602	
			159,132
Total Assets			332,292
Financed by:			
Capital		251,661	
Add: Net profit		72,351	
		324,012	
Less: Drawings		(55,320)	
			268,692

Current Liabilities:		
Trade payables	59,520	
Accrued Expenses	4,080	
		63,600
Total Capital and Liabilities		332,292

Working:

Allowance for irrecoverable debts
K73,500*0.03=K2,205
Therefore: K2,205-K1,536=K669

(c) The following factors can be identified.
(1) National/local legislation.
(2) Accounting concepts and individual judgement.
(3) Accounting standards.
(4) Other international influences.
(5) Generally accepted accounting principles (GAAP).
(6) Fair presentation.

END OF SUGGESTED SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 2: QUANTITATIVE ANALYSIS

WEDNESDAY 10 JUNE 2026

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

INSTRUCTIONS TO CANDIDATES

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

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

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

SECTION A – (COMPULSORY)

Attempt all ten (10) multiple choice questions.

QUESTION ONE

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

1.1 A bag contains 4 red balls and 6 black balls. A ball is drawn at random from the bag. The probability that a red ball is drawn is;

A. $\frac{2}{5}$

B. $\frac{3}{5}$

C. $\frac{1}{2}$

D. $\frac{3}{10}$

(2 marks)

1.2 The table below shows the age of individuals found with a strange illness recorded at a rural medical center

Age (in years)	5 – 14	15 – 24	25 – 34	35 – 44	45 – 54	55 – 64
Number of cases	6	11	21	23	14	5

The average age for which maximum cases occurred is:

A. 34.88

B. 35.34

C. 36.31

D. 37.31

(2 marks)

1.3 The child has a die whose six (6) faces show the letters as given below:

A	B	C	D	E	F

The die is thrown once. The probability of getting an 'A' is

A. $\frac{1}{3}$
B. $\frac{1}{6}$
C. $\frac{1}{5}$
D. $\frac{1}{4}$

(2 marks)

1.4 If the mean of six (6) numbers 4, 5, 9, x, 10, 8 is 7. Find the value x.

A. 5
B. 6
C. 7
D. 8

(2 marks)

1.5 If the regression equation is equal to $\hat{y} = 20.5 - 36.3x$, then 20.5 is the ____________ while -36.3 is the ______________ of the regression line.

A. Slope, intercept.
B. Slope, regression coefficient.
C. Radius, intercept.
D. Intercept, slope.

(2 marks)

1.6 A Medical centre provides the weight of patients seeking of vaccination from an infectious disease as follows:

47 54 37 56 35 32 58 27 32 44.

Find the range for the data.

A. 27
B. 47
C. 58
D. 31

(2 marks)

1.7 Due to the increase in the number of Loadshedding hours, the price of a certain make of generator set has risen from K6,000 to K10,500. Express the increase as a percentage of the original.

A. 57%

B. 43%

C. 70%

D. 75%

(2 marks)

1.8 If the average weight of 160 students is 70Kg, find the number of boys and girls in a college if the average weight of boys and girls is 85 Kg and 65 Kg respectively:

A. $(120, 40)$

B. $(40, 120)$

C. $(100, 60)$

D. $(60, 100)$

(2 marks)

1.9 The mean of 15 numbers is 10. If a 16^{th} number is now included in the results, the mean becomes 12. What is the value of the 16^{th} number?

A. 24

B. 42

C. 31

D. 12

(2 marks)

1.10 If $X \sim N(100, 64)$ then the standard deviation is

A. 100

B. 64

C. 8

D. 36

(2 marks)

[Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

(a) Mr. Kamela, a dealer in second hand vehicle parts has K15,000 to invest at 9% annual interest compounded monthly. How long will it take for his investment to grow to K80,000? (3 marks)

(b) 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 (8) cars of this model and collected the following information on the ages (in years) and prices (in thousands of kwacha) of these cars.

Age (X) (in Years)	8	3	6	9	2	5	6	3
Price (Y) (in thousands of Kwacha)	45	210	100	33	267	134	109	235

Required:

(i) Draw the scatter diagram of these data. (3 marks)

(ii) Find the equation of the regression line of Y on X. (8 marks)

(iii) Estimate the price of an 18-year-old car of this model. (2 marks)

(iv) Calculate the coefficient of correlation r . (4 marks)

[Total: 20 Marks]

QUESTION THREE

(a) In a university 8% of the students are members of the university debate club. A random sample of 36 students is taken from the university. Find the probability that:

(i) Exactly four (4) students are members of the debate club. (2 marks)

(ii) At least three (3) students are members of the debate club. (4 marks)

(iii) What is the expected number of students who are members of the debate club? (2 marks)

(iv) What is the standard deviation of the number of students who are members of the debate club? (2 marks)

(b) What is the present value of an ordinary annuity that pays K3,895 every three (3) months for five (5) years if money is worth 6.8% compounded quarterly? (4 marks)

(c) The citizens of Zambia withdraw money from a cash machine according to the following probability distribution.

Amount (K)	50	100	150	200	250	300
Probability	0.10	0.10	0.15	0.25	0.30	0.10

Required:

(i) What is the expected amount withdrawn by the citizens of Zambia? (2 marks)

(ii) What is the standard deviation in the amount withdrawn by the citizens of Zambia? (4 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) Suppose that a book of 900 pages contains 60 printing mistakes. Assume that these errors are randomly distributed throughout the book and X, the number of errors per page has a Poisson distribution. Ten pages are selected at random.

Required:

(i) What is the probability that there will be free of errors? (2 marks)

(ii) What is the probability that at most two (2) of them will be free of errors? (3 marks)

(iii) What is the probability that at least three (3) of them will be free of errors? (2 marks)

(b) The following data shows the shoe sizes of seven ladies at a certain college.

6, 2, 8, 6, 6, 21, 9.

Required:

Calculate

(i) The median. (1 mark)

(ii) The standard deviation. (3 marks)

(iii) The range. (1 mark)

(iv) The interquartile range. (3 marks)

(c) (i) Comment briefly on what each measure of dispersion in (b) above show us. (3 marks)

(ii) Which one do you think is generally more useful to researchers, and why? (1 mark)

(iii) Without computations, do you think the mean will be larger than the median?

Explain your reasons. (1 mark)

[Total: 20 Marks]

QUESTION FIVE

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

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

Required:

Using the multiplicative model and the method of moving averages:

(i) Obtain the trend using four (4) moving average. (6 marks)

(ii) Determine the average seasonal variations. (3 marks)

(iii) Interpret the average seasonal variations obtained in (ii) above. (2 marks)

(iv) Forecast the percentage of personal disposable income in the third quarter of 2005. (3 marks)

(b) Mr. Tembo a University qualified member and his wife a professional qualified member attended an interview for two (2) vacancies for the post of college Finance Officer at a private University. The probability of the interview panel selecting the man is $\frac{1}{7}$ and that of the wife is $\frac{1}{5}$.

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

(i) Both of them will be selected. (2 marks)

(ii) Only one (1) of them will be selected. (2 marks)

(iii) None of them will be selected. (2 marks)

[Total: 20 Marks]

QUESTION SIX

(a) Mr. Max borrows K350,000 for ten (10) years at 12% annual interest rate compounded monthly. Determine:

(i) Monthly payment. (3 marks)

(ii) The total payment. (2 marks)

(iii) The finance charge (Total interest paid over the ten years' period). (2 marks)

(b) The annual precipitation data of a city is normally distributed with mean and standard deviation as 1,000 mm and 200 mm, respectively.

(i) What is the probability that the annual precipitation will be more than 1300 mm? (4 marks)

(ii) What is the probability that the annual precipitation will be between 1,200 mm and 1,400 mm? (5 marks)

(iii) If the probability of the annual precipitation will be at most 5%, what is the annual precipitation? (4 marks)

[Total: 20 Marks]

END OF PAPER

DA 2 QUANTITATIVE ANALYSES

SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) Calculate t when $P_0 = K15000$, $P_t = K80000$ and $m = 12$

$P_0 = K15000$ $\qquad r = \frac{9}{100} = 0.09$ $\qquad t = ?$ Compounded monthly implies $m = 12$

$$P_t = P_0\left(1 + \frac{r}{m}\right)^{mt}$$

$$80000 = 15000\left(1 + \frac{0.09}{12}\right)^{(12)(t)} = 15000(1 + 0.0075)^{12t}$$

$$5.333333 = (1.0075)^{12t}$$

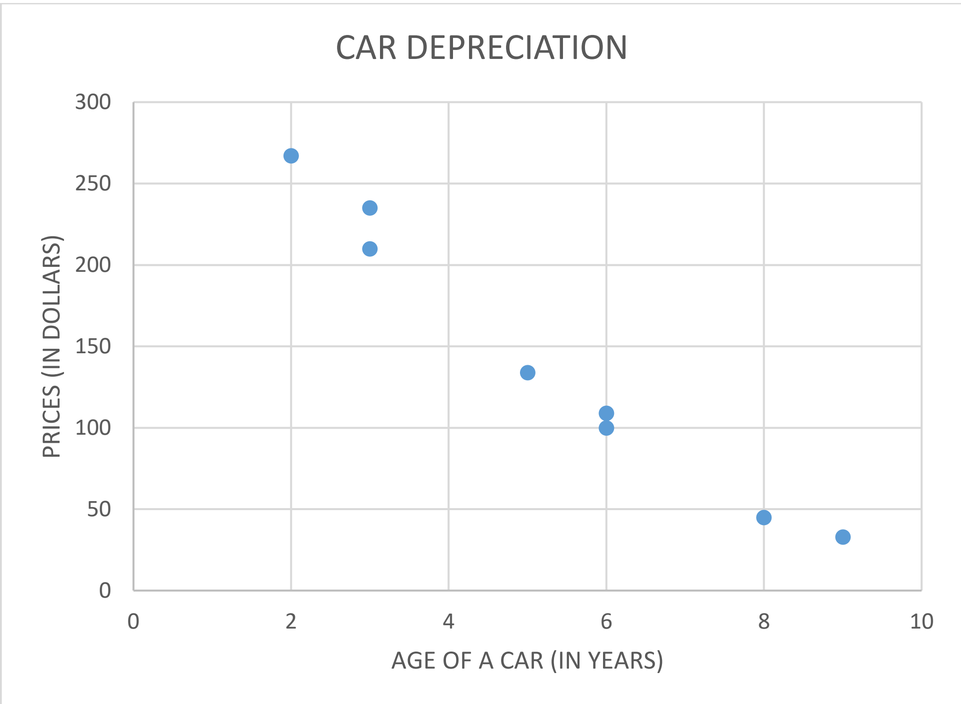
$$\ln 5.3333333 = 12t \ \ln 1.0075 \ \rightarrow t(0.0897) = \ln 5.3333333$$

$$t = 18.662$$

$= 18$ years 8 Months approximately.

Hence, it will take 18 years 8 months for the value of the investment to become K80000

(b) (i) Scatter plot:



(ii) Summary statistics table:

X	Y	XY	X2	Y2
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,

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

and

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

Hence, the least–squares regression line is

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

(iii)

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

The car depreciates to 296 dollars

(iv)

$$\boldsymbol{r = \frac{n\sum xy - \sum x \sum y}{\sqrt{[n\sum x^2 - (\sum x)^2][n\sum y^2 - (\sum y)^2]}}}$$

$$= \frac{8(4450) - (42)(1133)}{\sqrt{[8(264) - 42^2][8(213565) - 1133^2]}}$$

$$\boldsymbol{r = -0.9}$$

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

SOLUTION THREE

(a) Here, $n = 36$, $p = 0.08$, $q = 0.92$

(i) $$\mathrm{P}(\mathrm{X}=x)=\binom{n}{x}p^x(1-p)^{n-x}$$

$$\mathrm{P}(\mathrm{X}=4)=\binom{36}{4}(0.08)^4(0.92)^{36-4}$$
$$=0.1674$$

(ii) $$\mathrm{P}(\mathrm{X}\geq 3)=1-\mathrm{P}(\mathrm{X}<3)$$
$$=1-\left[\mathrm{P}(\mathrm{X}=0)+\mathrm{P}(\mathrm{X}=1)+\mathrm{P}(\mathrm{X}=2)\right]$$

$$=1-\left[\binom{36}{0}(0.08)^0(0.92)^{36}+\binom{36}{1}(0.08)^1(0.92)^{35}+\binom{36}{2}(0.08)^2(0.92)^{34}\right]$$
$$=1-\left[0.0497+0.1556+0.2368\right]$$
$$=1-0.4421$$
$$=0.5579$$

(iii) $$\mathrm{E}(\mathrm{X})=np=36\times 0.08=2.88$$

(iv) $$Var(\mathrm{X})=npq=36\times 0.08\times 0.92=2.6496$$

Standard Deviation $=\sqrt{2.6496}=1.628$

(b) We are given $R=\mathrm{K}3,895$, $r=\frac{0.068}{4}=0.017$ and $n=5(4)=20$. We asked to find P. We have

$$\mathrm{P}=R\left[\frac{1-(1+r)^{-n}}{r}\right]$$
$$=3,895\left[\frac{1-(1+0.017)^{-20}}{0.017}\right]$$
$$=\mathrm{K}65,571.81$$

(c) (i) $$\mathrm{E}(\mathrm{X})=\sum_x x\mathrm{P}(\mathrm{X}=x)$$
$$=50(0.10)+100(0.10)+150(0.15)+200(0.25)+250(0.30)+300(0.10)$$
$$=5+10+22.5+50+75+30$$
$$=\mathrm{K}192.50$$

(ii) $Var(\mathrm{X}) = \mathrm{E}(\mathrm{X}^2) - [\mathrm{E}(\mathrm{X})]^2$

$$\mathrm{E}(\mathrm{X}^2) = \sum_x x^2 \mathrm{P}(\mathrm{X} = x)$$
$$= 50^2(0.10) + 100^2(0.10) + 150^2(0.15) + 200^2(0.25) + 250^2(0.30) + 300^2(0.10)$$
$$= 250 + 1000 + 3375 + 10,000 + 18,750 + 9,000$$
$$= 42,375$$

$$\therefore Var(\mathrm{X}) = \mathrm{E}(\mathrm{X}^2) - [\mathrm{E}(\mathrm{X})]^2$$
$$= 42,375 - 192.5^2$$
$$= 5,318.75$$

Standard Deviation $= \sqrt{Var(\mathrm{X})} = \sqrt{5318.75} = \mathrm{K}72.93$

SOLUTION FOUR

(i) This is a Poisson distribution question. 900 pages has 60 printing errors. Per page the number of printing errors is $m = \frac{60}{900} \approx 0.0667$, for ten pages, $m = 0.0667 \times 10 = 0.667$

The probability distribution is given by $P(X = x) = \frac{m^x e^{-m}}{x!}$

$$P(x = 0) = \frac{(0.667)^0 e^{-.667}}{0!} \approx 0.5134$$

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

$$P(x = 0) = 0.5134$$

$$P(x = 1) = \frac{(.667)^1 e^{-.667}}{1!} \approx 0.3419$$

$$P(x = 2) = \frac{(.667)^2 e^{-.667}}{2!} \approx 0.1139$$

Therefore, $P(x \leq 2) = 0.5134 + 0.3419 + 0.1139 = 0.9692$

(iii) $P(x \geq 3) = 1 - P(x \leq 2) = 1 - 0.9692 \approx 0.030$

(b)

(i) Arrange the given data in an increasing order: 2, 6, 6, 6, 8, 9, 21.
$n\ is\ odd$, the position of the median is $\frac{n+1}{2} = \frac{8}{2} = 4$. Median = 6.

(ii)

$$Standard\ deviation\ = \sigma = \sqrt{\frac{\sum x^2 - \frac{(\sum x)^2}{N}}{N}} = \sqrt{\frac{698 - \frac{(58)^2}{7}}{7}}$$

$$\sigma = \sqrt{31.06122449} \approx 5.57$$

(iii) Range = $Max - Min = 21 - 2 = 19$

(iv) Lower quartile position is = $\frac{1}{4}(N + 1) = \frac{1}{4}(7 + 1) = 2$

Lower quartile = 6
Upper quartile position = $\frac{3}{4}(N + 1) = \frac{3}{4}(7 + 1) = 6$
Upper quartile = 9
Interquartile range = $(Q_3 - Q_1) = 9 - 6 = 3$

(c) (i)

The range measures the spread between the maximum and minimum values of end points in the data set.

The interquartile range measures the spread of the middle 50% of the data set. It is the distance between the third and first quartile.

The standard deviation is the square root of the variance and measures the average distance of each data point from the mean of the distribution.

(ii) The standard deviation is the most useful measure among the three to the researchers. It allows statistical inferences.

(iii) The value 21 will affect the mean which is pulled towards the extreme values.

I would expect the mean to be larger than the median.

SOLUTION FIVE

(a) (i) Using 4 moving average

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

(ii) Seasonal variations

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

(iii) Interpretation of the seasonal variations

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

(iv) Forecasting $= trend \times corresponding \quad seasonal \quad \text{var}iation$

Change in trend $= \dfrac{highest \quad trend - \quad lowest \quad trend}{Interval \quad between \quad highest \quad and \quad lowest \quad trend}$

$$= \frac{8.4 - 7.925}{10 - 7}$$
$$= 0.158$$

The trend for third quarter $= 8.4 + 5(0.158) = 9.19$

Seasonal variation for third quarter $= 0.9$

Forecast sales $= 9.19 \times 0.9 = 8.27$

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

W = an event of selecting his wife

We are given,

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

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

(i) The probability of both being selected is

$$\mathrm{P}(M \cap W) = \mathrm{P}(M) \times \mathrm{P}(W)$$
$$= \frac{1}{7} \times \frac{1}{5}$$
$$= \frac{1}{35}$$

(ii) The probability of only one been selected is given by

$$\mathrm{P}(only \quad one \quad selected) = \mathrm{P}\left(M \cap W^{\subset}\right) \cup \mathrm{P}\left(M^{\subset} \cap W\right)$$
$$= \left(\frac{1}{7} \times \frac{4}{7}\right) + \left(\frac{6}{7} \times \frac{1}{5}\right)$$
$$= \frac{10}{35}$$

(iii) The probability that none is selected is given by

$$\mathrm{P}(none \quad is \quad selected) = \mathrm{P}\left(M^{\subset}\right) \times \mathrm{P}\left(W^{\subset}\right)$$
$$= \frac{6}{7} \times \frac{4}{5}$$
$$= \frac{24}{35}$$

SOLUTION SIX

(a)

(i) The present value of an annuity is $A = R\left[\frac{1-(1+r)^{-n}}{r}\right]$, where $A = 350\,000, m = 12, i = 12\% = .12, t = 10$

$$R = \frac{Ai}{[1 - (1 + r)^{-n}]} = \frac{350\ 0000\left(\frac{.12}{12}\right)}{1 - \left(1 + \frac{.12}{12}\right)^{-120}} = \frac{3500}{0.69700522} \approx K5\ 021.48$$

(ii) Total payments $= nR = 120(5021.48) \approx K602\ 577.60$

(iii) Finance Charge $= nR - A = K602\ 577.60 - K350\ 000 = K252\ 577.60$

(b) We have the normal probability distribution, with mean $\mu = 1\ 000\ and\ standard\ deviation\ \sigma = 200$

(i) $P(X > 1\ 300) = P(Z > \frac{1\ 300 - 1\ 000}{200}) = P(Z > 1.5) = 0.5 - 0.4332 = 0.0668$

(ii) $P(\frac{1\ 200 - 1\ 000}{200} < Z < \frac{1\ 400 - 1\ 000}{200}) = P(1 < Z < 2) = 0.4772 - 0.3413 = 0.1359$

(iii) We are told that the annual precipitation is at most or less or equal to 5%. We look for the Z score corresponding to this probability. The Z score is either -1.64 or -1.65

$Z = \frac{X - \mu}{\sigma}$

$$-1.64 = \frac{X - 1000}{200}$$

$X = 1\ 000 - 200(1.64) = 672\ mm\ or\ \ -1.65(200) + 1\ 000 = 670\ mm$

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 3: BUSINESS ECONOMICS

TUESDAY 9 JUNE 2026

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to carefully study the examination paper so that you understand what to do in each question.

2. This paper is divided into TWO (2) sections:

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

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

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

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A – (COMPULSORY)

Attempt all ten (10) multiple choice questions.

QUESTION ONE

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

1.1 Which of the following falls under land as a factor of production?

A. Sunlight that falls on the earth’s crust.

B. Minerals under the earth’s crust.

C. Water resources in the country.

D. All the above.

(2 marks)

1.2 Which of the following statement is correct about the flexible exchange rate regime?

A. The exchange rate is determined by the market forces of demand and supply.

B. The exchange rate is determined by the Government.

C. The exchange rate is partly determined by the government and partly by the market forces.

D. Currency devaluation can be done by the Government.

(2 marks)

1.3 Which of the following statements is an example of a proposition from positive economics.

A. The exchange rate between the kwacha and the US dollar has depreciated.

B. The depreciation of the kwacha against the US dollars is hurting importers.

C. Government ought to take stringent measure to arrest the depreciation of the kwacha.

D. Government should undertake exchange controls to manage the exchange rate.

(2 marks)

1.4 As a result of a decrease in the value of the Kwacha in relation to other currencies, Zambian imports decrease and exports increase. Consequently, there is a(n):

A. Increase in short-run aggregate supply.

B. Decrease in the quantity of aggregate output supplied in the short run.

C. Increase in aggregate demand.

D. Decrease in the quantity of aggregate output demanded.

(2 marks)

1.5 If two (2) nations trade based on the principle of comparative advantage, which of the following would be true?

A. Each nation would increase its consumption possibilities.

B. A smaller number of goods would be available in each nation.

C. Total world production would decrease.

D. One nation would gain at the expense of the other nation.

(2 marks)

1.6 If the multiplier is 4, then the MPS=?

A. 0.50

B. 0.75

C. 0.25

D. 1.25

(2 marks)

1.7 The business cycle associated with falling production and employment is……..

A. Depression.

B. Recession.

C. Recovery.

D. Boom.

(2 marks)

1.8 Which of the following is true?

A. Monopolist sells more units by reducing the selling price.

B. The selling price under perfect competition is greater the marginal revenue.

C. A perfect competitor can sell more units by reducing the selling price.

D. An oligopolist mainly competes by advertising.

(2 marks)

1.9 The primary aim of introducing regional trading blocs is to……………………….

A. Prevent dumping.
B. Increase trade among member countries.
C. Strengthen the currencies of member countries.
D. Enjoy political good will among member countries.

(2 marks)

1.10 Which of the following can be used to calculate average total cost?

A. Average fixed cost plus average variable cost.
B. Total cost divided the price.
C. Variable cost plus total cost.
D. Total cost minus quantity.

(2 marks)

[Total: 20 Marks]

SECTION B

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

1. MICROECONOMICS

Attempt any TWO (2) questions from questions TWO (2), THREE (3) and FOUR (4).

QUESTION TWO

(a) Outline the concept of 'scarcity' in economics. (4 marks)

(b) "Economic demand needs to be effective". Explain the meaning of this statement.

(4 marks)

(c) Use supply and demand curves to explain how each of the following events would affect the equilibrium price and equilibrium quantity of a named good:

(i) Outbreak of armyworms on maize production. (6 marks)

(ii) Recommended health benefits of honey consumption compared to sugar.

(6 marks)

[Total: 20 Marks]

QUESTION THREE

(a) The short-run production function shows the relationship between inputs and output when one factor of production is fixed. The following table is extracted from JB Bakery:

Number of workers(L)	**Capital (K)**	**Total Product (TP)**	**Marginal Product of Labour(MP_l)**	**Average Product of Labour(AP_l)**
1	100	20		
2	100	54		
3	100	81		
4	100	104		
5	100	125		
6	100	138		
7	100	147		

8	100	152		
9	100	153		
10	100	150		

Required:

Using the data in the table above:

(i) Define marginal product of labour. (3 marks)

(ii) Complete the table by calculating marginal product and average product of labour columns. (5 marks)

(b) Explain the importance of the marginal product of labour to a businessperson. (4 marks)

(c) Outline any four (4) advantages of a public limited company. (8 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) Outline any four (4) characteristics of oligopoly market structure. (8 marks)

(b) Illustrate with the use of a diagram the equilibrium position of a colluding oligopolistic firm. (6 marks)

(c) Describe any three (3) ways how firms differentiate their products. (6 marks)

[Total: 20 Marks]

2. MACROECONOMICS

Attempt any TWO (2) questions from questions FIVE (5), SIX (6) and SEVEN (7).

QUESTION FIVE

(a) Define the term 'balance of payment' (3 marks)

(b) Suppose a country has a persistent balance of payment deficit, outline the three (3) measures that a country can take to correct or rectify the deficit. (9 marks)

(c) Outline any four (4) consequences of unemployment. (8 marks)

[Total: 20 Marks]

QUESTION SIX

(a) Outline any four (4) functions of commercial banks. (8 marks)

(b) Define the terms required reserve ratio and excess reserves. (4 marks)

(c) Explain what happens to the credit multiplier when the central bank increases the required reserve ratio. (2 marks)

(d) Briefly discuss any three (3) reasons that can lead to an appreciation of a currency in a floating exchange rates? (6 marks)

[Total: 20 Marks]

QUESTION SEVEN

(a) Explain the terms aggregate demand and aggregate supply. (4 marks)

(b) Describe the three (3) components of aggregate demand. (6 marks)

(c) Distinguish between Gross Domestic Product, Gross National Product and Net National Product. (6 marks)

An open economy is system where a country trades goods and services with other countries. You are given the following data for an open economy: Consumption (C) = 200 +0.8Y_d, Investment (I) = 500, Government Spending (G) = 800, Net Exports (X –M) = 100,
Y_d = Y – T, and Taxes (T) = 0

(d) Using the data provided in the scenario, determine the equilibrium level of national income. (2 marks)

(e) Calculate the new equilibrium level of national income if investment increases by 200.

(2 marks)

[Total: 20 Marks]

END OF THE PAPER

DA3 BUSINESS ECONOMICS

SUGGESTED SOLUTIONS

SOLUTION ONE

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

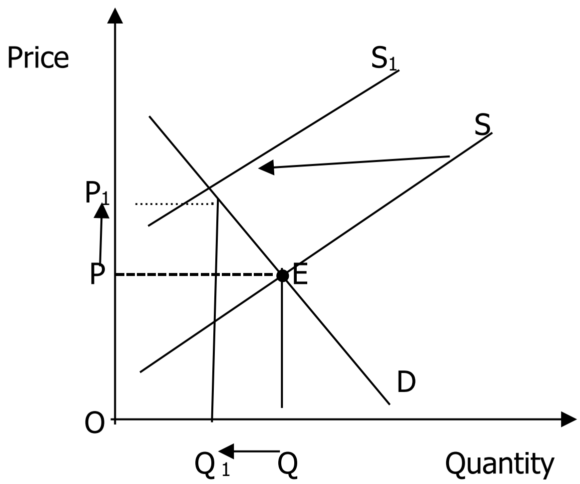
SOLUTION TWO

(a) Scarcity is a fundamental economic problem that human wants exceed the availability of time, goods and resources. Individuals and society therefore can never have everything they desire.

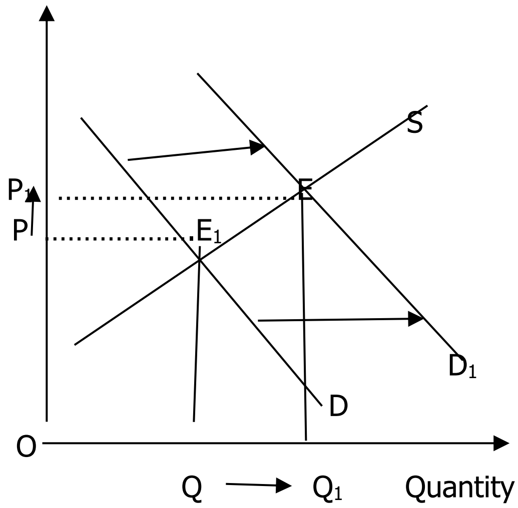
(b) Effective demand means that the desire to buy must be supported by the availability of money rather than just a general desire for goods and services. This is the reason why demand is defined as the willingness and ability of the buyers to buy a good at a given price.

(c) Effect of changes

(i) Market equilibrium occurs at the point where the market demands curve intersects the market supply curve at point E(Q,P). An outbreak of armyworms affects the supply curve of maize. This outbreak leads to poor harvest. This will shift the supply curve of maize to the left from S to S_1. The new equilibrium is $E_1(Q_1, P_1)$. At this point the equilibrium price has increased from P to P_1 while the equilibrium quantity has decreased from Q to Q_1 as shown below:



(ii) Market equilibrium occurs at the point where the market demands curve intersects the market supply curve at point E(Q,P). Honey and sugar are substitutes in consumption. The recommendation of health benefits will shift the demand curve of honey to the right from D to $D_{1.}$ The new equilibrium is $E_1(Q_{1,}P_1)$. At this point the equilibrium price has increased from P to P_1 and the equilibrium quantity has increased from Q to Q_1 as shown below:



SOLUTION THREE

(a) The production function

(i) Marginal product of labour is the change in total product when one additional worker is employed

(ii) The complete table

Number of workers(L)	Capital (K)	Total Product (TP)	Marginal Product of Labour(MP_l)	Average Product of Labour(AP_l)
1	100	20	-	20
2	100	54	34	27
3	100	81	27	27
4	100	104	23	26
5	100	125	21	25
6	100	138	13	23
7	100	147	9	21
8	100	152	5	19
9	100	153	1	17
10	100	150	-3	15

(b)

It is important for the businessperson to know marginal product of labour so as to make the correct decision as to how many workers to employee.

Marginal product is the increase in total product when one additional unit of the variable factor is employed. Marginal product is important to a businessperson because it helps in determining how many units of the variable factor can be combined with the fixed factor before total product may start declining.

(c) The following are the advantages of a public limited company:

- Shareholders enjoy limited liability. This means that in the event of liquidation, shareholder losses are limited to their capital invested in the company.
- There is continuity of the company even when one shareholder dies
- The company is in a better position to raise huge funds for expansion as its borrowing profile improves

- Additional long-term funding can be raised by a new issue of securities.
- Shares can be easily traded facilitating expansion of capital base.
- Future acquisitions will generally be easier because the company will have the ability to issue equity as a consideration for the transaction.
- Share option schemes can be arranged potentially attracting the highest calibre employees.
- The profile of the business and its management team will be raised considerably.

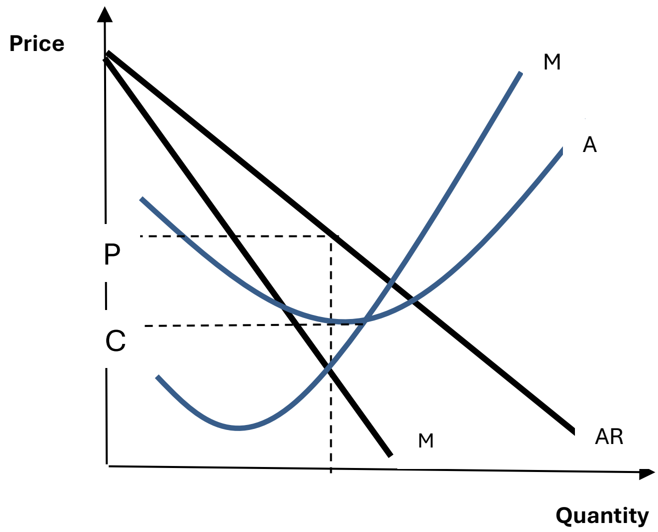
SOLUTION FOUR

(a) **Characteristics of an Oligopoly Market Structure**

- **Few Large Firms**: The market is dominated by a small number of large firms, each having significant market power.
- **Interdependence of Firms**: Firms must consider the actions and reactions of their competitors when making decisions about pricing and output.
- **Barriers to Entry**: High startup costs, economies of scale, and government regulations make it difficult for new firms to enter the industry.
- **Non-Price Competition**: Oligopolistic firms often compete through advertising, branding, and product differentiation rather than lowering prices.
- **Price Rigidity (Sticky Prices)**: Firms avoid frequent price changes due to fear of price wars, leading to stable prices over long periods.

(b) **Equilibrium Position of a Colluding Oligopolistic Firm**

A **colluding oligopoly** occurs when firms in an oligopolistic market agree to **set prices and output levels** to maximize industry profits, similar to a monopoly.



- The diagram resembles that of a **monopoly**, as colluding firms act together as a single entity.
- The **marginal cost (MC) curve** intersects the **marginal revenue (MR) curve** to determine the **profit-maximizing output (Qe)**.
- The corresponding **price (Pe)** is set based on the demand (AR) curve, ensuring maximum profits.

(c) Product Differentiation

- **Branding and Packaging**: Firms use unique brand names, logos, and attractive packaging to distinguish their products. Example: Coca-Cola vs. Pepsi.
- **Quality and Features**: Offering superior quality, better durability, or additional features to attract customers. Example: Apple iPhones have high-end designs and exclusive software.
- **Customer Service and After-Sales Support**: Providing exceptional customer support, warranties, and maintenance services to enhance customer loyalty. Example: Samsung offers extended warranties and service centers worldwide.

- **Advertising and Promotions**: Engaging in aggressive marketing campaigns, celebrity endorsements, and loyalty programs to make products stand out. Example: Nike sponsors athletes to promote its sportswear.

SOLUTION FIVE

(a) A balance of payment is defined as a bookkeeping record of all the international transactions between a country and other countries during a given period of time.

(b) A country with a persistent balance of payment may correct it by:

- Allowing the domestic currency to depreciate: Devaluation of the domestic currency or depreciation encourages exports as domestic goods became cheaper to foreigners while at the same time discouraging imports as they became very expensive to local residents. However, for this policy to work both the elasticity of demand for imports and exports must be elastic, that is, highly responsive to price changes.
- Using direct measures to restrict imports: These are the barriers to trade which include tariffs, quota, trade embargoes, VERs, exchange control, etc. This will have a direct effect of reducing imports.
- Using deflationary measures: These are the policies that are aimed at reducing inflation in the country. On the fiscal policy side, the government can raise tax rates and reduce its expenditure. On the monetary policy side, the government can restrict credit creation, raise interest rates, restrict increase in money supply and tightly control exchange rates.

(c) The following are the consequences of unemployment:

- Loss of output. If labour is unemployed, the economy is not producing as much output as it could. Thus, total national income is less than it could be, because economic resources are not being fully used.
- Loss of human capital. If there is unemployment, the unemployed labour will gradually lose its skills, because skills can only be maintained by working.
- Increasing inequalities in the distribution of income. Unemployed people earn less than employed people, and so when unemployment is increasing, the poor get poorer.
- Social costs. Unemployment brings social problems of personal suffering and distress, and possibly also increases in crime such as theft and vandalism.
- Increased burden of welfare payments. This can have a major impact on government fiscal policy, because governments will have to pay out more in State benefits while collecting less through tax revenue.

SOLUTION SIX

(a) **Five Functions of Commercial Banks**

- **Accepting Deposits**: Commercial banks provide safe storage for customers' money in different types of accounts, such as savings, current, and fixed deposit accounts.
- **Providing Loans and Credit**: They lend money to individuals and businesses in the form of personal loans, business loans, overdrafts, and mortgages, helping in economic growth.
- **Facilitating Payments and Transactions**: Banks provide payment services like issuing checks, mobile banking, online banking, and credit/debit cards to ease financial transactions.
- **Foreign Exchange Services**: They enable customers to exchange currencies for international trade, travel, and investments.
- **Investment and Wealth Management:** Some commercial banks offer investment opportunities, such as mutual funds, fixed deposits, and advisory services for wealth growth.

(b) **Definition of Required Reserve Ratio and Excess Reserves**

- **Required Reserve Ratio (RRR):** The **minimum percentage** of total deposits that a commercial bank must hold as reserves, as mandated by the central bank. It ensures liquidity and controls the money supply.
- **Excess Reserves:** The **extra funds** that banks hold **above the required reserve ratio**. These reserves can be **loaned out** to generate more money in the economy.

(c) If the required reserve ratio increases, banks must hold more reserves, leaving less money available for lending. This reduces the money multiplier, slowing down the creation of new money in the economy.

.

(d) The market forces of demand and supply of a currency determine a floating or a flexible exchange rate. A currency can appreciate if demand for a currency is high or supply for that currency is low. This can be due to:

- People demanding the kwacha for exchange to pay for Zambian exports, that is, Zambian goods and services
- Overseas investors who want to invest in Zambia will need the kwacha
- Speculators who think that the kwacha is about to become more valuable in terms of other currencies.
- High interest rates will encourage people to put money in Zambian financial institutions, in Kwacha.
- Central authorities such as the BOZ might want to offload the dollar, pound to push up the value of the kwacha.

SOLUTION SEVEN

(a)

- **Aggregate Demand (AD):** The **total demand** for all goods and services in an economy at a given price level over a specific period.
- **Aggregate Supply (AS):** The **total quantity of goods and services** that firms in an economy are willing and able to produce at different price levels.

(b) **Components of Aggregate Demand**

- **Consumption (C):** The **spending by households** on goods and services such as food, rent, and clothing.
- **Investment (I):** Spending by businesses on **capital goods**, such as machinery, buildings, and infrastructure.
- **Government Spending (G):** Expenditure by the **government** on public services such as healthcare, education, and defense.

(c) **Distinction Between GDP, GNP, and NNP**

- Gross Domestic Product (GDP: Measures the total value of goods and services produced within a country's borders within a specific time
- Gross National Product (GNP): Measures the total value of goods and services produced by a country's residents, including income earned abroad but excluding income earned by foreigners within the country
- Net National Product (NNP): Measures the total output of a country after accounting for depreciation (wear and tear of capital goods).

(d) **Equilibrium Level of National Income**

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

$Y = 200 + 0.8(Y) + 500 + 800 + 100$

$Y - 0.8Y = 1600$

$\mathbf{Y = 8000}$

(e)

$Y = 200 + 0.8(Y) + 700 + 800 + 100$

$Y - 0.8Y = 1800$

$\mathbf{Y = 9000}$

END OF SUGGESTED SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 4: INFORMATION TECHNOLOGY AND COMMUNICATION

WEDNESDAY 10 JUNE 2026

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

INSTRUCTIONS TO CANDIDATES

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

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

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

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

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

Section A – (compulsory)

Attempt all the ten (10) multiple choice questions.

<u>QUESTION ONE</u>

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

1.1 In MS-Excel, #Name? occurs in a cell when:

A. A # sign is typed instead of equals to (=) sign in the formula.

B. A formula contains a number that is divided by zero.

C. The formula contains numbers and text.

D. There is an error in the syntax of the formula.

(2 marks)

1.2 Which of the following **is NOT** a task of the operating system?

A. Set up.

B. Processing.

C. Security.

D. Multitasking.

(2 marks)

1.3 What do you call an image of an abstract idea in a graphical user interface?

A. An icon.

B. Pointer.

C. A window.

D. A menu.

(2 marks)

1.4 How can you create a macro in Excel?

A. By typing formulas directly into the cells.

B. By writing SQL queries in the formula bar.

C. By clicking the "Record Macro" button and performing actions.

D. By using the "AutoFill" feature on cells.

(2 marks)

1.5 Which of the following is not a network topology?

A. Bus topology.
B. Centralized topology.
C. Star topology.
D. Tree topology.

(2 marks)

1.6 What direction of communication mostly makes use of reports?

A. Upward communication.
B. Downward communication.
C. Lateral communication.
D. Informal communication.

(2 marks)

1.7 Which of the following is an example of refusing to grant permission politely but firmly?

A. "I'm sorry, but this request can't be granted now."
B. "No, I'm not allowing it."
C. "Give me time. I'll think about it"
D. "I don't care."

(2 marks)

1.8 Which document is typically used to inform members about the time and location of a meeting?

A. Agenda.
B. Memo.
C. Minutes.
D. Notice.

(2 marks)

1.9 Identify a Visual Aid that can be suitable for a group at community level.

A. Handouts.
B. PowerPoint.
C. White board and a marker.
D. Samples of items.

(2 marks)

1.10 Which of the following is an example of a closed question?

A. "Can you complete this task by Friday?"

B. "What do you think about this proposal?"

C. "How can we improve this project?"

D. "Why is this important to you?"

(2 marks)

[Total: 20 Marks]

SECTION B

This section has TWO (2) parts:

1. INFORMATION TECHNOLOGY

2. COMMUNICATION

1. INFORMATION TECHNOLOGY

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

<u>QUESTION TWO</u>

(a) An organization would like to replace the current computer systems with new ones in their accounting department. It is hoped that the new computer systems will enable individual employees to get the tasks done efficiently due to the capabilities the computers will possess.

Required:

Explain the way one can move, copy and delete files in file/windows explorer as a computer user. (12 marks)

(b) You have been invited for interview as an Accountant for an accounting firm. One the requirements is that you must be proficient with spreadsheets. To prove your proficiency, the interviewer has asked to:

(i) Write a Formula to calculate the total sales in cells C2:C20, but only for values greater than K100. (4 marks)

(ii) Write a formula to check if a value in cell B5 is greater than 100 and return "Yes" if true, and "No" otherwise. (4 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Computer networks can be implemented in different ways in an organization. Amongst the several options is the peer-to-peer network.

Required:

State four (4) disadvantages of using a peer-to-peer network in an organization. (8 marks)

(b) ERP software plays a crucial role in building and enhancing commerce for business and creates efficiency by integrating various business processes.

Required:

State the significance of ERP in modern industries. (4 marks)

(c) Some data and information controls are designed to manage human activities while others attend to software activities in order to protect the system.

Required:

Discuss three (3) main types of controls that make the control mix. (6 marks)

(d) Define an Information System. (2 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) Network security protects your network and data from breaches, intrusions and other threats. This is a vast and overarching term that describes hardware and software solutions as well as processes or rules and configurations relating to network use, accessibility, and overall threats protection.

Required:

Explain five (5) measures that can provide network and communications security. (10 marks)

(b) Having an efficient information system doesn't simply make your business successful, it is a vital part of what keeps your business growth and improves the performance.

Required:

Explain five (5) ways an information system could contribute to the success of an organization by enhancing aspects of the value chain. (10 marks)

[Total: 20 Marks]

2. COMMUNICATION

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

QUESTION FIVE

Your organisation has been facing a number of challenges due to load-shedding. Since you only have electricity at night, production has decreased significantly, and management has decided to change the company's working hours to coincide with the load-shedding timetable.

Required:

(a) Write a memo to inform members of staff about the change in the company's working hours. (14 marks)

(b) Explain any three (3) reasons a memo would be appropriate in this situation. (6 marks)

[Total: 20 Marks]

QUESTION SIX

Listening and questioning skills play important roles during oral communication.

Required:

(a) Explain the difference between hearing and listening. (2 marks)

(b) Outline any five (5) factors to be considered before selecting a suitable medium of communication. (10 marks)

(c) Explain any four (4) types of questions. (8 marks)

[Total: 20 Marks]

QUESTION SEVEN

Your Supervisor asks you to organise a business meeting to discuss the company's quarterly performance. One of the things you are supposed to do is to invite members of your team to the meeting.

Required:

(a) Prepare a notice for the meeting which should include three (3) main agenda items. (12 marks)

(b) Explain any two (2) differences between a formal meeting and an informal meeting. (4 marks)

(c) Mention any four (4) purposes for holding meetings in an organisation. (4 marks)

[Total: 20 Marks]

END OF PAPER

DA4 INFORMATION TECHNOLOGY AND COMMUNICATION

SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) How you can move, copy and delete files in file explorer as a computer user.

- **Moving files**: files can be moved around by dragging and dropping them in file explorer. To move files or folder, first locate the file or folder you want to move by double clicking on the appropriate drive or folders until you reach their location. Highlight by single-clicking on the file or folder and holding the left button of the mouse down, drag and drop the highlighted items in the desired location in the other pane of the window.

- **Copying files**: you can copy files from within explorer using copy and paste. Locate the files using file explorer and highlight the file you wish to copy. Hit the key combination Ctrl-C to copy the file onto the clipboard. Then move to the location you wish to copy the files to and select Ctrl-V to paste the contents of the clip board to the new location. Copy and paste commands can be used from the edit menu within explorer. First highlight the file you want to duplicate using single click, then select copy and paste copy from edit menu of that window. Next, put cursor in window where you wish copy to be located, and then from edit menu select paste.

  Deleting files: right click once on the file and select delete from the pop-up menu. The system asks for confirmation that you want to send a file to the recycle bin. Click yes to delete. The same thing can be achieved by clicking on the file pressing the delete key or by highlighting and dragging the item to the recycle bin.

(b)

(i) Write a Formula to calculate the total sales in cells C2:C20, but only for values greater than K100. =SUMIF (C2:C20 > 100)

(ii) Write a formula to check if a value in cell B5 is greater than 100 and return "Yes" if true, and "No" otherwise. =IF(B5>100, "Yes", "No")

SOLUTION THREE

(a) Four (4) disadvantages of using a peer-to-peer network in an organization.

(1) **Lack of centralized control:** The absence of centralized control in P2P networks can lead to challenges in managing and coordinating network activities. It can be difficult to enforce consistent policies, ensure data integrity, or coordinate complex tasks across the network.

(2) **Network management complexity:** P2P networks can be more challenging to manage than client-server architectures. Since peers have equal responsibilities, network management tasks such as addressing, security, and performance optimization must be distributed among the participants, requiring additional coordination and effort.

(3) **Dependency on peer availability:** The availability of resources and services in a P2P network depends on the active participation of peers. If a significant number of peers leave the network or become inactive, it can impact the overall performance and availability of resources.

(4) **Performance and efficiency variability:** The performance of a P2P network can be influenced by factors such as the number and quality of participating peers, their available resources, and the network topology. As peers come and go, the network's performance and efficiency may vary, leading to unpredictable behavior.

(5) **Security risks:** P2P networks can introduce security risks if proper precautions are not taken. Since peers interact directly, they need to ensure the authenticity and integrity of the data received from other peers. Additionally, malicious peers can exploit vulnerabilities within the network to launch attacks or distribute malicious content.

(6) **Legal and copyright concerns:** P2P networks have been associated with copyright infringement and illegal sharing of copyrighted material. While P2P technology is not inherently illegal, it can facilitate the unauthorized sharing of copyrighted content, which has legal implications and can raise ethical concerns.

(b) State the significance of ERP in modern industries.

ERP plays a significant role in modern industry: -

- Enabling centralized data management and integration,
- Streamlined business processes and workflows,
- Improved decision-making and strategic planning,
- Enhanced collaboration, and communication,
- Scalability and flexibility in adapting to industry changes.

(c) Three (3) main types of controls that make the control mix.

CONTROL MIX:

	CONTROL TYPE	**PURPOSE**
1	Preventive	• To stop errors or damage before they occur e.g allocating system privileges depending on the job role
2	Detective	• To bring the error to the user's attention after the error has occurred e.g system reports
3	Corrective	• To rectify errors which have been detected e.g Anti-Virus programs that repair system damage

(d) Define an Information System.

An **Information System (IS)** is a coordinated set of components and resources designed to collect, process, store, and disseminate information to support decision-making, coordination, control, analysis, and visualization within an organization.

SOLUTION FOUR

(a)

Explain five measures that can provide network and communication security?

(1) **Encryption**
Scramble data so only the intended recipient can read it. Think HTTPS for websites, VPNs, or end-to-end encryption on WhatsApp. Even if someone intercepts it, they just see gibberish.

(2) **Firewalls**
Act like a bouncer for your network. Firewalls filter incoming/outgoing traffic and block unauthorized access based on security rules. Hardware firewalls protect whole networks, software ones protect individual devices.

(3) **Strong Authentication + Access Control**
Use more than just passwords. Multi-factor authentication MFA, biometrics, and role-based access make sure only the right people get in. Limit users to only the data they actually need.

(4) **Intrusion Detection/Prevention Systems IDS/IPS**
These monitor network traffic 24/7 for suspicious activity. IDS alerts you to threats, IPS actively blocks them. Like a security camera + alarm system for your network.

(5) **Regular Updates + Patching**
Hackers love outdated software. Keeping OS, routers, apps, and security tools patched closes known vulnerabilities. Turn on auto-updates where you can.

(b)

Five (5) ways an information system could contribute to the success of an organisation by enhancing aspects of the value chain.

(1) Improving the quality and reducing the costs of products or services. It also reduces the amount of wasted materials and the costs of having to rework.
(2) Improving the efficiency and effectiveness of the organization's supply chain by allowing customers to access the company's inventory and sales order entry system.
(3) Sharing knowledge and expertise improve operations and even provide a competitive advantage.

(4) Improving the internal control structure which can protect system from fraud, errors, equipment and software failure, natural and political disasters.
(5) Improving decision making. The system can improve assistance in all phases of decision making i.e. identifying the problem, collecting and interpreting, evaluating ways to solve the problem, selecting a solution methodology and implementing the solution.

SOLUTION FIVE

a**. Memo to Inform Staff About Change in Working Hours**

KOPALA FINANCIAL CONSULTANCY

MEMORANDUM

To: All Members of Staff

From: Chief Accountant

Date: [An appropriate date – during examination time]

Subject: Change in Company Working Hours

Due to the challenges posed by load-shedding, management has decided to adjust the company's working hours to align with the electricity supply schedule.

Effective [appropriate date], the new working hours will be as follows:

Start Time: 18:00 hrs

End Time: 06:00 hrs

This change is essential to ensure continuous production and maintain efficiency.

We appreciate your cooperation and understanding during this adjustment. If you have any questions or require further clarification, please contact your supervisor or the HR Department.

Thank you.

Signature

b**. Reasons Why a Memo is Appropriate**

(1) Formal Communication: Memos provide a structured way to convey important information to all employees simultaneously, ensuring clarity and uniformity in the message.
(2) Permanent Record: A memo serves as a written record of the communication, which can be referred to later if needed.
(3) Wide Reach: Memos can be distributed easily across the organisation, ensuring that all staff members are informed promptly.

SOLUTION SIX

(a) Hearing is passive. It has to do with passively getting physical sounds from the environment without paying attention to the meaning of words or to what is happening around while listening is active or attentively getting all the incoming messages from an oral source and the receiver understands what is happening around or get the messages correctly without any difficulties.

(b) Factors that affect the choice of medium

- The cost- Need to look at resources available against the resources needed
- Distance – How far or near are the parties. The nearer the two parties are , the easier it is to communicate
- The need for a written record. - whether or not there is need for a written record.
- The need for interaction – whether or not there is need for active engagement of parties involved.
- The confidentiality of the matter – whether or not the message is meant for private or public consumption.
- The circumstances of the recipient- whether or not the recipient is busy, able to read or write, has communication devises or not.
- To clarify understanding. - the complexity of the matter may determine how information can be clarified.
- The efficiency of the medium of communication itself

(c) Types of questions

- Open-ended questions require lengthier or more detailed responses
- Leading question is one that is phrased in such a way that it suggests a particular answer
- Closed questions limit someone’s response to either yes or no, true or false
- Funnelling questions that is used to guide a conversation from general to specific or vice versa
- Rhetorical questions are ones that do not require an answer

SOLUTION SEVEN

(a) **Notice for the Meeting**

XZY Consultancy

NOTICE

Subject: Quarterly Performance Review Meeting

[Appropriate date]

This is to notify all staff members that a meeting will be held to discuss the company's quarterly performance. The details are as follows:

Date: [Appropriate Date]
Time: 09:00 hrs
Venue: Boardroom
Agenda:

1. Review of company performance metrics
2. Discussion on challenges and opportunities
3. Setting goals for the next quarter

Your presence and contributions will be highly valued. Kindly confirm your attendance by [appropriate deadline].

Thank you for your cooperation.

Signature
Lillian Banda
Accounting Officer

(b) **Difference between a Formal and Informal Meeting**

(1) A formal meeting follows rules governing how to hold meetings such as meeting a quorum strictly while an informal meeting does not follow these rules strictly.
(2) Formal meetings need written invitations.
(3) It requires agenda items put in written form.
(4) It requires formal meeting procedures.

(c) **Five Purposes of Holding Meetings**

(1) Decision-Making: To discuss and finalise important decisions.

(2) Information Sharing: To communicate updates or new policies.

(3) Problem-Solving: To address challenges and find solutions collaboratively.

(4) Goal Setting: To define and plan objectives for teams or the organisation.

(5) Team Building: To foster collaboration and improve relationships among team members.

END OF SUGGESTED SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 5: COST ACCOUNTING

TUESDAY 9 JUNE 2026

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.

2. This paper is divided into TWO (2) sections:

   Section A: One (1) Compulsory question.

   Section B: Five (5) Optional Questions. Attempt any Four (4) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A – (COMPULSORY)

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

QUESTION ONE

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

1.1 The following data has been taken from the books of Chibombo Limited, which uses a non-integrated accounting system:

	Financial accounts	**Cost accounts**
	K	K
Opening inventory of materials	140,000	179,200
Closing inventory of materials	112,000	145,600
Opening inventory of finished goods	274,400	268,800
Closing inventory of finished goods	221,200	212,800

The effect of these inventory valuation differences on the profit reported by the financial and cost accounting ledgers is that:

A. The financial accounting profit is K8,400, greater than the cost accounting profit.
B. The financial accounting profit is K58,800, greater than the cost accounting profit.
C. The cost accounting profit is K8,400 greater than the financial accounting profit.
D. The cost accounting profit is K58,800, greater than the financial accounting profit.

(2 marks)

1.2 Which of the following statements is NOT true?

A. Variances from ideal standards are useful for pinpointing areas where a close examination might result in large cost savings.

B. Basic standards may provide an incentive to greater efficiency even though the standard cannot be achieved.

C. Ideal standards cannot be achieved, and so there will always be adverse variances. If the standards are used for budgeting, an allowance will have to be included for these 'inefficiencies'.

D. Current standards or attainable standards are a better basis for budgeting because they represent the level of productivity that management wishes to plan for.

(2 marks)

1.3 A restaurant recorded the following costs and revenue during December 2025.

	K
Cost of food and drinks	315,000
Labour	315,000
Heating and lighting	52,500
Repairs and consumable stores	31,500
Financing costs	28,000
Depreciation	21,000
Other apportioned costs	24,500
Revenue	630,000

The canteen served 37,500 meals in December. What is the average cost per meal?

A. K21.00

B. K16.80

C. K18.20

D. K19.02

(2 marks)

1.4 Which of the following is NOT an argument in favour of marginal costing?

A. There is no under-or over-absorption of overheads.

B. It is simple to operate.

C. Closing inventory is valued in accordance with IAS 2.

D. The information from this costing method may be used for decision-making.

(2 marks)

1.5 Company L W absorbs overheads based on labour hours. Data for the latest period are as follows.

Budgeted labour hours	8,500
Budgeted overheads	K4,165,000
Actual labour hours	7,928
Actual overheads	K4,093,600

What is the labour hour overhead absorption rate?

A. K482 per hour.

B. K490 per hour.

C. K516 per hour.

D. K525 per hour.

(2 marks)

1.6 Chipata Limited had 2,000 employees at the beginning of 2025 and, owing to a series of redundancies caused by the recession and other macroeconomic variables affecting most businesses in general, 1,000 at the end of the year. Voluntary redundancy was taken up by 1,500 staff at the end of June, 500 more than the company had anticipated, and these excess redundancies were immediately replaced by new joiners.

What is the labour turnover rate?

A. 17%.

B. 50%.

C. 25%.

D. 33%.

(2 marks)

1.7 Which one of the following is NOT a correct definition of slow-moving items of inventory?

A. Items of inventory that have become out of date and are no longer required.
B. Items of inventory that are used for production purposes.
C. Inventory items that are likely to take a long time to be used up.
D. Items of inventory that take time to be delivered by the suppliers.

(2 marks)

1.8 The following data relate to the overhead expenditure of contract cleaners (for industrial cleaning) at two (2) activity levels.

Square metres cleaned	12,750	15,100
Overheads	K2,070,600	K2,340,380

Calculate the estimated variable cost per square metre to be industrially cleaned.

A. K269,780 per square metre.
B. K114.80 per square metre.
C. K995.91 per square metre.
D. K881.12 per square metre.

(2 marks)

1.9 Fixed costs are conventionally deemed to be…..

A. Constant per unit of output.
B. Constant in total when production volume changes.
C. Outside the control of management.
D. Those unaffected by inflation.

(2 marks)

1.10 Which one of the following is NOT true about cost accounting?

A. Cost accounting provides information to management for proper planning, operation, control, and decision making.

B. Generally, cost accounts are kept voluntarily to meet the requirements of the Management.

C. Cost accounting classifies, records, and subjectively analyses the transactions, i.e according to the nature of the expense.

D. Cost accounting objectively records the expenditure, i.e, according to the purpose for which the costs are incurred.

(2 marks)

[Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

A manufacturing company produces three (3) products A, B and C. The company currently absorbs production overheads using a single plant-wide rate based on machine hours. Management is considering adopting Activity Based Costing (ABC).

The following data relates to a monthly period:

Direct costs and machine hours per unit.

Product	Units produced	Direct materials per unit (K)	Direct labour per unit (K)	Machine hours per unit
A	4,000	50	30	1.0
B	2,000	80	40	2.0
C	500	200	90	5.0

Overhead cost pools and drivers:

Cost pool	Total overhead (K)	Cost driver	Total driver volume
Setups	240,000	Number of setups	150
Materials handling	180,000	Number of material movement	450
Inspection	120,000	Number of inspections	350
Order processing	60,000	Number of customer orders	150
Facility support	300,000	Organisation-sustaining (Not assigned in ABC)	-

Driver usage by product:

Driver	Product A	Product B	Product C
Setups	40	60	50
Material movement	100	150	200
Inspections	80	120	150
Orders	30	50	70

Required:

(a) Compute the plant-wide traditional overhead rate per machine hour and the unit costs for products A, B, and C under the traditional method. (4 marks)

(b) Compute the activity rates for each ABC cost pool. (3 marks)

(c) Assign ABC overhead to each product and compute the unit costs under ABC.

(9 marks)

(d) Explain the effect of using traditional and ABC costing methods on product cost.

(4 marks)

[Total: 20 Marks]

QUESTION THREE

Malole Limited manufactures a very tiny coil that is critical in equipment that is used for road construction and similar works. The coil is formed by subjecting certain common materials to two (2) successive processes. The output of process 1 is passed to process 2, where it is blended with other ingredients. The process costs for period 3 were as follows:

Process 1

Material:	3000 kg @ K7 per kg
Labour:	K3,360
Process plant time:	12 hours @ K560 per hour

Process 2

Material:	2000 kg @ K11.20 per kg
Labour:	K2,352
Process plant time:	20 hours @ K378 per hour

General overheads for period 3 amounted to K9,996 and is absorbed into process costs on a process labour basis. The normal output of process 1 is 80% of input, while that of process 2 is 90% of input. Waste matter from process 1 is sold for K5.60 per kg, while that from process 2 is sold for K8.40 per kg.

The output for period 3 was as follows:

Process 1 - 2,300kg

Process 2 - 4,000kg

There was no stock or work in process at either the beginning or the end of the period, and it may be assumed that all available waste matter had been sold at the prices indicated.

Required:

(a) Prepare process 1 account. (6 marks)

(b) Prepare Process 2 account. (7 marks)

(c) Prepare a normal loss account. (3 marks)

(d) Explain four (4) features of process costing. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

ZamBuild Manufacturing Ltd operates an integrated accounting system. The company produces building components using a combination of labour and machinery. Management is reviewing its cost structure in preparation for the annual budget and wants to understand how different costs behave as production levels change.

The company also wishes to ensure that cost transactions such as materials usage, wages, and transfer of finished goods are correctly recorded using double-entry principles within the integrated accounting system.

Required:

(a) Define cost behaviour. (2 marks)

(b) Explain the behaviour of:

(i) Fixed costs. (3 marks)
(ii) Variable costs. (3 marks)
(iii) Stepped costs. (3 marks)
(iv) Semi-variable costs. (3 marks)

(c) ZamBuild Manufacturing Ltd operates an integrated accounting system. During the month, the following transactions occurred:

- Indirect materials issued to production: K4, 800.
- Direct labour wages paid: K12, 000.
- Cost of finished goods completed and transferred to warehouse**:** K45, 000.

In an integrated accounting system, show the double entries for:

(i) Issue of indirect materials. (2 marks)

(ii) Wages paid to direct labour (2 marks)

(iii) Transfer of finished goods to warehouse. (2 marks)

[Total: 20 Marks]

QUESTION FIVE

Sunrise Foods Ltd is a small but growing snack manufacturer based in Zambia. One of its popular products is a fortified cereal bar called NutriBar, which is supplied to supermarkets and school canteens.

During the year, the company invested in expanding production capacity. As a result, the factory incurred fixed production overheads such as factory rent, depreciation of production equipment, and salaries of production supervisors. These costs do not change with output in the short term.

Management prepares monthly internal performance reports to:

(i) Monitor profitability,

(ii) Value inventory for management reporting, and

(iii) Assess production efficiency.

However, the Finance Manager has observed that reported profits differ depending on whether the company uses marginal costing or absorption costing, especially in months when production exceeds sales (meaning inventory levels increase). The Production Manager prefers marginal costing for decision-making, while the Financial Reporting team uses absorption costing for inventory valuation in line with standard reporting practice.

In the current period:

(i) Sunrise Foods produced 30,000 units of NutriBar, but sold only 26,000 units, leaving 4,000 units in closing inventory.

(ii) The company wants to understand how the different treatment of fixed production overhead under marginal and absorption costing affects reported profit.

Required:

(a) State two (2) reasons why profits differ between marginal and absorption costing. (4 marks)

(b) Sunrise Foods Ltd produced 30,000 units of product NutriBar and sold 26,000 units.

(i) Selling price: K6 per unit.
(ii) Variable production cost: K2.20 per unit.
(iii) Fixed production overhead: K24,000
(iv) Fixed selling and admin costs: K18,000

Required:

Prepare profit statements using:

(i) Marginal costing. (8 marks)
(ii) Absorption costing. (8 marks)

[Total: 20 Marks]

QUESTION SIX

(a) Lunte Warehousing operates a number of storage facilities. The following transactions relate to warehouse A for the month of November 2025.

Date	**Transaction**
01/11	Opening Balance 500 tonnes @ K5,600 per tone
03/11	Issue 70 tonnes
04/11	Issue 100 tonnes
05/11	Issue 80 tonnes
13/11	Received from suppliers 200 tonnes @ K5,320 per tone
16/11	Issued 180 tonnes
20/11	Received from supplier 240 tonnes @ K5,460
24/11	Issue 300 tonnes
25/11	Received from supplier 320 tonnes @ K5,600
26/11	Issue 115 tonnes
28/11	Received from supplier 100 tonnes @ K5,600

Required:

Prepare a stores ledger card using the First In First Out (FIFO) (14 marks)

(b) Lunte Warehousing also owns a factory that produces a single product and is predominantly labour intensive. Chanda, Mutale and Phiri are three (3) workers working in the factory and their output during a particular 40 hours week was 96, 111 and 126 units respectively.

Required:

Explain three (3) documents that are used in recording labour costs. (6 marks)

[Total: 20 Marks]

END OF PAPER

DA 5 COST ACCOUNTING

SUGGESTED SOLUTIONS

<u>SOLUTION ONE</u>

1.1 A

1.2 B

1.3 A

1.4 C

1.5 B

1.6 D

1.7 B

1.8 B

1.9 B

1.10 C

SOLUTION TWO

(a) Traditional plant-wide overhead rate and unit costs

Total machine hours:

A = 4,000 x 1.0 hours = 4,000 hours

B = 2,000 x 2.0 hours = 4,000 hours

C = 500 x 5.0 hours = 2,500 hours

Total machine hours 10,500 hours

Total overheads = 240,000 + 180,000 + 120,000 + 60,000 + 300,000 = 900,000

Plant –wide rate per machine hour = K900,000/ 10,500 hours

= **K85.714 per hour**

Overhead per unit

A = 1.0 hour x K85.714 = K85.714

B = 2.0 hours x K85.714 = K171.428

C = 5.0 hours x K85.714 = K428.571

Cost per unit:

	A	B	C
Direct material	50	80	200
Direct labour	30	40	90
Overheads	85.714	171.428	428.571
Total cost	**165.714**	**291.428**	**718.571**

(b) Activity Based Costing (ABC)

ABC activity rates:

Setups = K240,000 / 150 = K1,600 per setup

Material handling = K180,000/ 450 = K400 per move

Inspection = K120,000/350 = K342.857 per inspection

Ordering processing = K60,000 / 150 = K400 per order

Facility support: Organisation-sustaining, not assigned to product under ABC.

(c) ABC overhead assignment and unit costs

Product A

Setup = 40 x 1,600 = K64,000

Movement = 100 x 400 = K40,000

Inspections = 80 x 342.857 = K27,428.57

Orders = 30 x 400 = K12,000

Total ABC OH (A) = 64,000 + 40,000 + 27,428.57 + 12,000 = K143,428.57

Overhead per unit (A) = K143,428.57 /4,000 = 35.857

Product B

Setup = 60 x 1,600 = 96,000

Movement = 150 x 400 = 60,000

Inspections = 120 x 342.857 = 41,142.86

Orders = 50 x 400 = 20,000

Total ABC overhead = 96,000 + 60,000 + 41,142.86 + 20,000 = 217,142.86

Overhead per unit = K217,142.86 / 2,000 = K108.571

Product C

Setups = 50 x 1,600 = 80,000

Moves = 200 x 400 = 80,000

Inspections = 150 x 342.857 = 51,428.57

Orders = 70 x 400 = 28,000

Total ABC Overhead = 80,000 + 80,000 +51,428.57 + 28,000 = 239,428.57

Overhead cost per unit = K239,428.57 / 500 = 478.857

Cost per unit:

	A	B	C
Direct material	50	80	200
Direct labour	30	40	90
Overheads	35.857	108.571	478.857
Total cost	**115.857**	**228.571**	**768.857**

(d) Effect of using traditional and ABC costing methods on product cost

.

(i) Products A and B appear more expensive under the plant-wide rate, while Product C appears cheaper, because machine hours do not capture the intensity of batch-level and order-related activities that Product C consumes disproportionately. ABC corrects this by tracing overhead to the actual drivers, lowering costs for A and B and raising them for C.

(ii) With ABC, management should re-examine pricing for Product C to ensure margins reflect its high overhead consumption, and consider promoting A and B if market prices allow, as their true costs are lower than previously believed.

(iii) The major overhead loads for C are setups, moves, inspections, and orders. Reducing batch sizes, standardizing setups, consolidating orders, or improving material flow could materially lower C's unit cost.

(iv) Organization-sustaining overhead is not product-specific. Treat it as a period expense for decision-making, and avoid allocating it mechanically to products to prevent reintroducing distortion. If reporting requires full absorption, disclose the impact separately.

SOLUTION THREE

(a) **Process 1 Account**

Details	Kgs	K	Details	Kgs	K
Materials	3,000	21,000	Normal loss	600	3,360
Labour		3,360	Transfer to process 2	2,300	32,200
Process time		6,720	Abnormal loss	100	1,400
Overheads (W1)		5,880			
	3,000	**36,960**		**3,000**	**36,960**

(b) **Process 2 Account**

Details	Kgs	K	Details	Kgs	K
Process 1 output	2,300	32,200	Normal loss	430	3,612
Added materials	2,000	22,400	Finished output	4,000	67,200
Labour		2,352			
Process time		7,560			
General Overheads (W3)		4,116			
Abnormal gain	130	2,184			
	4,430	**70,812**		**4,430**	**70,812**

(c) **Normal Loss Account**

Details	Kgs	K	Details	Kgs	K
Process 1	600	3,360	Abnormal gain	130	2,184
Process 2	430	3,612	Cash received		6,188
Abnormal loss	100	1,400			
		8,372			**8,372**

Notes & Workings

1. Process 1 General overheads = (K3,360/5,712)*K9,996 = **K5,880**

2. Process 1 Cost per unit = $\frac{\text{K36,960 – K3,360}}{\text{2,400 kegs}}$

   = **K14 per kg**

3. Process 2 General overheads = (K2,352/5,712)* K9,996 = **K4,116**

4. Process 2 cost per unit = $\frac{\text{K68,628 – 3,612}}{\text{3,870 kegs}}$

   = **K16.8 per kg.**

(d) Four (4) features of process costing

(i) The output of one process becomes the input to the next until the finished product is made in the final process.

(ii) The continuous nature of production in many processes means that there will usually be closing work in progress which must be valued.

(iii) There is often a loss in process due to spoilage, wastage, evaporation and so on.

(iv) Output from production may be a single product, but there may also be a by-product (or by products) and/or joint products.

SOLUTION FOUR

(a) Definition of Cost Behaviour

Cost behaviour refers to the manner in which a cost changes in response to changes in the level of activity or output within an organisation over a relevant range.

(b) Behaviour of Different Types of Costs

(i) Fixed Costs

Fixed costs remain constant in total regardless of changes in activity level within a relevant range. However, the fixed cost per unit decreases as output increases and increases as output decreases.

Examples include factory rent, insurance, and salaries of permanent staff.

(ii) Variable Costs

Variable costs change directly and proportionately with the level of activity. The variable cost per unit remains constant, but the total variable cost increases or decreases in line with output or level of activity.

Examples include direct materials, direct labour paid per unit, and sales commissions.

(iii) Stepped Costs

Stepped costs remain fixed within a certain activity range, but increase in distinct steps when activity exceeds that range. These costs behave like fixed costs over short ranges and variable costs over longer ranges.

Examples include supervisory salaries or equipment hire where additional resources are required once activity exceeds capacity.

(iv) Semi-variable (mixed) costs

Semi-variable costs contain both fixed and variable components. The fixed element is incurred regardless of activity level, while the variable element changes with output.

Examples include electricity charges (standing charge plus usage cost) and telephone expenses.

(c) Double entries in an Integrated accounting system

(i) Issue of Indirect Materials – K4, 800

Debit	Credit	Amount (K)
Production Overheads Control	Stores Control	4,800

Narration;
To record the issue of indirect materials to production.

(ii) Wages Paid to Direct Labour – K12, 000

Debit	Credit	Amount (K)
Work-in-Progress (WIP)	Control Cash / Wages Control	12,000

Narration:
To record payment of direct labour wages.

(iii) Transfer of Finished Goods to Warehouse – K45, 000

Debit	Credit	Amount (K)
Finished Goods Control	Work-in-Progress (WIP) Control	45,000

Narration:
To record transfer of completed goods from production to warehouse.

SOLUTION FIVE

Sunrise Foods Ltd – Marginal Costing vs Absorption Costing

(a) Reasons why profits differ between marginal and absorption costing

State TWO reasons:

(1.) Fixed production overhead treatment differs

- Under marginal costing, fixed production overheads are treated as period costs and charged fully to profit or loss.
- Under absorption costing, fixed production overheads are treated as product costs and absorbed into unit costs

(2.) Inventory valuation causes profit differences

- Under absorption costing, closing inventory includes fixed production overheads, meaning some fixed costs are carried forward.
- Under marginal costing, inventory is valued at variable costs only, therefore all fixed overheads are expensed in the period.

(b): Profit statements under marginal and absorption costing

Given Information:

Units produced = 30,000
Units sold = 26,000
Closing inventory = 4,000 units
Selling price = K6 per unit
Variable production cost = K2.20 per unit
Fixed production overhead = K24, 000
Fixed selling and admin costs = K18, 000

(b) (i)

Sunrise Foods Ltd

Marginal costing statement of profit or loss

	K
Sales (26,000 × 6)	156,000
Less: Variable production costs (26,000 × 2.20)	(57,200)
Contribution	98,800
Less: Fixed production overheads	(24,000)

Less: Fixed selling & admin costs	(18,000)
Profit (Marginal Costing)	**56,800**

Workings:

Sales revenue = 26,000 × 6 = K156, 000

Variable cost of sales = 26,000 × 2.20 = K57, 200

Contribution = 156,000 − 57,200 = K98, 800

Total fixed costs = 24,000 + 18,000 = K42,000

Profit = 98,800 − 42,000 = K56, 800

(b)(ii)

Sunrise Foods Ltd

Absorption costing statement of profit or loss

	K
Sales (26,000 × 6)	156,000
Less: Cost of sales	(78,000)
Gross profit	78,000
Less: Fixed selling & admin costs	(18,000)
Profit (Absorption Costing)	**60,000**

Workings:

Fixed overhead absorption rate (FOAR) = 24,000 ÷ 30,000 = K0.80 per unit

Absorption cost per unit = 2.20 + 0.80 = K3.00 per unit

Total production cost = 30,000 × 3.00 = K90, 000

Closing inventory valuation = 4,000 × 3.00 = K12, 000

Cost of sales = 90,000 − 12,000 = K78, 000

Gross profit = 156,000 − 78,000 = K78, 000

Profit = 78,000 − 18,000 = K60, 000

Reconciliation of profit difference

Difference in profit = 60,000 − 56,800 = K3, 200

Fixed overhead carried in closing inventory = 4,000 × 0.80 = K3, 200

Final Summary

Costing Method	Profit (K)
Marginal costing	56,800
Absorption costing	60,000
Difference	3,200

SOLUTION SIX

(a) Stores Ledger Card for Lunte Warehousing

Date	Receipts			Issues			Balance		
	Qty	**Cost/tonne (K)**	**K'000**	**Qty**	**Cost/tonne (K)**	**K'000**	**Qty**	**Cost/tonne**	**K'000**
01/11/25							500	5,600	2,800
03/11/25				70@	5,600				
04/11/25				100@	5,600				
05/11/25				80@	5,600	1,400	(250)	5,600	(1,400)
							250		**1,400**
13/11/25	200	5,320	1,064				200	5,320	1,064
							450		**2,464**
16/11/25				180@	5,600	1,008	(180)	5,600	(1,008)
							270		**1,456**
20/11/25	240	5,460	1,310.4				240	5,460	1,310.4
							510		**2,766.4**
24/11/25				70@	5,600				
				200@	5,320				
				30@	5,460	1,619.8	(300)		(1,619.8)
							210		1,146.6
25/11/25	320	5,600	1,792				320		1,792
							530		**2,938.6**
26/11/25				115@	5,460	627.9	(115)	5,460	(627.9)
							415		**2,310.7**
28/11/25	100	5,600	560				100	5,600	560
							515		**2,870.7**

(b) Three (3) typical documents used in a labour cost system

(i) Clock card

A Clock Card is a bare minimum record of employees' time at work and is a simple attendance record showing days absent because of holiday, sickness, etc. It basically shows the time of arrival, breaks and departure on a particular day.

(ii) Job Cards

Job cards are prepared for each job or batch. When an employee works on a job, they record on the job card the time spent on that job. Job cards are therefore likely to contain entries relating to numerous employees. On completion of the job, it will contain a full record of the times and quantities involved in the job or batch.

(i) Piecework ticket/operation card

The wages of pieceworkers and the labour cost of work done by them is determined from what is known as a piecework ticket or an operation card. The card records the total number of items (or 'pieces') produced and the number of rejects. Payment is only made for 'good' production.

(ii) Time Sheets.
Used to record hours spent by an employee on various jobs.

END OF SUGGESTED SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 6: BUSINESS LAW

FRIDAY 12 JUNE 2026

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

INSTRUCTIONS TO CANDIDATES

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

   Section A: One (1) Compulsory scenario question.
   Section B: Five (5) Optional Questions. Attempt any Four (4) questions.
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9. Graph paper (if required) is provided at the end of the answer booklet.

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

SECTION A - (COMPULSORY)

Attempt all ten (10) multiple choice questions.

QUESTION ONE

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

1.1 There are numerous remedies for breach of contract available for a buyer under the Sale of Goods Act, which one of the following is not?

A. Recovery of the price.
B. Damages for non-delivery.
C. Exercising a lien over the goods.
D. The right to reject the goods.

(2 marks)

1.2 Which stage of law making is the last stage in the house?

A. Third reading.
B. Committee stage.
C. Second reading.
D. Report stage.

(2 marks)

1.3 Which of the following is not a right of an agent?

A. Right to remuneration.
B. Right to indemnity.
C. Right to be reimbursed.
D. Right to make a profit.

(2 marks)

1.4 What is the effect of a counter offer?

A. It alters the invitation to treat.
B. It results into acceptance of an offer.
C. It transforms an offer into an invitation to treat.
D. It revokes an offer.

(2 marks)

1.5 What is the maximum number of partners in a partnership?

A. 10
B. 100
C. 20
D. 50

(2 marks)

1.6 What constitutes damage under negligence in the law of Torts?

A. Injury or loss.
B. Proximate Cause.
C. Damages.
D. Compensation.

(2 marks)

1.7 What amounts to wrongful dismissal?

A. Termination of an employee's contract as a result of gross misconduct without notice
B. Termination of an employee's contract based on lack of financial capacity to pay.
C. Termination of an employee's contract without following proper procedure.
D. Termination of an employee's contract based on race, political affiliation.

(2 marks)

1.8 Which of the following is not a product of the interaction of equity and common law?

A. New rights.
B. Better procedure.
C. Better remedies.
D. Rules.

(2 marks)

1.9 A contract between a minor and an adult is;

A. Void.
B. Voidable.
C. Illegal.
D. Unenforceable.

(2 marks)

1.10 In instance where a contract has been performed partially; the innocent party can claim under:

A. Quantum meruit.
B. Damages.
C. Specific performance.
D. Restitution.

(2 marks)

[Total: 20 Marks]

SECTION B

There are five (5) questions in this section.

Attempt any four (4) questions.

QUESTION TWO

(a) Dwen and her husband (Albert) have been married for forty nine (49) years. They jointly run a company to which they are shareholders, directors, and joint signatories to the company account. They formed this company forty nine (49) years ago when they got married. Albert is enthused by her wife's commitment to business growth and family. To celebrate this milestone in both marriage and business, he decided to throw a big party for his company and wife. During the celebrations, Albert promised his Wife a monthly allowance of K50,000.00 which would be drawn from their company account which they jointly owned. Dwen received her allowance for the first six (6) months after their celebration. Afterwards the husband stopped paying her the allowance stating that, there was no need of her to keep getting the allowance since she was a beneficiary of annual dividends from the company and besides, he had made the promise out of excitement. Dwen feels this is unfair and approaches you for help concerning this agreement they entered into, and is desirous of getting her monthly allowance back as promised.

Required:

Explain to her the legality or non - legality of the above agreement. (10 marks)

(b) Bulaya Ltd is a company situated in Livingstone. It deals in baby clothes. Derrick Mule has been employed by Bulaya Ltd since the year 2002 as its branch manager. Derrick received a letter last week which read that he was given thirty days notice by Bulaya Ltd for termination of his contract. He is mixed up exactly as to what is happening and also whether this is legal for the company to do or not. He has come to you for help.

Required:

Explain to him whether the company was right or not in doing what they did.

(10 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Also known as Judge made law, Judicial Precedent is law made by judges while interpreting statutes. The judge makes statements of law applicable to the legal problems raised by material facts or make by the way statements.

Required:

In light of the above, explain the two (2) types of judicial precedents at law.

(10 marks)

(b) An offer is a definite promise to be bound by the terms once the offeree accepts. However, in certain instances, the offeror may choose to terminate the offer.

In light of the above statement, explain two (2) ways an offer can be terminated by the offer. (10 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) A contract of sale is a contract where the seller agrees to transfer the property in the goods for money consideration known as the price. Netty entered into an agreement with a company for the purchase of a washing machine. The agreement contained the following provisions:

> "The agreement entered into is for the sale of a machine 2024 model number 1234; the machine looks exactly the same as the one displayed in the shop window; immediately the machine is purchased, any risk that the machine might have will be borne by the purchaser; the price of the machine is K3,500.00 and this price shall be paid in cash on the day of delivery; the machine can be used for home purposes and not commercial purposes."

Netty was excited after buying the machine, after using it for two (2) months it developed a fault due to power cuts. She has now come to you to interpret the meaning of the terms used in the agreement of sale.

Required:

With reference to the above excerpt, explain to Netty the implications of the contract she signed in light of what has happened. (15 marks)

(b) Explain the word partnership according to the law of partnerships. (5 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) Explain the facts and principles in the case of **Carlill v Carbolic Small Ball and Co. [1893].** (10 marks)

(b) Banda agreed to transport Mulenga's fresh kapenta fish from Sinazongwe to Lusaka in Banda's refrigerated truck. The truck broke down in the remote Zambezi escarpment where there was no telephone network. Banda decided to sell the kapenta to the coal miners near Maamba Coal fields. Mulenga is not happy with the transaction as he made no profit at all, but was able to recover his capital.

Required:

Using the above scenario and your knowledge of the Law of Agency, advise the parties on their legal obligations. (10 marks)

[Total: 20 Marks]

QUESTION SIX

(a) Explain any five (5) ways a partnership can be dissolved. (10 marks)

(b) (i) List five (5) general defences in Tort. (5 marks)

(ii) Briefly explain each of the defences you have listed above. (5 marks)

[Total: 20 Marks]

END OF PAPER

DA 6: BUSINESS LAW

SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) This question invites the candidates to explain the concept of intention to create legal relations which is one of the essential requirements for the formation of a valid contract. The simplest possible definition of a contract is a legally binding agreement. However, although all contracts are the outcome of agreements, not all agreements are contracts; that is, not all agreements are legally enforceable. In order to limit the number of cases that might otherwise be brought, the courts will only enforce those agreements which the parties intended to have legal effect. Although expressed in terms of the parties' intentions, the test for the presence of such intention is an objective, rather than a subjective one and will be decided on the basis of particular presumptions operated by the courts. Agreements can be divided into two categories, in which different presumptions apply.

Domestic and social agreements

In domestic and social agreements, there is a presumption that the parties do not intend to create legal relations. Thus in *Balfour* v *Balfour* (1919), a husband returned to Ceylon to take up his employment and he promised his wife, who could not return with him due to health problems, 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 in law and therefore it was not legally enforceable.

The intention not to create legal relations in family and social relationships is only a presumption and, as with all presumptions, it may be rebutted by the actual facts and circumstances of a particular case. Thus in *Merritt* v *Merritt* (1970), after a husband had left the matrimonial home, he met his wife and promised to pay her £40 per month, from which she undertook to pay the outstanding mortgage on their house. The husband, at the wife's insistence, signed a note agreeing to transfer the house into the wife's sole name when the mortgage had been paid off. However, when the wife eventually paid off the mortgage the husband refused to complete the transfer of the house. In spite of the fact that the agreement had been entered into whilst the couple were still married and therefore could be seen as being similar to *Balfour* v *Balfour*, the court, nonetheless, held that the agreement was enforceable. In the circumstances the parties had intended to enter into a legally enforceable agreement and the usual presumptions was clearly rebutted. Of course, commercial transactions as opposed to social arrangement are usually legally binding.

From the above position of the law, it may be concluded that Dwen's husband did not have an intention to have the agreement legally binding as in Merits case because the agreement was basically a domestic agreement. Therefore, Dwen will not succeed in claiming for her monthly payment of K50,000 as it wasn't a commercial transaction even if the money was coming from the business, there was no intention to create a binding legal relationship in this case.

(b) This question requires the candidates to explain the various ways in which a contract of employment may be terminated and as to whether Derrick's termination was within the law.

A contract of employment may be terminated by:

(i) Performance, e.g., completion of a specific project for which a person was employed;
(ii) Agreement, e.g., resignation by an employee;
(iii) Frustration, e.g., in the event of ill-health or military conscription;
(iv) Breach, the most important of these four means of discharge.

There are two further circumstances which do not fall into any of these categories, but which are also extremely important in employment law. These are:
(i) Termination by *notice*; and
(ii) Termination by *dismissal*.

Termination by breach
An employment contract is terminated by breach where there is:
(i) Summary dismissal;
(ii) Constructive dismissal;
(iii) Inability on the employer's behalf to continue;
(iv) Repudiation of the contract by the employee.

Each of these is considered in turn below.

From the above modes of terminating an employment contract it is clear that termination by notice is one way through which a contract of employment can be terminated. Therefore, Derrick's employer was in line with the law to issue a 30 day notice for termination in line with the Employment Code Act No.3 of 2019 Section 53. This can also depend on the terms of his contract of employment. Thus if the contract provided for example, for three months' notice, this kind of termination would amount to wrongful dismissal.

SOLUTION THREE

(a) The two types of precedents are as follows:

(i) **Binding precedents**- these are precedents that bind the court to follow them and not stray from them. Examples of binding precedents include; the ratio decidendi of decisions made by higher courts. Ratio decidendi simply means the reason for the decision. *Ratio decidendi* is a legal phrase that translates from Latin to mean "the reason," or the motivation behind a legal decision. *Ratio* includes all of the principles a court relies on – be they moral, political, or social – to justify their reasoning for coming to a decision in a case. A *ratio* is comprised of the legal points made by all the parties to a case. Decisions made by higher courts are binding on the lower courts. For instance, a decision made by the Supreme Court is binding on the Court of Appeal.

(ii) **Persuasive precedents**-these are precedents or principles of law which the courts will either choose to follow or stray from. Examples of persuasive precedents include; obita dicta, decisions made by inferior courts and decisions made by international courts. *Obiter dicta* are additional observations, remarks, and opinions on other issues made by the judge. These often explain the court's rationale in coming to its decision and, while they may offer guidance in similar matters in the future, they are not binding.

In reading a court's decision, *obiter dicta* may be recognized by such words as "introduced by way of analogy," or "by way of illustration." *Obiter dicta* may be as short as a brief aside or a hypothetical example, or as long as a thorough discussion of relevant law. In either case, the additional information is given to provide context for the judicial opinion. Decisions made by lower courts are persuasive to higher courts. For instance, a decision made by the Court of Appeal is persuasive to the Supreme Court. Decisions made by foreign courts are merely persuasive on the Zambian courts.

(b) The following are ways in which an offer can be terminated;

Rejection of offers/ Counter Offer

If a person to whom an offer has been made rejects it, then that is the end of the matter and they cannot subsequently accept the original offer. A counter-offer, where the offeree tries to change the terms of the original offer has the same effect, as may be seen **Hyde v. Wrench[(1840)].** Wrench offered to sell his farm for £1,000. Hyde made a counter-offer to buy the farm for £950, which Wrench rejected. Hyde then told Wrench that he accepted the original offer. It was held that there was no contract. Hyde's counter-offer had effectively ended the original offer. A counter-offer should not be confused with a request for information which does not end the offer (see Stevenson v. McLean[(1828)] (1880)).

Revocation of offer

Revocation takes place when the offeror withdraws their offer. The offeror may change their mind at any time before acceptance. Once accepted the offer cannot be revoked, but once revoked the offer cannot be accepted (see Routledge v. Grant).

Revocation, however, is not effective until it is actually received by the offeree, but communication of revocation may be made through a reliable third party (see **Dickinson v. Dodds[(1876)]**). Where the promisor agrees to keep the offer open for a time they can still withdraw it at any time before acceptance, unless, the offeree has provided separate consideration for the offer to be kept open. In that situation an option contract has been created and the offeror cannot withdraw the offer before the agreed time. In relation to revocation of offers it should be noted that, where unilateral contracts are involved, revocation is not permissible once the offeree has started performing the task requested (see Errington v. Errington[(1952)]).

Lapse of offers

It is possible for the parties to agree, or for the offeror to set, a time limit within which acceptance has to take place. If the offeree has not accepted the offer within that period then the offer is said to have lapsed and can no longer be accepted. Even where no set time limit has been placed on accepting the offer it will still lapse after the passage of a reasonable time, depending on the circumstances of the case.

SOLUTION FOUR

(a) The type of contract is known as a contract for sale. The following are the provisions of the Sale of Goods Act of 1893, which have been referred to in the contract.

Time of performance (s10)

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

Title

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

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

Sale by Description

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

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

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

Quality or Fitness

S 14 of the 1893 Act provides as follows:

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

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

Price

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

Fitness for Purpose

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

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

(i) to the seller, or

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

Sale by Sample

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

(i) The bulk will correspond with the sample in quality;

(ii) The buyer will have a reasonable opportunity of comparing the bulk with the sample; and

(iii) The goods shall be free from any defect rendering them unsatisfactory which would not be apparent on reasonable examination of the sample.

Transfer of Property and Risk

Risk

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

Therefore, all the terms which were in the contract of sale signed by Netty correspond with the provisions found in the Sale of Goods Act, hence the contract was valid and Netty cannot sue the company from which she bought the machine since risk was transferred once the purchase was made, the sample was like the product supplied, it made the same quality standard and description. However, if the sale has a warranty for a certain period, then she can still take back the machine to the company for repairs or exchange if the faulty was that of the seller.

(b) A partnership is defined as an association of two or more people, who come together with a common view of making a profit. They run the business together, share profits and losses, are jointly and severally liable, etc.

SOLUTION FIVE

(a) **In Carlill v Carblic Smokeball Co. (1893),** the defendant company manufactured a patent medicine, called 'smokeball'. In various advertisements they offered to pay £100 to any person who caught influenza after having sniffed the smokeball three times a day for two weeks. They also stated that they had deposited £1,000 in the Alliance Bank in Regent Street to show their' sincerity'.

Mrs. C. used the smokeball as advertised and contracted influenza after more than two weeks' treatment and while still using the smokeball. She claimed her £100. The company raised several defences:

(i) The advertisement was too vague since it did not state a time limit in which the user had to contract influenza. The court said that it must at least protect the user during the period of use.
(ii) It was not possible to make an offer to the whole world, to the public at large. The court made a comparison with reward cases and stated that such an offer was possible.
(iii) An acceptance was not communicated. Not necessary in such cases. A comparison was made with reward cases where no communication is necessary.
(iv) The advertisement was a mere gimmick or 'puff' and there was no intention to create legal relations. The deposit of £1,000 would indicate to a reasonable man that there was an intention to create legal relations.
(v) Mrs. C provided no consideration. It was held that the actual act of sniffing the smoke-ball was consideration. (the purchase price was not consideration for a contract with the manufacturer; it was consideration for the contract with the retailer).

The case of *Carlil's* case is therefore a leading case in the law of contract which sets out the main elements of a contract namely offer, acceptance, consideration and intention to create legal relations.

(b) They would be advised that their relationship was agency of necessity arising out of the breakdown of the refrigerated truck. For the agency of necessity to arise, the following conditions must exist:

- A genuine emergency-there must be an emergence that will compel the agent to act on behalf of the principal
- It must be practically impossible to get fresh instructions from the principal-the agent should try to communicate with the principal to get new instructions but this should be impossible

- The act must be done in good faith-the agent must act for the sole interest of the principal and must be in good faith
- What is done must benefit the principal-the end result of the act done by the agent must be seen to benefit the principal as a whole

In the above scenario, Banda was unable to get instructions from Mulenga when the truck broke down because there was no phone network in the area. Selling the fresh fish before it went bad and recover the capital was done in the best interest of the principal. Thus, although Mulenga may sue Banda, Banda's defence will be that he had become an agent of necessity.

SOLUTION SIX

(a) The following are the ways in which a partnership can be dissolved;

1. By agreement

Most partnership agreements will include clauses and procedures for the partnership to be dissolved. The partners must comply with the agreement.

Often there is a clause in the partnership agreement requiring less than a 100% vote to dissolve the partnership. If there isn't such a clause, then all partners, unanimously, at the same time, must agree to dissolve the partnership.

This means the partnership cannot be dissolved by agreement, if partners previously agreed but subsequently change their mind.

2. Dissolution by notice

If the partnership is a partnership "at will", any partner can dissolve the partnership "by notice".

However, it takes very little for a partnership not to be "at will". The relevant law is complex. Ways to establish the partnership is not "at will" include:

- Any indication the remaining partners intended to continue the partnership if one partner leaves;
- A written partnership agreement;
- The partnership is an LLP;

Note, the concept of termination "at will" does not exist with companies. Instead, shareholders vote to wind up the business.

3. By expiration

If the partnership was created for a particular project, or fixed period, the partnership is dissolved when appropriate.

For limited companies, the concept of expiration does not exist. The shareholders vote to have Companies House strike off the register of members. LLPs have a similar process.

4. Death or bankruptcy

Partnerships automatically dissolve if any partner dies or becomes bankrupt, unless otherwise agreed. Thus partnerships should have a written partnership agreement, with provisions that permit the partnership to continue.

If there isn't a written partnership agreement, and the remaining partners had intended the partnership to continue, the Partnership Act is cumbersome.

If the business trades as a Ltd company or an LLP, then the death or bankruptcy of a member does not cause the business to automatically dissolve.

5. By the court

Dissolution by the court is likely to be contentious, otherwise the partnership would dissolve by agreement. The court can dissolve a partnership on several grounds, including that dissolution is just and equitable, because e.g.:

- The partnership comprises only 2 partners, who have fallen out;
- The business can only be carried on at a loss;
- A partner is incapable of carrying on the business, guilty of conduct that detrimentally affects the carrying on of the business, is willfully or persistently in breach of the partnership agreement or behaves in such a way that it is not reasonably practical for the other partners to be in business with him.

(b) (i) The list of *Five defences in Tort* would include: Consent; Contributory negligence; Statutory or common law justification; Necessity and Illegality.

(ii)*Consent (volenti non fit injuria)* – This is a defence in tort where the injured consents to the taking of the risk e.g. in football, undertaking a surgery, etc. The consent must be voluntary and freely undertaken, for it to be a good defence by the wrong doer.

Contributory negligence – This is a defence where the injured part partly contributed to his injury. The effect of this is a reduction in the amount of damages to be awarded to the injured party, reason being that he also contributed to his injuries.

Statutory or common law justification – This is a defence where one's acts are covered by statute or common law. For example, injuries incurred in resisting an arrest may not be compensated as the police officers would have been doing their work as authorized by statute/law.

Necessity – This defence comes into play where it was necessary to cause the injury in order to prevent a greater harm. The action must be a reasonable action.

Illegality – This defence states if the act from whish the injured party seeks compensation is illegal, he must be prevented from benefiting from it as it would be against the law or public policy. For example, allowing such an injured party to benefit from proceeds of crime may perpetuate the crime, must be stopped from benefitting.

END OF SUGGESTED SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 7: PRINCIPLES OF MANAGEMENT

MONDAY 8 JUNE 2026

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.

2. This paper is divided into TWO sections:

   Section A: One (1) Compulsory question.

   Section B: Five (5) Optional Questions. Attempt any four (4) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A - COMPULSORY

Attempt all ten (10) multiple choice questions

<u>QUESTION ONE</u>

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

1.1 According to Kurt Lewin, which of the following is NOT a stage process.

A. Unfreezing.

B. Freezing.

C. Changing.

D. Restraining.

(2 marks)

1.2 Under Fredrick Taylor's scientific management theory, task setting includes:

A. Time study.

B. Motion Study.

C. Method Study.

D. All of the Above.

(2 marks)

1.3. In an organization, what is the basic role of strategy.

A. It serves as a direction for Action.

B. It serves as a direction for Motivation.

C. It serves as a direction for Control.

D. Setting Procedure.

(2 marks)

1.4 ___________ helps organization reduce employee turnover and absenteeism.

A. Job design.

B. Training & development.

C. Wage revision.

D. All of the above.

(2 marks)

1.5 From your understanding of this course, Management is Not

A. A pure Science.

B. An applied Science.

C. An Art and Science.

D. An Art.

(2 marks)

1.6. From the elements of management, you know, which one among the following is aimed at integrating group efforts to achieve group objectives.

A. Directing.

B. Management.

C. Coordination.

D. Organizing.

(2 marks)

1.7 Regarding leadership, which statement is false?

A. Leadership does not necessarily take place within a hierarchical structure of an organization.

B. When people operate as leaders their role is always clearly established and defined.

C. Not every Leader is a Manager.

D. All of the above.

(2 marks)

1.8. ___________ are the approaches to the study of leadership which emphases the personality of the leader:

A. Contingency theories.

B. Group theories.

C. Trait theories.

D. Inspirational theories.

(2 marks)

1.9. Which of the following best describes 'selection' in the recruitment process?

A. Sourcing potential candidates.
B. Offering job perks and benefits.
C. Choosing the most suitable candidate from a pool of applicants.
D. Posting the job advertisement.

(2 marks)

1.10 Which of the following is a key feature of a community non-profit organization?

A. Offering private services for clients only.
B. Profit generation for shareholders.
C. Serving the community's needs.
D. Political affiliation and lobbying.

(2 marks)

[Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

(a) The External business environment is dynamic therefore, it has a greater influence on organizational change. Explain the factors that influence change of business organizations. (12 marks)

(b) Discuss the nature of corporate strategy. (8 marks)

[Total: 20 Marks]

QUESTION THREE

Recruitment is a process of finding and attracting capable employees to fill in job vacancies at the right time with right qualification.

Required:

(a) Explain each of the following documents that are used in the recruitment process.

  (i) Job description. (4 marks)

  (ii) Job specification. (4 marks)

(b) Outline three (3) stages of the recruitment and the selection process. (6 marks)

(c) State one (1) reason that causes ineffective recruitment and selection. (2 marks)

(d) State any four (4) qualities of a transformational leader. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

Business strategy is the strategic initiatives a company pursues to create value for the organization and its stakeholders and gain a competitive advantage in the market.

Required:

(a) Explain the three (3) main levels of strategy. (9 marks)

(b) Define the term Mission Statement. (2 marks)

(c) Explain the meaning of Human Resource Management. (3 marks)

(d) Outline three (3) advantages and three (3) disadvantages of public sector organizations. (6 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) Managers of organisations have no complete freedom to set and implement organisational objectives. This is because of stakeholder considerations.

Required:

Explain the term stakeholder and state any four (4) connected stakeholders.

(6 marks)

(b) The primary objective of public sector organisation is not to make profit but provide service to the public.

Required:

Explain a public sector organisation, and identify any three (3) advantages and three (3) disadvantages of a public sector organisation. (12 marks)

(c) State any two (2) benefits of training to an organisation. (2 marks)

[Total: 20 Marks]

QUESTION SIX

Mr Chuulu as Manager expects a lot from employee who are forced to participate in all activities as commanded by him. Employees have expressed displeasure towards Management as they feel being used by the company. Some employees have resorted to sluggish behaviour toward work with intentions to leave as soon as they get opportunities elsewhere because they feel their needs are ignored by management.

Required:

(a) Identify the problem in the organisation that is making employees behave in a negative manner. (6 marks)

(b) Explain the behaviours exhibited by employees who feel unfairly treated using Stacy Adam's Equity Theory. (8 marks)

(c) Discuss any five (5) features that Managers should consider in using participation as a motivator. (6 marks)

[Total: 20 Marks]

END OF PAPER

DA 7: PRINCIPLES OF MANAGEMENT

SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) The following are the factors of the business environment that may trigger organization change.

(i) **Political factors**: The change of government, political instability and change of economic policies may trigger change in the organization.

(ii) **Economical factors**: The changes in the economic indicators such as inflation, employment levels, gross domestic product, foreign exchange rate, taxation system.

(iii) **Social factors**: changes in culture, life style and demographics of the society has influence on the demand and supply of goods.

(iv) **Technological factors**: Rapid advancement in technology has influenced change in organistaions. Change technology has been in the area of production machinery, production processes and computers.

(v) **Ecological factors**: The issue of climate change and green economy is transforming the type of raw material, source of energy and production process to use. Companies are being compelled to use environmentally friendly resources for sustainable development.

(vi) **Legal factors**: The government makes laws that govern the operations of Organizations. Therefore, changes in laws may trigger change in the organization. Laws that affect the organizations are company law, environmental laws, safety laws, consumer protection laws etc.

(b) **Corporate strategy,** this is the strategy formulated by top management and is concerned with the overall purpose of the entire organization.

- The corporate strategy is formulated in line with the mission of the organization. The mission will clearly state why the organization exists and where it is headed to.
- A corporate strategy is derived from situational analysis of the organization and its environment.
- SWOT and PESTEL analysis tools are used to assess the business environment. Forecasting techniques are used by managers to cope with uncertainty of the future business environment while conducting situational analysis.
- Corporate strategy is long term in nature and must meet the interests of the stakeholders.

SOLUTION THREE

(a) (i) **Job description**

A job description is a formal written document that highlights the important details about a particular job. It includes the following aspects of a job position:

The purpose of the job. It's place in the organisation structure, responsibilities of the job holder, accountabilities of the job and the main tasks of the job holder.

(ii) **Job specification**

A job specification highlights the personal qualities of the type of person who will be most likely to perform the job well. It usually covers skills and personnel factors such as levels of intelligence, interpersonal skills, motivation and commitment

(b) The recruitment policy has the following main stages:

(i) Stage 1- This has to do with **defining requirements,** which includes the preparations of the job description, job specification and personal specification.
(ii) Stage 2- This is the **advertising stage** where people are informed about the job vacancy and the receiving applications from individuals who are interested in the job.
(iii) Stage 3 –this has to do with selecting the most appropriate candidate for the job, from a pool of applicants.

(c) Reasons for ineffective recruitment and selection

(i) Selecting unsuitable people for job positions
(ii) Failure to take up the job offer after interviews for some reasons
(iii) High-level turnover after people have been employed
(iv) Failure to attract enough candidates at recruitment stage.

(d) Qualities of a transformational leader
(i) Must have a vision for the organisation
(ii) The leader must have fore sight.
(iii) Must have value congruence.
(iv) Must empower members in a group
(v) Must be self-understanding.

SOLUTION FOUR

(a) **Explain the three (3) main levels of strategy.**

- **Corporate Level Strategy:** At the pinnacle of strategic planning is the corporate-level strategy, which sets the overarching direction and goals for the entire organization. This strategy is about defining the path an organization will take to achieve long-term success and often involves decisions on diversification, acquisitions, and new market entry.
- **Business Level Strategy:** The Business Level Strategy focuses more narrowly on how a business competes in its chosen market(s). It's about carving out a competitive position, leveraging unique strengths, and delivering value to customers in ways that are difficult for competitors to match.
- **Functional Level Strategy:** Operational effectiveness is the realm of the Functional Level Strategy, which is concerned with maximizing efficiency and performance in specific areas of the business such as marketing, human resources, IT, and operations.

(b) **Define the term Mission Statement**

A mission statement is used by a company to explain, in simple and concise terms, its purpose(s) for being. It is usually one sentence or a short paragraph, explaining a company's culture, values, and ethics.

(c) **Explain the meaning of Human Resource Management.**

Human resource management (HRM) is the practice of recruiting, hiring, deploying and managing an organization's employees. HRM is often referred to simply as human resources (HR). A company or organization's HR department is usually responsible for creating, putting into effect and overseeing policies governing workers and the relationship of the organization with its employees.

(d) **Outline three (3) advantages and three (3) disadvantages of public sector organizations.**

Advantages of the public sector include:
Providing equitable access to essential services
Ensuring social welfare
Contributing to economic stability through public investments.

Disadvantages of the public sector include:
1. Cost to the government – Several public firms are losing money.
2. Inefficiency – Public firms are often criticized for their lack of productivity and efficiency.
3. Political interference – Government intervention frequently causes public firms to suffer.

SOLUTION FIVE

(a) A stakeholder is any individual or organisation with legitimate interests in the organisation such they are affected by or can affect the activities of the organisation.

The connected stakeholders include the following

- Suppliers
- Customers
- Lenders
- Shareholders

(b) A public sector organisation is one owned and controlled by the government

Advantages of public sector organisations

- **Fairness-** public sector organisations provide goods and service on the basis need and not ability to pay hence more fair.
- Public sector fill gap left by private sector
- Public interests- The public interests are best served by public sector.
- Economies of scale- where a public sector organisation is centralised, costs are spread.

Disadvantages of public sector organisation

- Political interference may hinder its operation
- There is normally poor accountability
- Generally, the quality of goods and services may be poor
- There is generally inefficiency in its operation

(c) **Benefits of training to the organisation**

- Training act as motivation to staff
- It minimises to cost of obtaining new skills from outside
- Training increase productivity as staff becomes more efficient
- Training reduces accidents thereby provide a better, safe and healthy environment.

SOLUTION SIX

(a) The existing problem is that workers are feeling used because their expectations from the company are not being met and are not motivated. Since motivation is driven by the individual needs through work.

(b) The following are the behaviors of employee who feel they are treated unfairly as identified by Adams:

- (i) Reduce the inputs they put into their work-putting less effort by reducing their motivation
- (ii) Changing the amount of pay or nature of the reward they want
- (iii) Changing their views, for example by convincing themselves that the inputs are less or the outputs are more than they really are.
- (iv) Leaving their jobs and moving to a job where there is more equity.

(c) The following are things to use when using participation as a motivator:

- (i) Employees should only be involved in relevant decisions where they have experience and knowledge
- (ii) Should be used for decisions of certain degree of importance not trivial matters
- (iii) Feedback on the outcome of decision must be provided as soon as possible
- (iv) Participation must be genuine employees should not be seen to be consulted but further actions is taken in light of their involvement.
- (v) Employees should only be involved in decisions for which they have the ability, equipment and willingness to participate.

Zambia Institute of Chartered Accountants

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 8: FINANCIAL REPORTING

MONDAY 8 JUNE 2026

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.

2. This paper is divided into TWO (2) sections:

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

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A

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

Attempt BOTH questions.

QUESTION ONE

On 1 October 2025, Apple Plc purchased 6 million K1 equity shares in Orange Plc. On that date the retained earnings of Orange Plc were K7.5 Million. The purchase consideration comprised the following:

- An immediate cash payment of K0.8 per share.
- a share exchange of two share in Apple Plc for each Orange Plc acquired share.
- a cash payment of K1 per share payable in two (2) years' time.

Apple Plc has only recorded the immediate cash payment. The value of each Apple Plc share on 1 October was K1.5 whilst that of Orange Plc was K3. Apple Plc has a cost of capital of 10% per annum.

Additionally, Apple Plc bought 45% of the equity shares of Banana Plc on the date of its incorporation a cost of K8.8 million. This amount has been recorded in the books Apple Plc.

The statement of financial positions of the three (3) companies at 31 March 2026 are shown below:

	Apple	Orange	Banana
Assets	K000'	K000'	K000'
Non-current asset			
Property plant and equipment	17,400	20,712	3,152
Intangible assets	3,000	1,000	-
Investment at cost	13,600	-	-
Total non current assets	34,000	21,712	3,152
Current assets			
Inventory	2,680	750	570
Receivables	800	710	455
Cash and cash equivalents	520	188	122
Total current assets	4,000	1,648	1,147
Total assets	**38,000**	**23,360**	**4,299**
Equity and liabilities:			
Equity			
Equity shares K1 each	10,000	8,000	2,500
Share premium	500	200	-
Retained earnings	23,500	13,300	100

Total equity	34,000	21,500	2,600
Non-current liabilities:			
10% Loan notes	2,500	1,000	1,429
Current liabilities			
Trade payables	700	260	200
Tax payable	800	600	70
Total current liabilities	1,500	860	270
Total equity and liabilities	**38,000**	**23,360**	**4,299**

The notes below are relevant:

(1) At the date of its acquisition, the fair values of Orange Plc's identifiable net assets were equal to their carrying amounts, except for an item of plant, whose fair value exceeded its carrying amount by K8 million. The plant had a remaining useful life of four (4) years and Orange Plc applies straight-line depreciation with no residual value.

In addition, Apple Plc valued Orange Plc's customer relationships as an intangible asset with a fair value of K6 million. The customer relationships did not meet the IAS 38 recognition criteria in the separate financial statements of Orange. The average duration of trading relationships with Orange Plc customers is six (6) years.

(2) At 31 March 2026, Orange Plc's inventory included goods purchased from Apple Plc at K5.2 million (cost to Orange Plc). Apple applies a marked up of 15% on all its sales. Apple's receivables include K0.3 million owing by Orange.

(3) Apple Plc's policy is to measure non controlling interest at the date of acquisition at the fair value of the shareholding. The market price of Orange's shares on acquisition date is a reasonable representation of the fair value of the non controlling interest at acquisition date.

(4) Impairment tests conducted on 31 March 2026 revealed that the investment in Banana has been impaired by K0.5 million. There was no impairment loss on the goodwill on acquisition of Orange.

(5) All profits are assumed to accrue evenly throughout the year.

Required:

Prepare the consolidated statement of financial position for the Apple Plc Group as at 31 March 2026. (25 marks)

[Total: 25 marks]

QUESTION TWO

You are the Financial Accountant of Lusaka Breweries Co (Lusaka). Your junior officer has prepared a draft statement of profit or loss for the year ended 31 December 2025 (before any adjustments required by notes (i) to (iv) below). The draft profit has been added to retained earnings and the summarised trial balance of Lusaka Breweries Co. as at 31 December 2025 is given below.

Lusaka Breweries Co. trial balance as at 31 December 2025:

	K'000	K'000
Equity shares of K1 each		10,000
Retained earnings as at 31 December 2025 (draft)		4,122
Office building at cost	20,000	
Factory buildings at cost (note (ii))	40,000	
Accumulated depreciation at 1 January 2025:		
Office building		4,000
Factory		11,100
Environmental provision 1 January 2025 (note (iii))		1,228
Current liabilities		34,500
Current assets	14,700	
Proceeds of 5% loan note (note (i))		5,000
Deferred Tax at 1 January 2025		1,500
Interest paid (note (i))	250	
Suspense account (note (ii))		3,500
	74,950	74,950

The following notes are relevant:

(1) A 5% loan note was issued on 1 January 2025 at its face value of K5 million. Direct costs of the issue amounted to K125,000 and were charged to profit or loss. The loan will be redeemed in five years time at a substantial premium which gives an effective interest rate of 8%. The annual interest payments of K250,000 (K5m at 5%) are made on 31 December each year.

(2) The office building was acquired on 1 January 2023 for K20 million. It has an estimated useful life of twenty five (25) years. Depreciation is charged on a pro-rata basis. An impairment review of the building on 1 July 2025 showed its recoverable amount at that date as K12 million. The estimated remaining life at that date was revised to twelve (12) years.

On 1 January 2025 Lusaka Breweries sold one of its factories with a carrying amount of K3 million (cost K5 million and accumulated depreciation K2 million) for K3.5 million. The proceeds were credited to the suspense account. The factories are depreciated at 15% per annum using the reducing balance method.

(3) The decommissioning provision relates to costs of decommissioning a factory at the end of its life. The provision brought forward at 1 January 2025 was correctly measured after discount at a rate of 5% per annum.

(4) The total temporary differences for deferred tax computation at 31 December 2025, based on the above trial balance carrying amounts of assets and liabilities amounted to K15 million, taxable. However, that figure is before the effects of adjustments to assets and liabilities arising from the additional information in the notes. The income tax rate applicable to Lusaka is 20%.

(5) Current liabilities in the trial balance above includes a credit balance of K0.2 million in respect of the under or over provision for the liability on taxable profits for the previous period. A provision for the current tax liability for the year to 31 December 2025 amounting to K0.5 million is yet to be accrued.

Required:

(a) Prepare a schedule of adjustments required to the draft retained earnings of Lusaka as a result of the information in notes (i) to (v). (8 marks)

(b) Prepare the statement of financial position of Lusaka Breweries as at 31 December 2025. (14 marks)

(c) Explain any Three (3) indicators of impairment of an asset according to IAS 36. (3 marks)

[Total 25 Marks]

Note: All calculations should be rounded to the nearest K' 000.

SECTION B

There are THREE (3) questions in this section.

Attempt any TWO (2) questions.

<u>QUESTION THREE</u>

You are an Accountant at Kaleya Ltd (Kaleya) responsible for the preparation of financial statements. The Finance Manager has requested you to give advice on the accounting treatment of the following transactions in the financial statements for the year to 31 December 2025:

(a) On 1 January 2025, Kaleya acquired 500,000 shares in Munda Ltd (Munda), a company that supplies raw materials to Kaleya. The shares cost K2 per share and the transaction costs incurred in purchasing the shares were K100,000. The shares were purchased in order to protect Kaleya's source of supply and Kaleya has no intention of trading in these shares. On 1 July 2025, Munda paid a dividend of K0.30 per share. On 31 December 2025, the fair value of each share in Munda was K2.25.

Required:

Explain the accounting treatment of this transaction in the financial statements of Kaleya for the year ended 31 December 2025. (5 marks)

(b) Kaleya has three business segments which are reported separately in its internal accounts provided to the chief operating decision maker. The results of these operating segments for the year ended 31 December 2025 are:

Segment	Total revenue (K)	Total profit/(loss) (K)	Total assets (K)
Bread	42,500	37,500	42,000
Sugar	4,000	12,500	3,500
Tea	3,500	(4,000)	4,500
	50,000	46,000	50,000

Required:

Explain which of the operating segments constitute a 'reportable' operating segment under segment under IFRS 8 Operating segments.

(Note: relevant calculations must be shown) (7 marks)

(c) On 1 January 2025, Kaleya sold an equipment inclusive of two (2) years free repairs and maintenance package for K12 million. The price of equipment without the repairs and maintenance package is K12 million and the stand-alone price of repairs and maintenance is K3 million. The equipment was delivered to the customer on 1 January 2025 and the performance obligation for the repairs and maintenance for the year ending 31 December 2025 has been satisfied.

Required:

Explain the accounting treatment of this transaction in the financial statements for the year to 31 December 2025. (7 marks)

(d) On 1 January 2025, Kaleya began to lease a property on a ten (10) year lease. The annual lease payments were K500,000, payable in arrears, on 31 December each year. The first payment was made on 31 December 2025. Kaleya incurred initial direct costs of K60,000 in arranging this lease at inception of the lease. The annual rate of interest implicit in the lease is 10%. The present value of future lease payments at inception of the lease was K3,072,500.

Required:

Explain the accounting treatment of this transaction in the financial statements for the year to 31 December 2025. (6 marks)

[Total: 25 Marks]

QUESTION FOUR

MM Consultants is an Audit Firm that provides services such as preparation of financial statements, audit of financial statements and tax compliancy consultancy. You are part of the team that has been assigned to provide advisory services to the following clients on the impact of the transactions below on their financial statements.

All the clients prepare financial statements to 31 March each year.

Mupeta Co.
On 31 March 2025, Mupeta Co.'s closing inventory was valued at its cost of K10 million. It included damaged goods with a cost of K0.6 million. The damaged goods are no longer expected to achieve their normal selling price, which is calculated to include a markup of 20%. These goods are expected to be sold at a discount of 30% of their normal selling price. (3 marks)

Kalilile Co
On 1 April 2024, Kalilile Co. acquired a machine via a lease agreement and paid K90,000 immediately, being the first of the five (5) equal annual rentals in advance. The present value of the remaining lease payments at 1 April 2024 was K285,300. The lease contract has an implicit rate of interest of 10%, and the machine has a useful life of five (5) years. The lease contract allows Kalilile Co. to purchase the machine at the end of the lease term.

(6 marks)

Mulele Co.
In the year to 31 March 2024, Mulele Co. over-provided for current tax by K48,000 and its deferred tax liability at 31 March 2024 was K120,000. At 31 March 2025, Mulele Co. revalued its property and the revaluation surplus gave rise to deferred tax liability of K50,000. In addition, other taxable temporary differences at 31 March 2025 were K1.5 million. The income tax rate applicable to Mulele Co. is 25%. The income tax charge on the year's profit is estimated at K560,000. The surplus on the revaluation of property was correctly reported in the statement of profit or loss. (6 marks)

Mponda co.
Mponda co. Issued 6% loan notes with a nominal value of K450,000 on 1 April 2024 at par. Issue costs totalled K15,000. The effective interest rate for the loan notes is 8%. The loan is redeemable after four (4) years at a large premium. (4 marks)

Musenge Co.
Musenge Co. sold a property to Ndalama Co. a finance Co. on 31 March 2024 for K6 million. The carrying amount of the property at 31 March 2024 was K5.6 million. Musenge company has an option to repurchase the property after three (3) years from the date of sale for K6.8 million inclusive of interest at 4% per annum at which time the property is estimated to be worth K6.75 million. Ndalama Co. cannot use the property without the prior consent of Musenge Co. (6 marks)

Required:

Explain the effect of the above transactions on the financial statements of each of the five (5) clients above for the year to 31 March 2025, with reference to applicable IFRSs.

[Total: 25 Marks]

QUESTION FIVE

Techpro has two (2) subsidiaries: BROD and FRED. The Directors would like to know how the companies are performing in terms of profitability, liquidity, efficiency and borrowing. Both companies import and sell irrigation equipment and other agricultural products, but are about to make economic decisions which will require advice on how performance will be affected.

The following are the companies' financial statements for the year ended 30 June 2025:

Statements of financial position as at 30 June:	**BROD**		**FRED**
	30 June 2025		30 June 2025
	K'000		K'000
Non current assets:			
Land and Buildings	900		610
Plant and Equipment	450		255
		1,350	
865 **Current assets:**			
Inventories	1,070		220
Trade receivables	750		480
Cash and cash equivalents	405		220
		2,225	
920			
	3,575		1,785
Equity:			
Ordinary shares of K1 each	600		400
Retained earnings	860		485
		1,460	
885 **Non current liabilities:**			
10% Loan notes	1,360		460
		1,360	
460			
Current liabilities:			
Trade payables	620		385
Current tax	135		55
	755		440
	3,575		1,785

Statements of profit or loss and other comprehensive income for the year ended 30 June 2025

	BROD 30 June 2025	FRED 30 June 2025
	K'000	K'000
Revenue	3,020	1,895
Cost of sales	(1,963)	(986)
Gross profit	1,057	909
Operating expenses	(725)	(310)
Finance costs	(192)	(60)
Investment income	20	15
Profit before tax	160	554
Income tax expense	(55)	(165)
Profit after tax	105	389
Other comprehensive income:		
Revaluation surplus	135	(25)
Total comprehensive income	240	364

The Directors of the two (2) companies have the following strategies to implement in order to improve performance:

(1) Directors of BROD wish to increase the broad range of agricultural products to sell while providing more flexible payment terms for customers buying on credit.

(2) Directors of FRED wish to discontinue selling other agricultural products and concentrate on borehole drilling, selling and installing irrigation equipment.

(3) The unoccupied parts of the building will no longer be sublet but used as warehouses for inventory by each of the companies.

Required:

(a) Calculate the following ratios for the two (2) entities based on the figures in the financial statement extracts above:

Gross profit margin
Operating profit margin
Inventory turnover
Current ratio
Quick (acid test) ratio
Receivables collection period
Payables payment period
Return on capital employed
Gearing ratio

(8 marks)

(b) Prepare a report that analyses the performance and position of each company, based on the past performance and planned strategies for improving their future performance.

Note: The report should clearly state which company would be better to further invest in by TechPro. (17 marks)

[Total: 25 Marks]

END OF PAPER

DA 8 – FINANCIAL REPORTING SOLUTIONS

SUGGESTED SOLUTIONS

SOLUTION ONE

Apple Plc

Group statement of financial position at 31 March 2025

Assets	K'000	K'000
Non-current assets		
PPE (17,400+20712+8000-1000)		45,112
Intangible assets (3000+1000+6000-500)		9,500
Goodwill		4,059
Investment in associate		8,345
		67,016
Current assets		
Inventory (2680+750-678)	2,752	
Receivables (800+710-300)	1,210	
Cash (520+188)	708	
		4,670
Total assets		**71,686**
Equity and liabilities:		
Equity		
Equity shares K1 (10000+12000)		22,000
Share premium (500+6000)		6,500
Retained earnings (W5)		25,344
Total equity attrib to owners		53,844
Non controlling interest		7,075
Total equity		60,919
Non-current liabilities		
10% Loan notes (2500+1000)		3,500
Deferred consideration		5,207
Current liabilities:		
Trade Payables (700+260-300)	660	
Tax Payable (800+600)	1,400	2,060
Total equity and liabilities		**71,686**

W1) Group structure

Apple Plc

CI - 6/8=75% SI - 45%

Orange Plc
(Six months)

Banana Plc

W2) Net assets in Orange

	At Acquisiton K'000	At Reporting K'000
Equity shares	8,000	8,000
Share Premium	200	200
Retained earnings	7,500	13,300
FV adjustments		
Plant	8,000	8,000
Depreciation		- 1,000
Intangible asset	6,000	6,000
Amortisation		- 500
	29,700	**34,000**
Post acquisition profit	4,300	
Apple (75%)	3,225	
NCI (25%)	1,075	

W3) Goodwill		K'000
Cost of investment		
Cash consideration (6m*K0.8)		4,800
Share exchange (6m*2/1*K1.5)		18,000
Deferred consideration		
(6m*K1*1.1^-2)		4,959
FV of NCI (8m*25%*K3)		6,000
		33,759
Less Net assets at acquisition (W2)	-	29,700
GFP		**4,059**

W4) NCI	K'000
At acquisition	6,000
Share of Post acquisition profit (W2)	1,075
Less Impairment loss	-
GFP	**7,075**

W5) Group Retained earnings	K'000
Apple (100%)	23,500
Apple in Orange (W2)	3,225
Apple in banana (45%*100)	45
Impairment in Orange	-
Impairment in Banana	(500)
URP (5200*15/115)	(678)
Unwinding interest (4959*10%*6/12)	(248)
GFP	**25,344**

W6) Associate	K'000
Cost	8,800
Apple's share in banana (45%*100)	45
	-
Impairment	(500)
GFP	**8,345**

W7) Share Exchange

DR Investment (12*K1.5)	18,000
CR Share capital (12* K1)	12,000
CR Share Premium (12 * K0.5)	6,000

SOLUTION TWO

(a) Schedule of adjusted retained earnings of Lusaka Breweries as at 31 December 2024

	K' 000
Retained earnings per trial balance	4,122
Adjustments:	
Add back issue costs of loan	125
Loan finance costs on loan note(W1)	(390)
Office Building depreciation (W2)	(900)
Office building Impairment (W2)	(3,600)
Factory depreciation (W2)	(3,885)
Disposal gain on factory (W2)	500
Unwinding of discount on environmental provision (1,228 x 5%)	(61)
Current tax expense (W3)	(300)
Deferred tax Expense (W4)	902
Adjusted retained earnings	(3,487)

(b) Lusaka Breweries' statement of financial position as at 31 December 2024

	K' 000
Assets	
Non-current assets	
Property, plant and equipment (11,500 + 22,015) (W2)	33,515
Current assets (per TB)	14,700
Total assets	48,215
Equity and liabilities	
Equity	
Equity shares K1 each (per TB)	10,000
Retained earnings (part (a))	(3,487)
	6,513
Non-current liabilities	
5% loan note (W1)	5,015
Environmental provision (1,228 + 61 (part(a))	1,289
Deferred Taxation (W3)	598
	6,902
Current liabilities (W5)	34,800
Total equity and liabilities	48,215

(c) Indications of impairment [IAS 36.12]

(1) market value declines
(2) negative changes in technology, markets, economy, or laws
(3) increases in market interest rates
(4) net assets of the company higher than market capitalisation
(5) obsolescence or physical damage
(6) Asset is idle, part of a restructuring or held for disposal
(7) worse economic performance than expected

Workings

(W1) Loan note

Opening balance	Finance costs @8%	Interest paid @5%	Closing balance
K' 000	K' 000	K' 000	K' 000
4,875	390	(250)	5,015

Note: 4,875 = 5,000 – 125

(W2) Non-current assets

Office Building		K' 000
Carrying amount at 1.1.2024	(20,000 - 4,000)	16,000
Depreciation to 1.7.2024 (20,000/25 years x 6/12 months)		(400)
Carrying amount at 1.7.2024		15,600
Impairment		(3,600)
Recoverable amount at at 1.7.2024		12,000
Depreciation to 31.12.2024 (12,000/12 years x 6/12 months)		(500)
Carrying amount at 31.12.24	(12,000 – 500)	11,500
Factories		
Carrying amount at 31.12.2024 (40,000 - 11,100)		28,900
Disposal at carrying amount		(3,000)
Carrying amount at before depreciation charge		25,900
Depreciation for the year to 31.12.2024 (25,900 x 15%)		(3,885)
Carrying amount at 31.12.24	(25,900 – 3,885)	22,015
Disposal of factory		
Proceeds		3,500
Carrying amount		(3,000)
Gain in disposal		500

(W3) Current tax expense

Estimated liability on taxable profits for the year	500
Overprovision for the liability for y/e 31.12.2024	(200)
	300

(W4) Deferred Tax amounts:

Temporary difference at 31.12.2024:			
Given amount			15,000
Additional differences arising from adjustments to net assets:			
Loan notes	(5015-5000)	[deductible]	(15)
Office building	(11500- [20000-4000])	[deductible]	(4,500)
Factory building	(22,015-{40000-11100]	[deductible]	(6,885)
Environmental provision	(1,228*1.05-1,22800	[deductible]	(610)
Net taxable differences at 31.12.2024			2,990
Deferred tax liability at 31.12.2024	2990*20%		598

Decrease in deferred tax liability to credit to income tax expense: (598-1500)	902

Deferred Tax

	K' 000
Tax written down value of PPE at 31.12.204	25,000
Carrying amount of PPE at 31.12.2024 per SOFP	(33,515)
	8,515
Deferred tax provision required at 31.12.2024 (8,515 x 20%)	1,703
Deferred tax provision at 31.12.2023 (per TB)	(1,500)
Deferred tax charge for year ended 31.12.2024	203

(W5) Current liabilities

Given amount	34,500
Accrual of current tax expense	300
	34,800

<u>SOLUTION THREE</u>

(a) Shares acquired in another entity

- The shares should be classified as financial assets in line with (IFRS 9).
- The shares are by default classified as FVTPL. However, since there is no intention of selling the shares, the investor can make an election to designate the assets as fair value through other comprehensive income *(provided irrevocable election on initial recognition has been made).*
- In the absence of any election, the shares are FVTPL and will initially be measured at FV excluding transaction costs (these will be expensed in PL) of K1 million (ie 500000X2). Tranaction costs of K100,000 will be expensed in PL.
- The carrying amount of the financial asset in the statement of financial position at 31 December 2024 will be K1,125,000 (w2) based on fair value of shares at the year end.
- The fair value gain of K125,000 (1,125,000 w2 – 1,000,000 w1) will be recognised in profit or loss.
- Dividend income of K150,000 w3 will be recognised as investment income in the statement of profit or loss.

Workings

W1:
K1,000,000 = (500,000 x K2)

W2:
K1,125,000 = 500,000 x K2·25)

W3:
K150,000 = 500,000 x K0.30

(b) Reportable segment

Segment	Total revenue (%)	Total profit/ (loss) (%)	Total assets (%)
Bread	85%	75%	84%
Sugar	8%	25%	7%
Tea	7%	(8%)	9%
	100%	92%	100%

Bread meets all 10% or above criteria. Its total revenue is 85%, total profit is 75% and total assets are 84%. It is a reportable segment according to IFRS 8.

Sugar meets 10% in respect of profit. Its total profit is 25%. It is a reportable segment according to IFRS 8, even if total revenue and total assets are below 10%.

Tea does not meet any of the 10% or above criteria. It is not a reportable segment according to IFRS 8. However, since it is the only immaterial segment, it will also be reported separately.

(c) Revenue recognition

- Price -The contract price is K15 million (w1) for the equipment and the repairs and maintenance package.
- Allocation of price – The price of the equipment is K9.6 million (w2) and the price of the repairs and maintenance package is K2.4 million (w3).
- Revenue from the sell of equipment will be recognised in the financial statements at the point control over the asset is transferred to the customer (on 1.1.2024).
- Revenue from the provision of repairs and maintenance will be recognised in the financial statements over the period of 2 years. As at 31.12.2024 K1.2 million (w4) will be recognised as revenue and K1.2 million will be recognised as deferred income.
- The balance of K1.2 million will be recognized as deferred income in statement of financial position at 31 December 2024.

Workings

W1: K15 = 12 + 3 W2: K9.6 = 12/15 x 12

W3: K2.4 = 3/15 x 12 W4: K1.2 = 2.4/2

(d) Lease accounting

In the income statement
1. Depreciation of K 313,250 (w2) will be recognised in the income statement for the period ending 31 December 2024.
2. Finance cost of K 307,250 (w4) will be recognised in the income statement for the period ending 31 December 2024.

In the statement of financial position
1. The carrying amount of K 2,819,250 (w3) will be recognised in the statement of financial position as at 31 December 2024.
2. The non-current liability of K 2,667,725 (w4) will be recognised in the statement of financial position as at 31 December 2024.
3. The current liability of K 212,025 (500,000 – 287,975) will be recognised in the statement of financial position as at 31 December 2024.

Workings

W1: Right of Use 3,132,500 = 3,072,500 + 60,000

W2: Depreciation 313,250 = 3,132,500/10 years

W3: N.B.V 2,819,250 = 3,132,500 – 313,250

W4: Amortisation Table

Year	O/Balance	Inter @10%	(Payment)	C/balance
1	3,072,500	307,250	(500,000)	2,879,750
2	2,879,750	287,975	(500,000)	2,667,725

SOLUTION FOUR

Mupeta Co.

IAS 2 requires inventory at the year end to be valued at the lower of cost and net realizable value. Mupeta Co inventory cost at 31 March 2025 was K10 million and NRV was K9.904million (K10 million-K96,000)W1. This means the effect would be to increase cost of sales in profit or loss by K96,000 and reduce closing inventory in statement of financial position by same K96,000.

Kalilile Co

According to IFRS 16, Kalilile Co would have to ascertain the initial measurement of lease liability which in this case is the already discounted expected future payments of K285,300.

At 31 March 2025, this initial liability will be increased by the interest implicit in the lease of K28,530 (10%*K285,300) to give a liability of K313,830 (K385,300+28,530).

The K313,830 total liability will be split into current liability (lease rental of K90,000) and non current liabilities of K223,830 (balance outstanding after lease rental in following year. Both classes of liability will be reported in the statement of financial position.

The interest of K28,530 will be reported as finance cost in the statement of profit or loss for the year ended 31 March 2025.

Further, IFRS 16 requires initial ROUA to be measured by adding the lease rental at commencement to the initial liability which for Kalilile Co would be K375,300 (K285,300+K90,000)at 1 April 2024. At 31 March 2025, this initial ROUA would be subjected to depreciation using the useful life as the lease contract provides for Kalilile Co. the option to purchase the machine at the end of the lease term. Depreciation to be charged to profit or loss will be K75,060 (K375,300/5yrs). The carrying amount of the ROUA to be recognized in statement of financial position would be K300,240 (K375,300-75,060).

Mulele Co

Mulele Co must compute the income tax expense to charge in PL as follows:

Current tax:			
Estimated liability on taxable profits for the year			560,000
Over provision for the current tax for the previous year			(48,000)
		512,000	
Increase in the deferred tax liability:			
Liability at 31.3.25 (1500000*25%+50000) = 425,000			
Liability b/d 1.4.24	(120,000)		
		305,000	
Income tax charge in PL for the year to 31.3.25			<u>817,000</u>

In order to calculate the income tax charge for the year to 31 march 2025, the current tax provision is added to the deferred tax liability carried forward to give total liability K985,000 W2.

Mulele Co must report the following in the SFP at 31.3.2025 in respect of income taxes:

Non current liabilities:

Deferred tax liability	425,000
Current liabilities:	
Current tax payable	560,000

Mponda Co

In general, all financial liabilities are classified as amortised cost items, using the effective interest rate method. The loan notes liability will therefore initially be measured at fair value less any issue costs. For Mponda this amounts to K435,000 (K450,000-K15,000 issue costs).

For the year to 31 March 2025, finance cost of K34,800 (8%*K435,000) will be recognized in the profit or loss as an expense and will be added to the initial measurement amount while nominal interest paid at 31 March 2025 will be subtracted leaving a liability of K442,800 (K435,000+K34,800-27,000) to be reported under non current liabilities in the statement of financial position.

Musenge co

According to the principles of IFRS 15 Revenue From Contracts with Customers, this transaction does not qualify to be a sale by Musenge in that the criteria for a sale fall short due to the following;

- Musenge still controls the asset as Ndalama Co requires Musenge Co's consent in order to use the asset.
- The risks and rewards associated with the asset are still with Musenge as fair value is expected to rise above original selling price upto the intended repurchase date, that is from K6 million to K8 million.

Additionally, the buyer, Ndalama Co is a finance company, pointing to possible lender of amounts involved as consideration. The K6 million therefore received to be accounted for as non current liability by Musenge Co, with the asset retained as non current asset at its carrying amount of K5.6 million.

The fact that the repurchase price of K6.75 million is greater than the original selling price of k6 million, the difference of K0.8 million is total interest over three years at 4% compound but for the year ended 31 March 2025, Musenge shall recognize interest expense in the profit or loss of K0.24 million (4%* K6 million

WORKINGS:

1. NRV and cost of inventory
   NRV=(120/100*600,000*70%=K504,000
   Cost = K600,000
   Difference 96,000
   Existing cost to be reduced by 96,000

2. Current year tax provision 560,000
   Plus deferred tax on revaluation surplus 50,000
   Plus deferred tax liability on other temp diff
   (25%*1.5 million) 375,000
   Total 985,000

2. Current year tax provision	560,000
Plus deferred tax on revaluation surplus	50,000
Plus deferred tax liability on other temp diff	
(25%*1.5 million)	375,000
Total	985,000

SOLUTION FIVE

(a) **Appendix of Ratios**

	BROD	**FRED**
1.	Gross profit % age = Gross Profit x 100 Sales 1057 X 100 / 3020 = 35%	Gross profit % age = Gross Profit x 100 Sales 909 X 100 / 1895 = 48%
2.	Operating (net) profit % age = PBIT x 100 Sales 352 X 100 / 3020 = 11.6%	Operating (net) profit % age = PBIT x 100 Sales 614 X 100 / 1895 = 32.4%
3.	Inventory turnover = Cost of Sales Aver Inventory 1963 / 1070 = 1.8 times	Inventory turnover = Cost of Sales Aver Inventory 986 / 220 = 4.48 times
4.	Current Ratio Current Assets: Current Liabilities 2225 : 755 2.9 : 1	Current Ratio Current Assets: Current Liabilities 920 : 440 2.09 : 1
5.	Liquid (Acid Test) ratio Current Assets -Inventory : Current Liabilities 2225 -1070 : 755 1155 :755 1.5 : 1	Liquid (Acid Test) ratio Current Assets -Inventory : Current Liabilities 920 -220 : 440 700 :440 1.5 : 1
6.	Receivables Collection Days = Trade Receivables x 365 days Credit Sales 750 X 365 / 3020 = 90.6 days	Receivables Collection Days = Trade Receivables x 365 days Credit Sales 480 X 365 / 1985 = 92.4 days
7.	Payables Payment Days = Trade Payables x 365 days Credit Purchases (COS) 620 X 365 / 1963 = 115.2 days	Payables Payment Days = Trade Payables x 365 days Credit Purchases (COS) 385 X 365 / 986 = 142.5 days

8.	Return on Capital Employed % age = PBIT x 100 / Debt + Equity 352 X 100 / (1460 + 1360) = 12.4%	Return on Capital Employed % age = PBIT x 100 / Debt + Equity 614 X 100 / (885 + 460) = 45.7%
9.	Gearing ratio = Debt x 100 / Debt + Equity 1360 X 100 / (1460 + 1360) = 48.2%	Gearing ratio = Debt x 100 / Debt + Equity 460 X 100 / (885 + 460) = 34.2%

(b)

REPORT

From:

To:

DATE:

SUBJECT: ANALYSIS AND COMPARISON OF PERFORMANCE OF BROD AND FRED

Profitability

The gross profit margin for FRED (48%) is higher than that of BROD (35%). It appears FRED have perfected their procurement systems such that they are incurring the minimum cost of sales. Further, since their operating profit margin for AFD (31.6%) is also higher than that of BROD (10.9%), FRED have all operating costs under control compared to BROD. Fred have performed better between the two companies in terms of profitability.

Liquidity and efficiency

The current ration for BROD is 2.9 whereas that for FRED is 2.09. Comparing their quick ration both companies have the same acid test ratio (1.5). They appear to be facing the same economic circumstances. Their liquidity is the same. It would be more informative to calculate and compare their efficiency ratios such inventory turn, receivables collection period and payables payment period. These ratios would give more insight isnto how each company is performing in terms of efficiency.

Return on Capital Employed and Borrowing ratios

The calculated gearing ratios show that borrowing is higher BROD (48.2%) compared to that for FRED (34.2). BROD does not have room for further borrowing since the ratio of owners equity and debt capital are almost equal. The borrowing for FRED is lower and the return on capital employed indicate that FRED is utilising borrowed funds more profitably than BROD. ROCE for FRED is 44.5% and this is 4 times more than that for BROD which is 11.7

Conclusion

It would be prudent to invest in FRED than in BROD based on the ratios analysed above.

A more informed decision would be made if other ratios were computed and compared, plus considering any non-financial factors that are affecting the performance of each company.

BROD

The plan by Brod to increase the sale of other agricultural products and make available flxible payment terms to customers can increase cashflow as long as there is an effective credit control system. If not effective, the company may record unusually high inventory and capital tied up in the inventory. Further, if the customers default for longer periods this may increase the receivables collection period and affect the liquidity of the company.

The company receives some extra income from subletting unoccupied building. Unless there is high demand for the agricultural products, the decision may just create room for piling up of inventory, but reduced payments to suppliers. Thepayables payment period may go up unintentinally and affect the creditbility reputation of the company

FRED

The plans by FRED concentrate on borehore drilling and installation require that they do aggressive marketing operation to capture customers. The service is infrequent but bring in substantial cash. Without aggressive marketing activity, the decision may lead to liquidity problems, and the company may start failing to meet obligations as they fall due, especially those of administration such as payment of wages.

The decision to discontinue subletting the unoccupied building will reduce the extra income. FRED does not look to purchasing increased inventory, and so this decision may not be prudent

END OF SUGGESTED SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 9: MANAGEMENT ACCOUNTING

TUESDAY 9 JUNE 2026

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.

2. This paper is divided into TWO (2) sections:

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

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A

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

Attempt both questions.

QUESTION ONE

(a) Tango Enterprise Limited (TEL) is a block making company, based in Lusaka. The company manufactures three types of blocks, that is, 4 inches, 6 inches and 8 inches. Of interest is the 6-inches block. TEL budgeted to sell 25,000 blocks during week 10. The budgeted sales price was K8 per block, and the variable cost K4 per block. Actual sales during week 10 were 22,000 blocks and variable costs of sales were K88,000. Sales revenue was only K9 per block. With the benefit of hindsight, it is realized that the budgeted sales price of K8 per block was too low, and a price of K10 per block would have been more realistic.

Required:

(i) Calculate the sales price planning variance (2 marks)

(ii) Calculate the sales price operational variance (2 marks)

(b) Tango Enterprise Limited (TEL) also subcontracts the manufacture of a certain product whose standard cost is as follows:

	K
Direct materials:	
Material A (1 kg at K50 per kg)	50
Material B (3 kg at K70 per kg)	210
Direct labour (4 hours at K30 per hour)	120
Variable overheads	80
Fixed overheads	30
Total cost	490

The variable and fixed overheads are absorbed on the basis of the direct labour hours. During the year ended 31 December 2024, the company produced and sold 60,000 units and incurred the following costs:

	K
Direct materials:	
Material A (100,000 Kg)	205,000
Material B (150,000 Kg)	6,800,000
Direct labour (210,000 hours)	4,900,000
Fixed overheads	900,000
Variable overheads	4,150,000
Total cost	16,955,000

Required:

(i) Calculate the direct materials total usage variance. (4 marks)

(ii) Calculate the materials mix and yield variances. (6 marks)

(iii) Calculate the variable overhead expenditure and efficiency variances.

(iv) Prepare the standard cost card for 60,000 units. (6 marks)

[Total: 25 Marks]

QUESTION TWO

(a) Print Q Ltd is a manufacturer of high-tech industrial and domestic printers. The company is currently developing a fourth generation heavy duty industrial printer. The Board of Directors seeks your advice as to the pricing strategy that it should adopt for such a product. The company has incurred a significant level of research and development costs and recognizes that the technology for these products is advancing rapidly and that the life cycle for the product is relatively short.

Required:

Prepare a report, addressed to the Board of Directors that discusses three (3) alternative pricing strategies available to Print Q Ltd. (12 marks)

(b) Eco Talent Company Limited (ETCL) is specialized in talent identification among youths with potential to excel in football, dancing, athletics, music and art among other disciplines. The company is organizing a music concert where talented youths country wide will be given a chance to showcase their music talent.
Kabwata multipurpose hall owned by XYZ Limited is planned to host the concert and has adequate capacity to accommodate all persons wishing to attend the concert. The organizing committee has communicated that everyone who will attend the concert will be served dinner. ETCL agreed with Chilenje Hotel to deliver meals at a cost of K500 per participant. The following information relate to the hosting of the concert:

1. ETCL will pay K65,000 to XYZ Limited for renting Kabwata multipurpose hall.
2. Orio live music band will charge ETCL a fee of K100 per participant who bought a ticket.
3. The entrance fee will be at 25% mark-up on the cost of the meal.
4. ETCL expect to sell 2,850 entrance tickets specifically for the event.
5. The only fixed cost is the rental cost to hire the hall.

The ETCL management has approached you to help them assess the viability of this event.

Required:

(i) Calculate the breakeven tickets and breakeven sales value. (4 marks)

(ii) Calculate the margin of safety in units and in percentage. (3 marks)

(iii) Compute how many tickets ETCL will sell to realize a profit of K14,000. (2 marks)

(iv) Outline four (4) limitations of cost volume profit analysis. (4 marks)

[Total: 25 Marks]

SECTION B

There are THREE (3) questions in this section.

Attempt any TWO (2) questions.

QUESTION THREE

Aggregate Limited manufactures two products, G and B. Product G is produced in department 1 and Product B in department 2. The following information is available for 2025.

Standard material and labour costs:

	(K)
Material X	7.20 per unit
Material Y	16.00 per unit
Direct labour	12.00 per hour

Overheads are recovered on a direct labour hour basis. The standard material and labour usage for each product is as follows:

Product	*G*	*B*
Material X	10 Kg	8 Kg
Material Y	5 Kg	9 Kg
Direct labour	10 hours	15 hours

Other relevant data for the year 2025 is as follows:

	Finished product	
	G	B
Forecast sales (units)	8,500	1,600
Selling price per unit	K400	K560
Closing inventory required (units)	1,870	90
Opening inventory (units)	170	85

	Direct material	
Material	X	Y
Opening inventory (Kg)	8,500	8,000
Closing inventory required (Kg)	10,200	1,700

Required:

(a) State the principal budget factor. (1 mark)

(b) Prepare the following budgets for the next control period:

- (i) Sales budget in number of units and value. (3 marks)
- (ii) Production budget in units. (5 marks)
- (iii) Direct materials usage budget in Kgs. (4 marks)
- (iv) Direct materials purchase budget in Kgs and value. (9 marks)
- (v) Direct labour budget. (3 marks)

[Total: 25 Marks]

QUESTION FOUR

Kasama Limited makes and sells two products, X and Y, each of which passes through the same automated production operations. The following estimated information is available for period 1.

Product cost unit data:

	X	Y
Direct material cost (K)	2	80
Variable production overhead cost (K)	56	8

Original estimates of production and sales of products X and Y are 144,000 units and 45,000 units, respectively. The selling prices per unit for X and Y are K120 and K140, respectively.

Maximum demand for each product is 20% above the estimated sales levels.

Total fixed production overhead cost is K2,940,000. This is absorbed by products X and Y at an average rate per hour based on the estimated production levels. One of the production operations has a maximum capacity of 3,075 hours which has been identified as a bottleneck, limiting the overall estimated production/sales of products X and Y. The bottleneck hours required per unit of products X and Y are 0.02 and 0.015, respectively.

Required:

(a) Calculate the contribution per bottleneck hour of Product X and Y using limiting factor analysis. (6 marks)

(b) Calculate the return per bottleneck hour of product X and Y using throughput analysis. (6 marks)

(c) Determine the optimal production plan and the maximum profit for products X and Y using throughput. (5 marks)

(d) Explain any four (4) differences between financial and management accounting. (8 marks)

[Total: 25 Marks]

QUESTION FIVE

(a) Kalemba Manufacturing Ltd (KML) is a Lusaka-based company specialized in the assembly and distribution of household appliances. One of its key products, product Y, is sourced from Mukuba Supplies Ltd (MSL), a Copperbelt-based wholesaler. KML has projected an annual demand of 360,000 units of product Y based on recent sales trends. Each unit is purchased from MSL at K1,500 and sold to KML's retail network at K2,500. Due to fluctuations in customer demand and transportation delays from the Copperbelt, the company maintains a safety (buffer) inventory sufficient to meet demand for 31 working days. KML currently orders 10,000 units at a time. The ordering cost is K6,000 per order and the holding cost is K8 per unit per year. Under normal arrangements, KML settles invoices from MSL 60 days after delivery. KML's management is considering whether to continue with its current ordering system or adopt the economic order quantity (EOQ) model. KML's financial year is based on 365 calendar days.

Required:

(i) Calculate the annual cost of the current ordering policy. (4 marks)

(ii) Calculate the annual cost saving if the economic order quantity model is used. (5 marks)

(iii) Explain the advantages and disadvantages of using just-in-time inventory management systems. (4 marks)

(b) Thandizo Zambia Limited (TZL) currently operates an unnecessarily long working capital cash cycle. Management is considering an initiative to reduce the cash cycle in order to manage the size and cost of the company's working capital. Below are the components of working capital under the existing and proposed policy.

Working Capital Components:

- Existing policy
  Cash K1,100,000; Cost of sales K65,000,000; Receivables K4,400,000; Inventory K6,600,000; Payables K4,400,000; and Revenue K88,000,000.

- Proposed policy
  Cash is expected to increase by 45%; Receivables are expected to reduce by 22.5%; Payables are expected to increase by 23%; Revenue is expected to increase by 10%; and the Current ratio is expected to be 2 times.

- Cost of funds
  The cost of funds to the company is 20% per annum.

Required:

(i) Explain the four (4) key factors which determine the level of investment in current assets. (4 marks)

(ii) Calculate the company's net working capital under the existing policy and the proposed policy. (5 marks)

(iii) Compute the change in the company's working capital financing cost if the new policy is implemented and advise management on whether to implement the new policy. (3 marks)

[Total: 25 Marks]

END OF PAPER

DA 9 MANAGEMENT ACCOUNTING

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) **Sales planning and operational variances**

(i) Sales price planning variance (SPPV)

SPPV = (Original standard price – Revised standard price) x Actual quantity

SPPV = (K8 – K10) x 22,000

SPPV = K44,000 (F)

(ii) Sales price operational variance (SPOV)

SPOV = (Revised standard price – Actual price) x Actual quantity

SPOV = (K10 – K9) x 22,000

SPOV = K22,000 (A)

(b) (i) **Materials usage budget**

	Material A	**Material B**
60,000 units should have used(x1/3)	60,000	180,000
But did use	100,000	150,000
Usage variance (kgs)	40,000 (A)	30,000 (F)
Standard cost per unit	K50	K70
Usage variance (K)	K2,000,000 (A)	K2,100,000 (F)
Total usage variance	**K100,000 (F)**	

(ii)Materials mix and yield variance

Materials mix variance

Material	Actual mix	Standard mix	Mix variance (kg)	Standard cost (K)	Mix variance (K)
A	100,000	62,500	37,500 (A)	50	1,875,000 (A)
B	150,000	187,500	37,500 (F)	70	2,625,000 (F)
	250,000	250,000	0		**750,000 (F)**

Materials yield variance

250,000 kgs of input	should yield @ 4 kg per unit	62,500
	Did yield	60,000
Yield variance in units		2,500 (A)
Standard cost of output		K260
Materials yield variance		**650,000 (A)**

(iii) Variable overhead expenditure variance:

210,000 hours should have cost (x K20/hour)	4,200,000
But did cost	4,150,000
	50,000 (F)

Variable overhead efficiency variance:

60,000 units should have taken (x 4 hours)	240,000 hours
But did take	210,000 hours
Variance in hours	30,000 hours (F)
X standard VOH rate (80/4)	x K20
VOH efficiency variance (K)	**K600,000 (F)**

(iv) Standard cost card for 60,000 units

		K
Direct material:		
Material A	(60,000 units x 1 kg x K50)	3,000,000
Material B	(60,000 units x 3 kg x K70)	12,600,000
Direct labour	(60,000 units x 4 hours x K30)	7,200,000
Variable overheads	(60,000 units x 4 hours x K20)	4,800,000
Fixed overheads	(60,000 units x 4 hours x K7.5)	1,800,000
Standard cost		**29,400,000**

SOLUTION TWO

(a) Report to BoD

REPORT

To: Board of Directors of Print Q Ltd
From: Management Accountant
Subject: Alternative pricing strategies
Date: 30th March 2025

1. Introduction

This report is designed to discuss the alternative pricing strategies available to Print Q Ltd.

2. Market skimming

Print Q Ltd can initially charge a high price, achieve low volume but earn a larger profit per unit sold. This is known as market skimming. It is a strategy which exploits a price insensitive market or an inelastic demand for a product.

Print Q Ltd is selling a fourth generation industrial printer, which is a high technology product and as a result there may be an expectation by customers to pay a premium for these products. Print Q Ltd's fourth generation industrial printer is the first of its kind and customers will want to be the first to use it.

Print Q Ltd could also use this approach as it is good for innovative high quality products where little competition exists initially. Therefore, a premium can be charged without reducing demand for it.

There is always a choice of lowering the price later when competitors enter the market with cheaper substitutes.

The market skimming approach also allows Print Q Ltd to recover the significant levels of research and development costs it had spent on developing this industrial printer and the fact that they have a very short life cycle.

3. Market penetration

Print Q Ltd can charge a very low price in order to capture a larger market share quicker, This is known as market penetration strategy.

This approach will aim at achieving a wide customer base as quickly as possible by setting a very low price. It means that because if its affordability a lot of people will be able to purchase it, as a result the first 2 stages are quickly achieved in the product life cycle and also achieve economies of scale far quicker.

It will also be more difficult for other companies to enter the market as they would have to compete on this low price and may struggle to make a profit.

4. Demand based approach

Print Q Ltd could create a demand function that is much like that created from the third generation industrial printer. This would represent a straight line relationship between price charged and quantity sold ($P = a - bx$) of the third generation industrial printer, and allow us to find that price that we can charge that would maximise profits (MR = MC).

The main problem with this approach is that the quality of the market research to determine the demand function has to be very good, for it to have any real value.

It also assumes that price and quantity are the only factors in determining demand. But Print Q Ltd must be mindful of other factors which are just as important such as quality, advertising, substitutes and brand loyalty. It is difficult to estimate the demand curve.

The demand function approach gives us a useful insight into the relationship between price and quantity and a basis to predict what strategy to take. It makes an attempt to incorporate demand into its calculations and is concerned with the marginal costs of making decision ignoring irrelevant costs.

The demand function also allows us to see at what price and quantity we would maximise profits and we can predict quantity sold given any selling price and vice versa.

I hope you have found this report useful. If you require any further assistance or have any questions, please do not hesitate to contact me.

Signed: Management Accountant.

(b)

ECO Talent Company Limited

(i) BEP in units and sales value

Selling price per unit = K500 x 1.25 = K625

Variable cost per unit = K500 + K100 = K600

Contribution per unit = Selling price per unit – Variable cost per unit
= K625 – K600
= **K25**

$$\text{BEP (tickets)} = \frac{\text{Fixed costs}}{\text{Contribution per unit}} = \frac{\text{K65,000}}{25} = \mathbf{\underline{2,600}\ tickets}$$

BEP (sales revenue) = BEP (tickets) x Selling price
= 2,600 x K625
= K1,625,000

(ii) Margin of safety in units (tickets) = Budgeted sales volume – BEP sales volume
= 2,850 – 2,600
= 250 tickets

$$\text{Margin of safety (percentage)} = \frac{\text{Budgeted sales volume – BEP sales volume}}{\text{Budgeted sales volume}} \times 100$$

$$= \frac{2{,}850 - 2{,}600}{2{,}850} \times 100$$

= <u>8.77%</u>

(iii) Tickets ETCL will sell to realize a profit of K14,000

$$= \frac{\text{Fixed costs + Target profit}}{\text{contribution per unit}}$$

$$= \frac{K65{,}000 + K14{,}000}{25}$$

= <u>3,160 tickets</u>

(iv) Limitations of CVP analysis

Though CVP analysis is a useful technique for managers, it has several limitations including the following:

(i) It can only apply to a single product or a single mix of a group of products.
(ii) A breakeven chart may be time consuming to prepare.
(iii) It assumes fixed costs are constant at all levels of output.
(iv) It assumes that variable costs are the same per unit at all levels of output.
(v) It assumes that sales prices are constant at all levels of output.
(vi) It assumes production and sales are the same.
(vii) It ignores the uncertainty in the estimates of fixed costs and variable cost per unit.

SOLUTION THREE

(a) The principal budget factor is sales revenue.

(b) Preparation of budgets for the next control period:-

(i) Sales budget in number of units and value;

Product	Units	Price/unit	Total revenue
G	8,500	K400	K3,400,000
B	1,600	K560	K896,000
			K4,296,000

(ii) Production budget in units;

	Department 1	Department 2
	G	B
Sales budget	8,500	1,600
Add closing inventory	1,870	90
Total units required	10,370	1,690
Less opening inventories	(170)	(85)
Production budget	10,200	1,605

(iii) Direct materials usage budget in kgs and value

In Kgs

		Department 1		Department 2
Material		G		B
		Kgs		Kgs
X	10,200@10Kg	102,000	1,605@8Kg	12,840
Y	10,200@5Kg	51,000	1,605@9Kg	14,445
		153,000		27,285

(iv) Direct materials purchase budget

	Material	
	X	Y
	Kg	Kg
Material usage budget	153,000	27,285
Add closing inventory	10,200	1,700
	163,200	28,985
Less opening inventory	(8500)	(8000)
	154,700	20,985
Unit purchase price	K7.20	K16
Total purchases	**K1,113,840**	**K335,760**

(v) Direct labour budget;

	Department1	Department2
Production budget (units)	10,200	1,605
Hours per unit	10	15
Total budgeted hours	102,000	24,075
Budgeted wage rate per hour	K12	K12
Total wages	**K1,224,000**	**K288,900**

SOLUTION FOUR

(a) **Contribution per bottleneck hour**

Product	X	Y
Selling price	120	140
Less variable cost		
Direct materials	2	80
Variable production overhead	56	8
Total variable costs	58	88
Contribution per unit	62	52
Bottleneck hours	0.02	0.015
Contribution per bottleneck hours	**K3,100**	**K3,467**

(b) **Return per bottleneck hour**

Product	X	Y
	K	K
Selling price	120	140
Less material cost	2	80
Throughput Return	118	60
Bottleneck hours per unit	0.02	0.015
Return per bottleneck hour	**K5,900**	**K4,000**

(c) **Determination of the maximum profit**

Product	Demand	Hours Required	Hours Available		Units of Production
X	144,000	2,880	2,880	(÷ 0.02)	144,000
Y	45,000	675	195	(÷ 0.015)	13,000
		3,555	3,075		

Maximum profit calculation

Product	Units	Throughput return per unit	Total return
			K
A	144,000	× K118	16,992,000
B	13,000	× K60	780,000
Total throughput return			17,772,000
Less:			
Variable overhead costs (120,000 × K56) + (45,000 × K8))			(7,080,000)
Fixed			(2,940,000)
Maximum net profit			**7,752,000**

(d) Four (4) differences between financial and management accounting

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

SOLUTION – FIVE

(a) KML

(i) Annual cost of the current ordering policy
KML has a current order size of 10,000 units

Average number of orders per year = demand/order size = 360,000/10,000 = 36 orders

Annual ordering cost = 36 x K6,000 = K216,000

Buffer inventory held = 360,000 x 31/365 = 30,575 units

Average inventory held = 30,575 + (10,000/2) = 35,575 units

Annual holding cost = 35,575 x K 8 = K284,600

Annual cost of current ordering policy = K216,000 + K284,600 = K500,600

(ii) Annual cost saving if the EOQ model is used.
We need to calculate the economic order quantity:

EOQ = $\sqrt{(2 \times 360{,}000 \times 6{,}000)/8}$ = 23,238 units

Average number of orders per year = 360,000/23,238 = 15.5 orders

Annual ordering cost = K15.5 x 6,000 = K93,000

Average inventory held = 30,575 + (23,238/2) = 42,194 units

Annual holding cost = 42,194 x K 8 = K337,552

Annual cost of EOQ ordering policy = K 93,000 + K 337,552 = K430,552

Saving compared to current policy = K 500,600 – K 430,552 = K70,048

(iii) Advantages and disadvantages of JIT

- Advantages

JIT inventory management method seek to eliminate waste at all stages of the manufacturing process by minimizing or eliminating inventory, defects, breakdowns and production delays. This is achieved by improved workflow planning, an emphasis on quality control and firm contracts between buyer and supplier.

One advantage of JIT inventory management method is a stronger relationship between buyer and supplier. This offers security to the supplier, who benefits from regular orders, continuing future business and more certain production planning. The buyer benefits from lower inventory holding costs, lower investment in inventory and work in progress, and the transfer of inventory management problems to the supplier. The buyer may also benefit from bulk purchase discounts or lower purchase costs.

The emphasis on quality control in the production process reduces scrap, reworking and set-up costs, while improved production design can reduce or even eliminate unnecessary material movements. The result is a smooth flow of material and work through the production system, with no queues or idle time.

- Disadvantages

A JIT inventory management system may not run as smoothly in practice as theory may predict, since there may be little room for maneuver in the event of unforeseen delays. There is little room for error, for example, on delivery times.

The buyer is also dependent on the supplier for maintaining the quality of delivered materials and components. If delivered quality is not up to the required standard, expensive downtime or a production standstill may arise, although the buyer can protect against this eventuality by including guarantees and penalties in the supplier's contract. If the supplier increases prices, the buyer may find that it is not easy to find an alternative supplier who is able, at short notice, to meet his needs.

(b)

(i) There are a number of factors that determine the level of investment in current assets and their relative importance varies from company to company.

Length of working capital cycle

The working capital cycle or operating cycle is the period of time between when a company settles its accounts payable and when it receives cash from its accounts receivable. Operating activities during this period need to be financed and as the operating period lengthens, the amount of finance needed increases. Companies with comparatively longer operating cycles than others in the same industry sector, will therefore require comparatively higher levels of investment in current assets.

Terms of trade

These determine the period of credit extended to customers, any discounts offered for early settlement or bulk purchases, and any penalties for late payment. A company whose terms of trade are more generous than another company in the same industry sector will therefore need a comparatively higher investment in current assets.

Policy on level of investment in current assets

Even within the same industry sector, companies will have different policies regarding the level of investment in current assets, depending on their attitude to risk. A company with a comparatively conservative approach to the level of investment in current assets would maintain higher levels of inventory, offer more generous credit terms and have higher levels of cash in reserve than a company with a comparatively aggressive approach. While the more aggressive approach would be more profitable because of the lower level of investment in current assets, it would also be riskier, for example in terms of running out of inventory in periods of fluctuating demand, of failing to have the particular goods required by a customer, of failing to retain customers who migrate to more generous credit terms elsewhere, and of being less able to meet unexpected demands for payment.

Industry in which organization operates

Another factor that influences the level of investment in current assets is the industry within which an organization operates. Some industries, such as aircraft construction, will have long operating cycles due to the length of time needed to manufacture finished goods and so will have comparatively higher levels of investment in current assets than industries such as supermarket chains, where goods are bought in for resale with minimal additional processing and where many goods have short shelf-lives.

(ii) Net working capital (current policy)

	Before
	K
Cash	1,100,000
Receivables	4,400,000
Inventory	6,600,000
	12,100,000
Less payables	4,400,000
Net working capital	**7,700,000**

Net working capital (proposed policy)

	After
	K
Cash (1,100x1.45)	1,595,000
Receivables (0.775 x 4,400)	3,410,000
Inventory (balancing figure: 10,824 -1,595-3,410)	5,819,000
	10,824,000
Less payables(1.23 x 4,400)	5,412,000
Net working capital	**5,412,000**

(iii) Cost of capital at 20%

K1,540,000 (Before) K1,082,000 (After)

Savings = K1,540,000 - K1,082,000 = K458,000

Or:

K7,700,000 – K5,412,000) x 20% = K458,000

Therefore, management should change the existing policy as that will give the company savings of K458,000.

END OF SUGGESTED SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 10: TAXATION

THURSDAY 11 JUNE 2026

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.

2. This paper is divided into TWO sections:

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

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

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

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

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

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

8. Present legible and tidy work.

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

10. A Taxation table is provided from page 2 to page 6 of the question paper.

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

Taxation Table

Income Tax

Standard personal income tax rates

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

Income from farming for individuals

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

Company Income Tax rates

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

Capital allowances

Implements, plant and machinery and commercial vehicles:

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

Non-commercial vehicles

Wear and tear allowance	20%

Industrial buildings:

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

Low cost housing **(Cost up to K100,000)**

Wear and tear allowance	10%
Initial allowance	10%

Commercial buildings:

Wear and tear allowance	2%

Farming allowances

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

Presumptive Taxes

Turnover Tax

Annual turnover

First K30,000	0%
K30,001 to K5,000,000	5%

Tax on rental income

Annual Rental income band	Taxable amount	
K1 to K30,000	First K30,000	0%
K30,001 to K800,000	Next K770,000	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

Property Transfer Tax

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

Value Added Tax

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

Customs and Excise duties on used motor vehicles

Motor vehicles for the transport of ten or more persons, including the driver	**Aged 2 to 5 years**		**Aged over 5 years**	
	Customs duty	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Sitting capacity of 10 but not exceeding 14 persons including the driver	20,090	25,112	10,045	12,556
Sitting capacity exceeding 14 but not exceeding 32 persons	43,984	0	15,639	0
Sitting capacity of 33 but not exceeding 44 persons	97,742	0	21,992	0
Sitting capacity exceeding 44 persons	122,177	0	48,871	0

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

Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	23,794	30,933	14,277	18,560
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	27,193	35,351	17,540	22,802
Cylinder capacity exceeding 3000 cc	32,292	41,980	20,395	26,514

	Aged 2 to 5 years		**Aged over 5 years**	
Motor vehicles for the transport of goods	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	24,777	10,737	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	29,732	12,884	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	34,687	15,031	19,821	8,589
Double cabs				
GVW not exceeding 3 tonnes	34,687	15,031	27,254	11,810
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	38,156	16,534	29,980	12,991
Panel vans				
GVW not exceeding 1.0 tonne	15,089	6,539	8,622	3,736
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	17,344	7,516	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	19,821	8,589	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	24,777	10,737	19,821	8,589
Trucks				
GVW up to 2 tonnes	15,715	12,048	7,246	5,556
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	17,461	13,387	8,731	6,694
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	27,938	21,419	10,477	8,032
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	34,923	26,774	13,271	10,174
GVW exceeding 20 tonnes	58,645	0	21,992	0

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

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

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

   Customs Duty:

Percentage of Value for Duty Purposes	30%
Minimum Specific Customs Duty	K6,000

   Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	
Cylinder capacity of 1500 cc and less	20%
Cylinder Capacity of more than 1500 cc	30%

2. **Pick-ups and trucks/lorries with gross weight not exceeding 20 tones:**

   Customs Duty

Percentage of Value for Duty Purposes	15%
Minimum specific Customs Duty	K6,000

   Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	10%

3. **Buses/coaches for the transport of more than ten persons**

   Customs Duty:

Percentage of Value for Duty Purposes	15%
Minimum Specific Customs Duty	K6,000

   Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	
Seating Capacity of 16 persons and less	25%
Seating Capacity of 16 persons and more	0%

4. **Trucks/lorries with gross weight exceeding 20 tonnes**

   Customs Duty:

Percentage of Value for Duty Purposes	15%

   Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

SECTION A

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

Attempt BOTH questions.

QUESTION ONE

Evergreen Plc is a Zambian resident company engaged in farming. The company listed its shares on the Lusaka Securities Exchange in 2026. The following is the company's statement of profit or loss for the year ended 31 December 2026.

	Notes	K	K
Gross Profit			8,730,000
Other income	(1)		900,000
			9,630,000
Expenses:			
Irrecoverable debts	(2)	150,000	
Advertising and marketing expenses	(3)	1,230,000	
Legal and professional fees	(4)	1,680,000	
General expenses	(5)	969,000	
Salaries and wages	(6)	1,800,000	
			(5,829,000)
Profit before tax			3,801,000
Income tax expense			(380,100)
Profit for the year			3,420,900

Additional information provided is as follows:

Note 1: Other income	**K**
Bank interest	350,000
Royalties	550,000

The amounts shown above are the actual amounts received by Evergreen Plc.

Note 2: Irrecoverable debts	**K**
Trade debts written off	105,000
Loan to former employee written off	32,000
Increase in specific provision	28,000
Decrease in general provision	(15,000)
	150,000

Note 3: Advertising and marketing expenses	**K**
Gifts of food hampers to customers	225,000
Advertising expenses	450,000
Gifts of Evergreen diaries each costing K120	420,000
Entertaining customers and suppliers	135,000
	1,230,000

Note 4: legal and professional

	K
Legal fees in connection with an unsuccessful income tax appeal	336,800
Accountancy and audit fees	388,200
Legal fees in connection with issue of shares	105,000
Legal fees in connection with land acquisition	250,000
Legal fees in connection with defending title to existing assets	600,000
	1,680,000

Note 5: General expenses

	K
Donation to an approved public organisation	281,200
Donation to a political party	160,000
Depreciation of non-current assets	180,600
Revenue allowable expenses	347,200
	969,000

Note 6: Salaries and wages

These include salaries for the Finance Director, amounting to K1,440,000, who is accommodated in a company owned house for which he does not pay any rent. The rentals for the house on the open market is K10,000 monthly. The balance is for employees' salaries.

Note 7: Income Tax

The amount of income tax expense in the statement of profit or loss represents the estimated tax expense for the year ended 2026. The provisional income tax paid during the tax year 2026 amounted to K302,437.

Note 8: Implements, plant and machinery

	Income tax value	Original cost
	K	K
Delivery Truck	337,500	450,000
Computers	60,000	80,000

During the tax year 2026, the company undertook the following transactions in implements, plant and machinery.

	K
Purchased Tractor	600,000
Purchased Irrigation equipment	56,000
Expenditure on Water conservation	126,500
Built three (3) servants living quarters valued at K120,000 each	360,000
Toyota Hilux Double Cab Van (2,500cc)	1,160,000
Toyota Land Cruiser GX SUV Car (3,000cc)	4,375,625

The Toyota Hilux and Toyota Land cruiser SUV Car are used by the Finance Director and Farm Manager respectively on a personal-to-holder basis. The private usage of each motor has been agreed with the Commissioner General to be 55%.

Required:

(a) Calculate the amount of capital allowances claimable by Evergreen Plc for the tax year 2026. (8 marks)

(b) Calculate Evergreen Plc's tax adjusted business profits for the tax year 2026. (10 marks)

(c) Calculate the amount of income tax payable by Evergreen Plc for the tax year 2026. (7 marks)

[Total: 25 Marks]

QUESTION TWO

(a) Ethical principles for the accounting profession have been developed to guide the behavior of professional accountants in order to safeguard the public interest.

Required:

(i) Explain how any three (3) fundamental principles of the IFAC code of ethics for professional accountants apply in the provision of tax services. (6 marks)

(ii) Explain the difference between tax avoidance and tax evasion. (4 marks)

(b) Daka was employed as an accountant at KIFO Limited for many years. His contract of employment provided for an annual salary of K660,000, payable to him on the last day of each month. The other conditions of service included:

- Housing allowance of 35% of his annual salary.
- Transport allowance K2,500 per month.
- Children's education allowance of K15,000 per annum per school going child (Daka has three (3) children).
- General purpose allowance of K25,000 per year.

On 1 May 2026, he received K80,000 cash as a labour day award. For the tax year 2026 Daka made the following payments:

	K
Insurance premium	8,500
National Health Insurance Scheme contributions	66,000
Professional subscription	3,800
PAYE	167,100

On 1 October 2026, Daka resigned from his position at KIFO Ltd. He received the following benefits from his employers:

	K
Accrued service bonus	280,000
Leave pay	35,000
Pensions refund	450,000
Severance pay	55,000
Repatriation pay	42,000

During the tax year 2026 , he also received the following income:

	K
Bank deposit interest	12,200
Royalties	18,000
Dividends from Jubs Plc	28,000

The above amounts represent the actual amounts received by Daka in each case. Withholding tax where applicable was deducted at source.

Required:

Calculate the amount of income tax payable by Daka for the tax year 2026. You should indicate using a zero (0), any employment benefits received by Daka, which are exempt from tax. (15 marks)

[Total: 25 Marks]

SECTION B

There are THREE (3) questions in this section.

Attempt any TWO (2) questions

QUESTION THREE

(a) The Zambia Revenue Authority (ZRA) was established in 1994 as a corporate body, under the 1993 Act of Parliament. ZRA is headed by the Commissioner General as a Chief Executive Officer (CEO) and reports to a Governing Board.

Required:

State any five (5) responsibilities of the Zambia Revenue Authority (ZRA) as outlined in the ZRA Act. (5 marks)

(b) Ngulube is a sole trader based in Kitwe, running a retail trade. Ngulube prepares his financial statements to 31 December each year.

For the year ended 31 December 2026, the summarized statement of profit or loss was as follows.

	Note	K	K
Gross profit			1,450,000
Other income			
Consultancy fee income (Net)		25,000	
Royalties (Net)		28,000	
			53,000
			1,503,000
Rent and rates	(1)	120,500	
Depreciation		17,500	
Wages and salaries	(2)	300,000	
Professional and legal fees	(3)	105,000	
Repairs and maintenance	(4)	85,000	
Entertainment expenditure	(5)	65,000	
Motor vehicle running costs	(6)	95,000	
Other operating expenses	(7)	210,000	
			(998,000)
Net profit			505,000

The following additional information is available:

Note 1: Rent and Rates

This includes an amount of K50,500 paid for rates for Ngulube's private residence and K70,000 relating to rates for his business premises.

Note 2: Wages and salaries	**K**
Employees' salaries	60,000
Casual wages	12,000
Ngulube's annual salary	180,000
Ngulube's wife's annual salary	48,000
	300,000

Ngulube's wife draws a monthly salary of K4,000. Other employees performing similar duties in the business are paid K2,500 per month.

Note 3: Professional and legal fees	**K**
Accountancy fees	25,000
Legal fees –court case for recovery of loan from former employee	6,500
Traffic fines incurred by Ngulube while on business trips	12,000
Legal costs for preparation of business Tax return	9,500
Legal fees for defending title to existing non-current assets	52,000
	105,000

Note 4: Repairs and maintenance	**K**
Painting the entire business premises	30,000
Painting Ngulube's house	15,000
Purchase of a point of sale scanning computer	28,000
Purchase of CCTV cameras	12,000
	85,000

Note 5: Entertainment expenditure	**K**
Entertaining employees	1,500
Entertaining suppliers	35,000
Entertaining customers	28,500
	65,000

Note 6: Motor vehicle running costs

These were incurred in connection with a motor vehicle owned by the business and used by Ngulube partly for business purposes. It has been agreed with the Commissioner General that Ngulube has 20% business use of the car.

Note 7: Other operating expenses	**K**
Loans to an employee written off	15,000
Trade debts written off	40,000
Increase in general provision	25,000
Misappropriation of goods by an employee	18,000
Donation to a Political Party	50,000
Revenue allowable expenses	62,000
	210,000

Note 8: Drawings

During the year ended 31 December 2026, Ngulube withdrew some goods with a cost of K120,000 from the business for personal consumption without paying for them. He makes a profit margin of 30% on all sales of this type of goods. No entries were made for the goods drawn in the statement of profit or loss shown above.

Note 9: Capital allowances

It has been agreed with the Commissioner General that capital allowances on all business assets for the tax year 2026 is K185,000.

Note 10: Provisional income tax

Provisional income tax paid by Ngulube amounted to K274,108 for the year ended 31 December 2026.

Required:

(i) Calculate Ngulube's taxable business profit for the year ended 31 December 2026. (12 marks)

(ii) Calculate the amount of income tax payable by Ngulube for the tax year 2026. (8 marks)

[Total: 25 Marks]

QUESTION FOUR

(a) Turnover tax is tax chargeable on persons generating an annual turnover of K5,000,000 or below:

Required:

State any six (6) persons who are excluded from paying turnover tax. (6 marks)

(b) Tandeo is a sole trader running a public passenger transportation business. During the year ended 31 December 2026, he held two (2) motor vehicles as follows:

(1) A Fuso bus having a seating capacity of forty (40) passengers. Gross revenue from the bus was K455,000 for the year, while operating costs were K156,000 for the year. The bus operated along the major routes within Zambia for five (5) days in a week from 1 January 2026 to 30 June 2026, when he sold it.

(2) A Toyota Hiace bus which he acquired on 1 August 2026 with a seating capacity of sixteen (16) passengers. Gross revenue from the bus was K215,000 for the year, while operating costs were K86,000 for the year. The bus operated for five (5) days in a week from 15 August 2026.

Required:

(i) Calculate the amount of presumptive tax payable by Tandeo for the tax year 2026. (2 marks)

(ii) Explain three (3) reasons for the introduction of presumptive taxes for Transporters in Zambia. (3 marks)

(c) Bruce wishes to commence in farming business. In order to raise capital, he entered into the following capital transactions during the year ended 31 December 2026:

(1) He acquired a farm land in Chongwe at a price of K450,000. The open market value of the land as determined by government valuation officers was K550,000.

(2) He sold his Mark X Sedan car for K250,000 and incurred K2,500 as incidental costs for change of ownership.

(3) He sold 70,000, K1 equity shares he held in Jinx Ltd a private limited company for K120,000. He acquired these shares in April 2013 at a total cost of K70,000. The market value of shares as determined using an approved share valuation method was K240,000.

(4) He sold 200,000 equity shares, each with a nominal value of K2 he held in PJ Plc. a company listed on the LuSE for K12 per share, being the price at which the shares were quoted. He acquired the shares five (5) years ago at K7 per share.

(5) He sold a commercial plot for gross proceeds of K1,150,000. He paid an estate agent K57,500 for arranging the sale and incurred an additional K10,000 in connection with legal fees of transferring title to the plot. He acquired the plot at a cost of K75,000 five (5) years ago. The open market value of the commercial plot as determined by Government valuation officers was K1,350,000.

(6) He sold his house in Lusaka to his Nephew Kasonde at a discounted price of K100,000. The open market value of the house on that date was K650,000. He acquired the house one (1) year ago at a cost of K350,000.

(7) He sold a house in Kabulonga to his son at a discounted price of K150,000. Bruce had purchased the house at K1,200,000 in January 2017. The open market value of the house was K8,000,000 as determined by the Government Valuation Department.

Required:

(i) State three (3) transactions that are exempted from property transfer tax.

(3 marks)

(ii) Explain the property transfer tax implications of each of the above transactions entered into by Bruce. Your answer should include a computation of the amount of property transfer tax payable on each transaction where applicable.

(11 marks)

[Total:25 Marks]

QUESTION FIVE

(a) Don imported a new Mercedes Benz C200 (1,500cc) sedan car from a motor car dealer in Singapore. The cost price was US$7,500. Insurance of US$630 and freight charges of US$1,342 were paid for the car in transit up to the port of Durban. Insurance and freight charges from the port of Durban to Kazungula border post amounted to US$400 and US$600 respectively. He incurred US$600 transportation costs from Kazungula border to Lusaka. The exchange rate quoted by most of the Commercial Banks was US$28.90. The exchange rate provided by the Bank of Zambia and approved by the Commissioner General at the time of importing the vehicle was US$27.60. The car was manufactured in the year 2025.

Required:

(i) Explain the conditions that must be met for the transaction value to be used to determine the value of imported goods for customs duty purposes. (4 marks)

(ii) Calculate the total import taxes paid by Don on the importation of the motor vehicle. (8 marks)

(b) Mitch Ltd is a Value Added Tax (VAT) registered company. During the month of May 2026, the company undertook the following transactions:

(1) Total sales for the month amounted to K1,300,000. Of this amount, 75% are standard rated, and the remaining balance were zero rated.

(2) Purchased standard rated goods worth K565,000 out of which 5% were from unregistered VAT suppliers.

(3) Operating expenses, which are all standard- rated, amounted to K63,200 (VAT inclusive). The figure for operating expenses is made up of entertaining employees K7,000, telephone expenses K11,200 and general overheads K45,400.

(4) Petrol and diesel expenses for vehicles used wholly and exclusively for business purposes amounted to K35,000 and K63,000 respectively.

(5) Receivables amounting to K36,400 were written off on 1 May 2026, the debt consists of two (2) invoices of K18,200 each, in respect of which payment was due on 1 November 2025 and 31 December 2023.

(6) The company sold an old Toyota Delivery Van for K146,856 (VAT inclusive) and purchased a Delivery Light Truck for K350,000 (VAT inclusive).

Unless otherwise stated, all transactions are stated at their VAT exclusive amounts.

Required:

(i) Calculate the amount of VAT payable/refundable by Mitch Ltd for the month of May 2026. You should indicate using a zero (0), all items on which VAT is not chargeable or irrecoverable. (11 marks)

(ii) State the due date for payment of the VAT you have computed above and the consequences of paying the VAT late. (2 marks)

[Total: 25 Marks]

END OF PAPER

DA10 TAXATION

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) CALCULATION OF CAPITAL ALLOWANCES CLAIMABLE BY EVERGREEN PLC FOR TAX YEAR 2026

Detail	**Capital allowance** K
Delivery truck	
Wear & tear (25% x K450,000)	112,500
Computers	
Wear & tear (25% x K80,000)	20,000
Tractor	
Wear & tear (100% x K600,000)	600,000
Irrigation equipment	
Wear & tear (100% x K56,000)	56,000
Water conservation	
Farm works (100% x K126,500)	126,500
Workers dwelling house	
Farm improvement (restricted to: K100,000 x 3 x 100%)	300,000
Toyota Hilux	
Wear & tear (20% x K1,160,000)	232,000
Toyota Land cruiser SUV Car	
Wear & tear (20% x K4,375,625)	875,125
Total capital allowances	2,322,125

(b) CALCULATION OF EVERGREN PLC TAX ADJUSTED BUSINESS PROFIT FOR THE TAX YEAR 2026.

	K	K
Profit before tax		3,801,000
Add disallowable expenditure:		
Loan to former employee written off	32,000	
Gifts of food humpers to customers	225,000	
Gifts of evergreen diaries (420,000/120) x K20)	70,000	
Entertaining customers and suppliers	135,000	
Legal fees –issuance of shares	105,000	
Legal fees- acquisition of land	250,000	
Legal fees- income tax appeal	336,800	
Donation to a political party	160,000	
Depreciation	180,600	

Accommodation benefits:		
Finance Director (K1,440,000 x 37%)	532,800	
Personal-holder-Car benefits:		
Finance Director-Toyota Hilux	43,200	
Farm Manager-Toyota land cruiser	57,600	
		2,128,000
		5,929,000
Less:		
Bank interest	350,000	
Royalties	550,000	
Decrease in general provision	15,000	
Capital allowances	2,322,125	
		(3,237,125)
Taxable business profit		2,691,875

(c) EVERGREEN PLC

COMPANY INCOMETAX COMPUTATION FOR THE TAX YEAR 2026

	K	K
Adjusted business profit		2,691,875
Add:		
Bank interest (K350,000 x 100/85)	411,765	
Royalties (K550,000 x 100/85)	647,059	
		1,058,824
Taxable income		3,750,699
Company Income tax on :		
Farming income: K2,691,875 x (10% - 2%)		215,350
Non-farming income: K1,058,824 x (30% - 2%)		296,471
Income tax liability		511,821
Less:		
Provisional income tax paid		(302,437)
WHT-Bank interest (K411,765 x 15%)		(61,765)
WHT-Royalties (K647,059 x 15%)		(97,059)
Income tax payable		50,560

SOLUTION TWO

(a) (i) Fundamental principles of the code of ethics

Integrity

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

This means that a member providing tax services shall ensure that their own personal tax obligations and those of clients are properly discharged. It also means that a member providing taxation services must not knowingly be associated with reports, returns, communications or other information which contains materially false or misleading statement or calculations.

Objectivity

Members shall not allow bias, conflict of interest or undue influence of others to override professional or business judgements. Members shall be impartial and not allow prejudice or bias, conflict of interest or the influence of others to override their objective judgement in relation to tax matters.

Professional competence and due care

Members shall maintain professional knowledge and skill at a level required to ensure that a client or employer receives competent professional services based on current developments in practice, legislation and techniques and shall act diligently and in accordance with applicable technical and professional standards when providing professional services.

Confidentiality

Members shall respect the confidentiality of information acquired as a result of professional and business relationships. They should therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.

Professional behaviour

Members shall comply with relevant laws and regulations to avoid any action that discredits the profession. Members shall act in a manner consistent with the good reputation of the Institute and the tax profession, refraining from any conduct that might bring the Institute and/or tax profession into disrepute.

(ii) Difference between Tax Avoidance and Tax Evasion

Tax Avoidance

Tax avoidance can be defined as acting within the law, sometimes at the edge of illegality, to minimize, eliminate or defer tax liabilities that would otherwise be legally owed. It involves a taxpayer taking advantage of loopholes or weaknesses and mismatches in tax law to minimize or defer tax liability, obtaining a tax advantage that was originally intended by the tax legislation.

Tax evasion

Tax evasion refers to the use of illegal means to avoid or reduce tax liabilities. The aim of the taxpayer practicing tax evasion is to defraud the Government of the revenue.

(b) DAKA'S

PERSONAL INCOME TAX COMPUTATION FOR TAX YEAR 2026

Earned income	K	K
Salary (K660,000 x 9/12)		495,000
Housing allowance (K495,000 x 35%)		173,250
Transport allowance (K2,500 x 9)		22,500
Education allowance (K15,000 x 3 x 9/12)		33,750
General purpose allowance (K25,000 x 9/12)		18,750
Labour day award		0
Accrued bonus		280,000
Leave pay		35,000
Pensions refund		0
Repatriation pay		0
Severance pay		0
		1,058,250
Investment income:		
Royalties (K18,000 x 100/85)		21,176
		1,79,426
Less allowable deductions:		
Professional subscription		(3,800)
Taxable income		1,075,626
Income tax		
First K61,200 x 0%		0
Next K24,000 x 20%		4,800
Next K25,200 x 30%		7,560
Excess K965,226 x 37%		357,134
Income tax liability		369,494
Less:		
WHT-Royalties (K21,176 x 15%)	3,176	
PAYE	167,100	
		(170,276)
Income tax payable		199,218

SOLUTION THREE

(a) The main responsibilities of Zambia Revenue Authority (ZRA)

(1) Properly assess and collect taxes and duties at the right time without undue burden to the public.
(2) Encourage the public to present themselves forward and pay tax voluntarily.
(3) Ensure all monies collected are properly accounted for and banked in a timely manner.
(4) Properly enforce all relevant statutory provisions.
(5) Give advice to the ministers on all aspects of tax policy.
(6) Facilitate international trade.
(1 mark for each valid point up to a maximum of 5 marks)

(b) (i) NGULUBE'S
COMPUTATION OF TAXABLE BUSINESS PROFIT FOR THE TAX YEAR 2026

	K	K
Net profit		505,000
Add disallowable expenditure:		
Ngulube's salary	180,000	
Rates for Ngulube's living quarters	50,500	
Difference in salary (K4,000 –K2,500) x 12	18,000	
Legal fees- court case rec. loan former employee	6,500	
Depreciation	17,500	
Traffic fines	12,000	
Painting Ngulube's house	15,000	
Purchase of point of sale computers	28,000	
Purchase of CCTV cameras	12,000	
Entertaining suppliers	35,000	
Entertaining customers	28,500	
Motor vehicle running costs (K95,000 x 80%)	76,000	
Loan to an employee written off	15,000	
Increase in general provision	25,000	
Donation to a political party	50,000	
Goods withdrawn (K120,000 x 100/70)	171,429	
		740,429
		1,245,429
Less:		
Consultancy	25,000	
Royalties	28,000	
Capital allowances	185,000	
		238,000
Adjusted business profit		
		1,007,429

(ii) NGULUBE'S
PERSONAL INCOME TAX COMPUTATION FOR TAX YEAR 2026

	K
Adjusted business profit	1,007,429
Consultancy(K25,000 x 100/85)	29,412
Royalties (K28,000 x 100/85)	32,941
Total taxable profits	1,069,782
Income Tax	

First K61,200 @ 0%	0
Next K24,000 @20%	4,800
Next K25,200 x 30%	7,560
Balance K959,382 x 37%	354,971
Income tax liability	367,331
Less WHT	
Provisional income tax paid	274,108
Consultancy K29,412 X 15%	(4,412)
Royalties (K32,941 x 15%)	(4,941)
Income tax payable	83,870

SOLUTION FOUR

(a) Persons excluded from paying turnover tax:

(1) Any person carrying on a business where the turnover is over K800,000
(2) Any individual or partnership carrying on business of public service vehicle for the carriage of persons with seating capacity of below 50.
(3) Any partnership carrying on business irrespective of whether the annual turnover is over K5,000,000 or not.
(4) Income of partners arising from the partnership since the partnership producing the profit is excluded from turnover tax.
(5) Any person whose business earnings are subjected to withholding tax where the withholding tax is the final tax.
(6) Any person who is involved in mining operations (other than those involved in artisanal and small scale mining) as provided under the Mines and Minerals Development Act.

(b) (i) COMPUTATION OF PRESUMPTIVE TAXES

	K
Fuso bus (K2,592 x 2 quarters)	5,164
Toyota Hiace (K648 x 2 quarters)	1,296
	6,460

(ii) Reasons for the introduction of Presumptive tax:

(1) Governments do not have a comprehensive list of the potential taxpayers in the informal sector.
(2) The administrative cost of dealing with a sea of returns from the potential taxpayers is extremely high.
(3) The informal sector businesses themselves keep poor accounting records; in most cases they do not keep any accounting records at all.

(c) Property transfer tax

(i) The following are the transactions that are exempt from property transfer tax:
(1) Transfer of shares that are listed on the Lusaka Securitas Exchange.
(2) Transfer of property by a shareholder to a company as his contribution towards the equity of that company.
(3) Transfer of property as occasioned by death of the transferor.

(ii) The following are the property transfer tax implications:

(1) Property transfer tax is payable by the transferor of the property and not the transferee. Therefore, no property transfer tax will arise in the acquisition of a farm land.

(2) Property transfer tax is chargeable on immovable fixed assets and not movable assets. Therefore, no property transfer tax will arise on the sale of a motor car.

(1 mark)

(3) Property transfer tax will arise on the sale of shares in Jinx limited because the company is not listed on the Lusaka Securities Exchange. The realized value of shares is the higher of nominal value of the shares and their open market valuation.

PTT therefore, will be: K240,000 x 8%=K19,200

(4) Shares in a company that is listed on the Lusaka Securities Exchange is not chargeable property under the Property Transfer Tax Act and therefore, no property transfer tax will arise on the transfer of shares in PJ Plc.
(1 mark)

(5) The realized value of land is the higher of its open market value and the agreed contract price. The realized value of the commercial plot will therefore be K1,350,000 as this is higher than the contract price. incidental costs such as estate agent fees are not deductible for determining the realized value.
PTT will therefore be: K1,350,000 x 8% =K108,000

(6) Property Transfer Tax will arise on the transfer of the house to Kasonde who is not Bruce’s immediate family member. The realized value of the house is taken as its open market value.
PTT is: K650,000 x 8%= K52,000

(7) Transfer of a property to an immediate family member is not chargeable to Property Transfer Tax. However, if the consideration has been paid in exchange of the property then the same will give rise to Property Transfer Tax.

(1 mark)
PTT will therefore be: K150,000 x 8% =K12,000

SOLUTION FIVE

(a) (i) conditions to be met for in relation to Transaction value

(1) There should be no restriction on the use of the goods.
(2) There should be no conditions to deter determination of the Value for Duty Purposes (VDP).
(3) No part of the proceeds on resale would accrue to the seller, unless included in the value.
(4) No relationship exists to influence the value.

(ii) COMPUTATION OF IMPORT TAXES PAID BY DON

	US$
Cost	7,500
Insurance	630
Freight	1,342
Insurance	400
Freight	600
	10,472
VDP in Zambian Kwacha (Us$10,472 x Us$27.60)	289,027

	Value of the Vehicle	Import taxes
Value for Customs duty	289,027	
Customs duty (30% x K289,027)	86,708	86,708
	375,735	
Excise duty (20% x K375,735)	75,147	75,147
	450,882	
Import VAT (16% x K450,882)	72,141	72,141
Value of the vehicle	523,023	
Total import taxes		233,996

(b) (i) MITCH LTD

CALCULATION OF VAT PAYABLE /REFUNDABLE FOR THE MONTH OF MAY 2026

OUTPUT VAT	K	K
Sales Standard (K1,300,000 x 75% x 16%)		156,000
Sales Zero (K1,300,000 x 15% x 0%)		0
Toyota van sale (K146,856 x 4/29)		20,256
		176,256
INPUT VAT		
Purchases (K565,000 x 95% x 16%)	85,880	
Telephone	0	
Entertaining employees	0	
Overheads (K45,400 x 4/29)	6,262	
Petrol	0	
Diesel (K63,000 x 90% x 16%)	9,072	

Bad debt write-off (K18,200 x 16%)	2,912	
Purchase Delivery Truck (K350,000 x 4/29)	48,276	
		(152,402)
VAT payable		23,854

(ii) The due date the payment of VAT calculated above is 18 June 2026.

The consequences of paying the VAT late is that a penalty will be charged at a rate of 0.5% of the VAT due per day. Interest will also be charged on overdue tax at the Bank of Zambia discount rate plus 2%.

END OF SUGGESTED SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 11: PRINCIPLES OF AUDITING

THURSDAY 11 JUNE 2026

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.

2. This paper is divided into TWO (2) sections:

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

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A

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

Attempt both questions.

QUESTION ONE

You are an Audit Manager at Tunda & Associates (Tunda). The following audit matters have been brought to your attention regarding various clients.

(1) **Bwino Co (Bwino)**

During the year, a material fraud was detected by Bwino Co's internal auditors. The fraud began in the previous financial year and involved the misappropriation of cash receipts from accounts receivables, which were diverted into individual employees' accounts for personal gain. This fraud was facilitated through collusion between two (2) employees in the finance department and was only discovered when both employees took annual leave.

The internal auditors discovered the fraud during their review of cash receipts and accounts receivables, noting that cash receipts from unrelated accounts were used to conceal previously stolen funds. Management is displeased that the fraud was not detected by the external auditors during the prior year's audit.

(2) **Dambo Co (Dambo)**

Dambo Co, a cement manufacturer with a financial year-end of 31 December 2025, has experienced a post-year-end event. Subsequent to the year-end on 17 January 2026 heavy floods destroyed inventory stored in the company's main warehouse. The estimated value of the inventory destroyed is K6 million. The financial statements were prepared before this event occurred. The draft financial statements of Dambo show that total assets amount to K156 million, total inventory amounts to K8 million and a profit before tax of K70 million.

(3) **Kabwe Co (Kabwe)**

Kabwe Co, a manufacturer of clothing and household products, has faced challenging trading conditions due to increased competition. The company has lost a significant market share as competitors have begun importing cheaper clothing from China. A cash flow forecast reviewed by the audit team during fieldwork indicates a significant net cash outflow, suggesting liquidity issues. The Finance Director, however, remains confident that further funding will be secured, and has prepared the financial statements on a going concern basis without additional disclosures.

The audit team is skeptical about this assumption and has concluded that Kabwe Co is not a going concern and that the financial statements should have been prepared on the alternative basis.

Your audit juniors have requested a meeting to discuss auditors' responsibilities between the reporting date of the financial statements and the date the auditor's report is signed.

Required:

(a) (i) Explain the difference between fraud and error. (1 mark)

(ii) Explain two (2) responsibilities of the auditors regarding fraud and error in an audit. (4 marks)

(b) Describe five (5) substantive audit procedures the auditor should perform to confirm Bwino's year-end receivables balance. (5 marks)

(c) (i) Explain the accounting for the subsequent event in Dambo Co and explain the impact on the audit report if the matter is not resolved. (5 marks)

(ii) Explain the management and auditor assessments of Kabwe Co as a going concern and explain the impact on the audit opinion if matter is not resolved. (5 marks)

(d) Explain five (5) audit procedures the auditors will perform regarding subsequent events between the reporting date of the financial statements and the date the audit report is signed. (5 marks)

[Total: 25 Marks]

QUESTION TWO

Juma Chartered Accountants have been appointed as the external auditors for Bino Paints Ltd (Bino), a small but reputable company known for producing affordable, high-quality paints. The company has gained recognition as a preferred alternative brand in the market. Due to a significant increase in demand, Bino Paints Ltd undertook a refurbishment project of its showroom. The refurbishment included repairs, extensions and the installation of machinery to demonstrate the paint manufacturing process to customers, thereby enhancing their appreciation of the quality assurance measures embedded in the production process. The refurbishment was financed through loans obtained from two (2) different banks, each imposing distinct conditions regarding collateral security.

During the financial year, Bino Paints Ltd received a special order to produce a customized type of paint tailored to the specifications of a particular customer. Unfortunately, the customer's business was severely impacted by the ongoing conflict in the neighboring country to which it exports paint, rendering it unable to fulfill the order. As a result, Bino Paints Ltd was left with no alternative buyer for the specialized paint and was compelled to sell it at a price below the production cost per unit, incurring a financial loss.

In addition, the company's management implemented a policy allowing cashiers to take cash received home and return them on Mondays when business trading hours are extended. Furthermore, Bino Paints Ltd has introduced a new policy of collecting advance payments from customers for large orders, which are then credited directly to the sales account. Deliveries for such orders are scheduled for the month following the order placement.

Recently, Bino Paints Ltd faced criticism from the local community due to environmental concerns. The company was accused of discharging waste into a nearby stream, which is used by locals for irrigation and other domestic purposes. This practice contravenes the regulations set by the Zambia Environmental Management Agency (ZEMA). Management, however, argued that it is the responsibility of the external auditors to provide a report on the company's compliance with environmental laws and regulations.

An interim audit has recently been conducted, and the interim audit findings have been documented in the working papers. One (1) of the key areas of focus during the interim audit was the evaluation of the control environment and the performance of procedures on internal controls. The Engagement Partner emphasized the importance of maintaining professional skepticism throughout the audit process and cautioned all members of the audit team to adhere to this principle while conducting the audit of Bino Paints Ltd.

Required:

(a) Explain four (4) situations where professional skeptism will be required during the audit of Bino Paints Ltd. (4 marks)

(b) Explain four (4) audit risks in Bino Paints Ltd and suggest suitable audit responses for each risk. (8 marks)

(c) Explain three (3) auditor's responsibilities with regards to laws and regulations.

(3 marks)

(d) (i) Explain three (3) audit procedures (tasks) that can be performed during an interim audit. (6 marks)

(ii) Describe two (2) audit procedures (tasks) to be performed during the final audit. (4 marks)

[Total: 25 Marks]

SECTION B

There are THREE (3) questions in this section.

Attempt any TWO (2) questions.

QUESTION THREE

(a) Fashion Ltd is a large manufacturing company in the clothing industry. The company has been using a manual accounting system from inception. In view of delays experienced in the preparation and finalisation of the accounts, the company acquired a computerised accounting system. The newly acquired computer system has inbuilt constraints including the maximum net pay that can be processed. This has been set at K23,000 per month which is the net pay of the highest paid member of staff. Further, all changes to standing data in the system can only be made on electronic authorization of the Finance Director.

Fashion Ltd manufactures various types of clothes which it sells to retailers across the country. There are five (5) retail shops for which the company manufactures tailor made fashion clothes for ladies. The design for the fashion clothes is determined by the retailers and the company cannot sell such designed clothes to any other retail shops. When these retailers make orders for designer clothes an agreement is entered into prohibiting Fashion Ltd from selling these clothes to other retailers. Fashion Ltd has over the years manufactured 5% more than the requested quantities of tailor made clothes and a significant number of these are in stock some of which are now out of fashion.

You are planning the audit of the financial statements of Fashion Ltd for the year ended 31 March 2026 This is the first time that your firm will be auditing the financial statements of Fashion Ltd and in line with your firm's policy, you will extract samples of transactions and balances to test. Based on the results of the substantive audit procedures on the samples you will extrapolate to the whole populations to determine the level of misstatements of the financial statements. You are concerned about the valuation of inventory considering the speed with which fashion changes in this industry and also the valuation of inventory which the company cannot sell to other retailers in accordance with the agreement with the retailers that ordered designer clothes.

Required:

(i) Explain the meaning of test data in the audit of a computerised accounting system such as that of Fashion Ltd. (2 marks)

(ii) Illustrate two (2) uses of test data in the audit of the financial statements of Fashion Ltd. (4 marks)

(iii) Explain sampling and non-sampling risks in the audit of the financial statements of Fashion Ltd. (4 marks)

(iv) Suggest three (3) substantive audit procedures that should be conducted regarding obsolete inventory. (3 marks)

(b) Sunshine Solar Ltd (SSL) supplies a wide range of solar systems to both industrial and domestic customers in Zambia. The company has experienced rapid growth in demand for solar systems due to the drought experienced in the country. The company has an internal audit department which reports to the Audit Committee. The solar systems are offered for sale online. The product list is available online and customers place orders for their desired solar products using specific product codes, along with their debit/credit card details to a secure server of SSL after reviewing the product list.

The order quantities for solar products are normally in the range of one (1) to five (5) for each type of solar system. Customer order details are transferred manually onto SSL's internal inventory control and sales system, and a three (3) part packing list is printed in the warehouse. Each order and packing list is given a random alphabetical code based on the name of the employee inputting the order, the date, and the products being ordered.

In the warehouse, the solar products for each order are taken from specific bins and dispatched to customers with one (1) copy of the packing list. The second copy of the packing list remains in the warehouse. The third copy is sent to the accounts department where inventory and sales in the computer system are updated to show that the order has been dispatched. The customer's credit card is then charged by the inventory control and sales computer system. The allowance for receivables in SSL is currently computed at 5% of total receivables.

The computer system then checks that each customer's credit card account is charged successfully, the order details are on file as evidence that the charge was made correctly. Thereafter, the order file is marked as completed confirming that the order has been dispatched and payment received.

Required:

(i) Explain four (4) weaknesses in the sales system of Sunshine Solar Ltd.

(4 marks)

(ii) Explain the implications of each weakness identified in (i) above. (4 marks)

(iii) Suggest a recommendation to address each weakness identified in (i) above. (4 marks)

[Total: 25 Marks]

QUESTION FOUR

Leopard Mining Company (Leopard) is a gemstone mining company situated on the Copperbelt. The Company management consists of the Board of Directors and management. Among other departments is an accounts department. The Chief Operating Officer also acts as Finance Director. In order to shorten the process of authorization and approval associated with accessing company payments, the Chief Operating Officer requests cash directly from the cashier and the documentation is done after the money has been given to him. The company sells the bulk of its gemstones at the International Metal Exchange. In the last two (2) years, the local currency has depreciated. As a result, the company experienced exchange losses, prompting the Director of Finance to create a provision for exchange losses.

There have been some reports of theft of gemstones at Leopard Mining Company. This is despite the company investing K65,000 in a computerized security system. A recent internal audit revealed that some members of staff in the accounts department and those in the sales department were involved in a scheme of deliberately undervaluing the prices of gemstones sold on the local market, which led to a loss of funds for the company.

Worthy Chartered Accountant (Worthy) has been appointed as Auditor for Leopard Mining Company. This is the first time for the firm to audit a company in the mining sector. The Engagement Partner has advised the audit team assigned to the audit of Leopard Mining Company to use Internal Control Questionnaires (ICQs) and Internal Control Evaluation Questionnaires (ICEQs) in the conduct of the audit.

The operations of Leopard Mining Company are heavily mechanized. During the year under review the company replaced a significant number of equipment that is obsolete. During the verification of tangible non-current assets, the audit team had difficulties in relating the physical assets to the accounting records. It was concluded that the controls over capital expenditure were non-existent. It is the intention of the audit team to report the lack of controls to management through the letter of weakness that will be issued at the end of the audit. In that letter, the audit team will require to recommend suitable control activities over capital expenditure.

The prices of gemstones have gone down due to increased alternative precious minerals being sold on the international market, coupled with a reduced world economic downturn. This forced management to reduce production and cut down on the number of employees in all departments. Due to the reduced workforce, most of the roles in the accounts department are being performed by one (1) person. For instance, the roles of processing sales orders, dispatch, and receipt of cash from customers are being performed by the same Assistant Accountant.

In addition, most of the sales on credit were granted to customers based on personal knowledge and relationships that the members of the sales team knew about customers, without prior approval from management. Further, whenever there was a dispute on the amount owed by a customer, accounts clerks were allowed to make appropriate changes to affected receivable account balances without management approval.

Worthy Chartered Accountants has assessed the risks of material misstatements in Leopard Mining Company as high and is planning an overall response to these risks.

Required:

(a) (i) Explain the use of Internal Control Questionnaires(ICQs) and the Internal Control Evaluation Questionnaires (ICEQs) during the audit of the financial statements of Leopard Mining Co. (3 marks)

(ii) Explain the objective of the questions in the Internal Control Questionnaire (ICQ) and the Internal Control Evaluation Questionnaire (ICEQ) in recording the control and accounting systems of Leopard Mining Co. (4 marks)

(b) Explain two (2) limitations of internal controls in the sales system of Leopard Mining Company. (4 marks)

(c) Suggest four (4) controls that can be put in place to prevent fraud in the sales system of Leopard Mining Co. and explain one (1) test of control for each control suggested. (8 marks)

(d) Suggest three (3) internal control activities that Leopards Mining Co. should put in place for capital expenditure. (6 marks)

[Total: 25 Marks]

QUESTION FIVE

You are an Audit Supervisor at Pangu and Associates (Pangu), responsible for overseeing the audit of Umoyo Insurance Co (Umoyo) for the financial year ending 31 December 2025. Pangu has been auditing Umoyo for the past five (5) years. Umoyo is an insurance company offering a range of services, including medical insurance. During the audit planning phase, several key developments and potential risks have been identified.

Umoyo is undergoing significant changes and challenges that may impact the audit process. These include management transitions, financial constraints, ethical concerns, and internal control weaknesses.

The Finance Manager resigned in November 2024, and a replacement will only join three (3) months after the year-end. The Finance Director, a close friend of the audit Engagement Partner, requested that the Audit Manager be seconded to Umoyo for five (5) months to act as the temporal Finance Manager, citing the Audit Manager's familiarity with the company's financial operations. Additionally, the Finance Director invited the audit team for a two (2) days luxury retreat after the audit completion for interaction and relaxation.

Two (2) senior audit team members own shares in Umoyo, which they acquired when Umoyo sold shares to the public to raise funds for business expansion. The audit team members have been offered free life insurance for one (1) year from the start of the audit. Although Umoyo does not generally offer free life insurance, this is part of a strategy to attract long-term customers to its paid insurance schemes. Umoyo requested Pangu to represent the company in negotiations with its bankers to secure funding for new insurance products and services.

Umoyo has not paid the audit fee for the prior year. The Finance Director has assured Pangu that both the outstanding and current year's audit fees will be settled after the completion of the 2025 audit when Umoyo expects to have sufficient funds.

Umoyo's internal audit department consists of only five (5) employees, which has resulted in inefficiencies in fulfilling its responsibilities. Management is considering whether to expand the department or outsource the internal audit function, based on a cost-benefit analysis. The Finance Director has acknowledged weak internal controls and the absence of an Audit Committee.

During the previous year's audit, significant cut-off errors were detected, where post-year-end cheques were processed before the year-end to reduce payables. The Finance Director assured the audit team that this issue has not recurred and that the bank reconciliation was carefully prepared and reviewed. However, the audit Engagement Partner remains skeptical and has instructed the audit team to conduct a detailed review of the bank reconciliation in the current year audit.

Required:

(a) Identify and explain five (5) threats which may affect the independence of Pangu's audit of Umoyo; and for each threat, suggest a safeguard to reduce the threat. (10 marks)

(b) (i) Explain three (3) advantages to Umoyo of outsourcing internal audit services. (3 marks)

(ii) Explain two (2) disadvantages to Umoyo of outsourcing their internal audit services. (2 marks)

(c) Explain the five (5) elements of the internal control system in Umoyo that should be considered by the audit team in planning the audit of the financial statements. (5 marks)

(d) Describe five (5) substantive procedures that auditors should perform in relation to the bank reconciliation. (5 marks)

[Total 25 Marks]

END OF PAPER

DA 11 PRINCIPLES OF AUDITING

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) (i) The difference between fraud and error:
Fraud - An intentional act of deception to gain an unfair or illegal advantage.
Error - An unintentional misstatement (mistake) committed in good faith.

(ii) Auditors' responsibilities in relation to the prevention and detection of fraud and error

(1) To obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.
(2) To identify and assess the risks of material misstatement of the financial statements due to fraud.
(3) To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses.
(4) To respond appropriately to fraud or suspected fraud identified during the audit.
(5) To maintain professional scepticism throughout the audit, considering the potential for management override of controls.
(6) To ensure that the whole engagement team is aware of the risks and responsibilities for fraud and error.
(7) To report any actual or suspected fraud to appropriate parties.

(b) Substantive procedures to confirm receivables balance for Bwino

(1) For a sample perform a positive trade receivables circularisation, for any non-replies, with client's permission, send a reminder letter to follow up.
(2) For a sample of goods despatched notes (GDN) before and just after the year end test the cut off.
(3) Calculate average receivable days and compare this to prior year, investigate any significant differences.
(4) For credit balances, discuss with management whether these should be reclassified as payables.
(5) For a sample of credit notes verify that they have been correctly accounted for to ensure completeness.
(6) For slow moving balances identified, discuss with management whether an allowance or write down is necessary.
(7) Review board minutes to assess whether there is any material disputed receivables.
(8) Review the reconciliation of sales ledger control account to the sales ledger list of balances to verify accuracy.
(9) Review the after-date cash receipts and follow through to pre-year-end receivable balances.
(10) For any slow moving/aged balances review customer correspondence to assess whether there are any invoices in dispute.
(11) Select a sample of year-end receivable balances and agree back to valid supporting documentation of GDN and sales order to ensure existence.

(c) Subsequent events:

(i) **Dambo – Inventory**

The inventory is (5%) of total assets and 11% of profit before tax, hence it is material. The event happened after the year end and after the financial statements had been prepared. This is a non-adjusting event not requiring the inventory value at the period end to be adjusted.

In view of the fact that the matter is material, it is necessary that management discloses the destruction of inventory in the financial statements. This could be done in a note to the financial statements.

Impact on the audit report:
The destruction of the inventory subsequent to the period end will not impact the opinion of the auditors. If management discloses the matter in the financial statements, the auditor may emphasise and refer to the disclosure by management in the emphasis of matter paragraph.

(ii) **Kabwe – Going Concern**

Management has prepared the financial statements on the going concern basis on the assumption that Kabwe is a going concern. The fact that the audit team is of the view that the company is not a going concern largely because of the loss of a significant market share and a negative cash flow is a matter that should be discussed with management.

The audit team should request management to restate the financial statements and prepare them on the alternative break up basis.

Impact on the audit report:
If management accepts to prepare the financial statements on the break up basis using the appropriate financial reporting framework, the auditors will issue an unmodified opinion.

If on the other hand management refuses to restate the financial statements, the audit opinion will be modified by way of an adverse opinion in view of preparing financial statements on the wrong basis.

(d) Audit procedures b*etween* the reporting date of the financial statements and the auditor's report is signed.

(1) Inspect or review post year financial information to identify significant changes that could have occurred after the year-end.
(2) Inspect or review board meeting minutes of after year meetings to identify events that may not have been included in the financial statements.
(3) Obtain written representation from management that subsequent events have been adjusted or disclosed appropriately/correctly.
(4) Enquire from management to confirm if any subsequent events have occurred after the year end and how they have been accounted for.
(5) Inspect or review correspondence such as legal documentation to confirm events that occurred after the year end that may affect the entity.

(6) For adjusting event, discuss with management that the financial statements should be adjusted in line with IAS 10.
(7) For material non-adjusting events, discuss with management that these should be disclosed by note in the financial statements.
(8) If financial statements have been amended, review or inspect them to verify that the adjustments or disclosures are adequate/appropriate.
(9) If management refuses to amend the financial statements and the events are material, the audit opinion will be modified due to material misstatement.
(10) If management makes the corrections, then, unmodified opinion will be issued.

SOLUTION TWO

(a) Situations when professional skepticism should be applied in the audit of Bino Paints:

(i) When they are auditing and the evidence obtained does not match other evidence or information obtained elsewhere.

(ii) When they come across information that casts doubt on the reliability of source documents that are presented to them by management.

(iii) When there is information within the client with regards to suspected fraud and fraudulent activities that are going on.

(iv) When external auditors discovered that the extent of the problem requires further audit procedures other than what they have used so far.

(v) When auditors discover what is expected is not what is obtaining during the audit of a client.

(b) Audit risks and responses in the audit of Bino Paints:

Audit risks	**Auditor responses**
○ Paint of high value-it is easy for staff to steal the inventory of such items without being noticed. This may result in the falsification of the financial statements with a view to conceal the fraud.	The audit team to remain alert for any likely fraud and also to attend the annual inventory count.
○ Allocation of costs incurred during refurbishment of the show room. There is a high risk of misclassification of expenditure. What is capital may be classified as revenue expenditure and vise-versa	External auditors will have to obtain a schedule of costs and examine it in detail for any misclassification of costs. They should also trace the costs back to the documents in order to gain a correct view of the nature of such costs.
○ The cashier holds large amounts of cash overnight in their home and then deposit it into the bank the following Monday. This should not be allowed as it exposes them to risks of theft .There is a possibility of being tempted into money laundering as well-	External auditors need to perform analytical procedures on cash amounts collected on certain dates and they compare whether the same pattern is repeated or not. Any deviations of amounts from what is expected should be examined further.
○ The company receiving large amount as deposit before a service is provided. This will affect cut of as cash sales for the correct year will be reflected in the sales amounts for this year. This may further result in the overstatement of revenue in recognising the advance payments as revenue.	There will be a need of external auditors tracing the post year end transactions back to supporting documents of sales contracts. They should thereafter test to confirm if recorded revenue belongs to the current accounting period. Further, review the draft financial statements and confirm that advance receipts at the period end are not recognised as revenue but as a current liability.

(c) Auditors responsibility towards laws and regulations are as follows:

- Auditors will need to consider whether Wanga Ltd obliges to laws and regulations in the industry in which Wanga Ltd operates.
- Auditors must obtain knowledge of the laws and regulations applicable to Bito paints
- Auditors should assess how non -compliance could impact the financial statements
- Auditors should evaluate the likelihood of the company failing to comply with laws and regulations
- To obtain audit evidence regarding non-compliance with the laws and regulations that can result in misstatements of financial reports**.**

(d) (i) **Audit procedures that will be performed during an interim audit**

- Need to record Wanga Ltd.'s internal controls
- Bax Chartered Accountants will have to evaluate the effectiveness and designs of internal controls
- To perform substantive procedures of transactions and account balance to the interim audit date in order to collect sufficient audit evidences.
- To test internal controls in the company in relation to accounting systems in order to make an assessment whether controls are working or not.

(ii) **Audit procedures to be carried out during final audits are:**

- Bax will perform substantive audit procedures on documents and account balances in order to confirm if account balances agree with what appears in the financial reports.
- Bax will perform reviews of any adjusting and non-adjusting events.
- To perform analytical procedures on financial and non-financial information plausible relationship exists**.**
- To Assess whether Bino Paints Ltd is a going concern or not.

SOLUTION THREE

(a) (i) Meaning of test data:

Test data is that which is prepared by the auditor together with the expected results and is input into the client computer system to test if the system is operating as expected.

The auditors will compare the results from processing the data with the predetermined results.

(ii) Use of test data in the audit of the financial statements of Fashion Ltd:

In the audit of the financial statements of Fashion Ltd, test data could be used in the following two ways:

(1) Prepare a salary payment for a fictitious employee with a net pay exceeding the constraint of K23 000. This should be input into the IS of Fashion Ltd and if the control is operating as required this transactions should be rejected by the system.

(2) For a number of transactions, request the transactions to be recoded and authorization made by someone other than the Finance Director. The system should decline the authorization if it is operating as required. If authorization is given then it means the control is not effective.

(iii) Meaning of sampling and non-sampling risks:

Sampling risk is the risk that the auditor will reach an inappropriate audit opinion and opinion because they base their conclusions on sample and extrapolated results. Had the auditors performed audit procedures on 100% of the population, a different opinion may have been reached.

Non sampling risk – this is the risk that the auditors may issue an inappropriate opinion on the basis of reasons other than that of sampling. For example the auditors may issue an inappropriate opinion based on incorrect audit procedures or that the auditors did not have the necessary skills and competences.

(iv) Substantive audit procedures for obsolete inventory:

(1) Observe the inventory count and the system in use to identify and isolate obsolete inventory.

(2) For specific designed clothes that cannot be sold to the other retailers, review the provision made and ensure they have been written off.

(3) For other items that are out of fashion, obtain the management workings for obsolesces and review the assumptions used for reasonableness.

(4) For any obsolete items sold post year, compare the net realisable value with the provision made at the period end and adjust the provision as necessary.

(b) (i)/(ii)/(iii) Weaknesses, implications of the weaknesses and remedial recommendations:

(i) Weaknesses Identified	**(ii)** Possible Effect	**(iii)** Recommendation
1. The manual transfer of order details onto the company's internal; inventory control and sales systems	Some orders could be lost in the manual transfer.	The orders should be automatically transferred electronically to the inventory and sales system.
2. Giving each order and packing list a random alphabetical code based on the name of the employee inputting the order, the date, and the products being ordered.	Lost orders may be not be detected in the system.	The orders should be automatically numbered in a sequential order.
3. Dispatched sales items to the customer before his credit card is charged.	Bad debts may result if the card is invalid or has no credit.	The order must only be processed after checking that the credit card is valid and the balance on card is enough to pay for the order
4. Using the third copy of the packing list in the accounts department to update inventory and sales in the computer system to show that the order has been dispatched.	If the order does not go through due to invalid card or insufficient credit on card would mean the transaction has to be reversed in the accounts department.	Order is recorded by accounts to update inventory and sales in the computer system after a successful dispatch only.
5. The computer system checks that for each charge made to a customer's credit card account successfully, the order details are on file to prove that the charge was made correctly.	This has no control effect at all.	The system should perform a check to agree the order to the packing list and the credit card charge before printing the dispatch note that is used to allow the goods to be dispatched.
6. There is no control to detect the duplicate dispatch of an order.	This can cause loss to the company.	When dispatch note is printed, the system should close the order and taking it off the list of orders to be executed.

SOLUTION FOUR

(a) (i) The use of ICQs and ICEQs in the audit:
Internal Control Questionnaires and Internal Control Evaluation Questionnaires are two of the methods that auditors may use in recording the accounting and control systems of a client company. This is done at the planning stage of the audit when the auditors will be gaining an understanding of the entity and its environment.

(ii) The objective of the questions in an ICQ:
The questions used in an Internal Control Questionnaire are designed in a manner that will establish whether **desired controls** in a system exist.

The objective of the questions in ICEQ:
The questions in an Internal Control Evaluation Questionnaires are designed with a view to establish whether specific errors are possible under the current system being evaluated.

(b) The following are limitations of Internal controls in Leopard Mining Ltd:
(1) There was collusion between employees in the sales and accounts department. This can make it difficult for fraud to be detected.
(2) Management had invested huge amounts of money in a computerized security system but it could not help matters as fraudulent activities continued.
(3) Internal controls are not designed for non-routine transactions. This can make it difficult for certain unusual transactions to occur.
(4) A possibility of human errors is very high considering that financial reporting cannot be done completely without human interventions**.**

(c) Controls and tests of controls to prevent fraud in the sales system of Leopard Mining:

	Controls in sales system	**Tests of controls**
1	Segregation of duties – Staff involved in the recording of transactions should not be the ones receiving funds from credit customers.	Observe that funds from receivables are received by a different person other than the one recording the transactions.
2	All sales executed should be approved by a responsible senior person and this should be evidenced in writing.	For a sample of sales made obtain the authorisation document and confirm it has been authorised by the responsible person.
3	All changes to standing data and the database should be made on authorisation of a senior responsible person.	For a sample of changes made review the supporting documentation and confirm that they have been authorised by a responsible person.

4	All credit to customers should be audithised by a responsible person in writing.	For a sample of receivables that are on credit terms request the credit authorisation by the responsible official.
5	All changes to individual receivables accounts should be authorised by a senior member of staff and not the Accounts Clerks and this authorisation should be evidenced in writing.	For a sample of changes to information in individual receivable's accounts examine the authorisation by the responsible official.

(d) Four controls necessary for capital and revenue expenditure:

(1) All capital expenditure incurred should be authorized by the Board of Directors.

(2) Orders for capital expenditure should be recorded on different orders documents than using the same ones for revenue expenditure.

(3) Invoices for capital expenditure should be approved by personnel who made authorized the order.

(4) All capital items are expected to be recorded in the non-current asset register.

SOLUTION FIVE

(a) Threats to auditors' independence and Safeguards

SN	Threats	Safeguards
1	The Finance Director is a close friend of the audit Engagement Partner. This creates familiarity threat, so the auditor may not report material misstatements in the financial statements, leading to a wrong/inappropriate opinion been given.	The audit Engagement Partner should be removed from the audit team. Someone independent and experienced should be appointed as audit Engagement Partner, so that an appropriate opinion can be given.
2	Audit Manager to be seconded to Umoyo for 5 months to act as the temporary Finance Manager. This will create a self-review threat, if this Audit Manager will later be the same Audit Manager to lead the audit team to audit Umoyo creasing a self-review threat. He may not report his own material misstatements in the financial statements, leading to inappropriate opinion been given.	The Audit Manager should be removed from the audit team, if he is seconded to Umoyo for 5 months, because he is most likely to be a key person in the preparation of financial statements of Umoyo. The Engagement Partner can also propose that a separate team may be used to prepare the financial statements of Umoyo, this client is not a listed entity.
3	Offer of a weekend for 2 days at a luxury hotel. This offer is likely to create intimidation threat, since the hospitality is not moderate or insignificant, as it will be at a luxury hotel. The auditors may not report material misstatements in the financial statements, leading to a wrong opinion been given.	The offer of a weekend for 2 days at a luxury hotel should be declined or refused politely. The audit team should also be informed that they need to inform the Audit Manager or audit engagement partner of any gifts and hospitality offered to them by the client.
4	Two audit team members have shares in Umoyo. This creates self-interest threat, as these audit team members may not report material misstatements such as overstated profits in the financial statements to promote their interest as shareholders, leading to inappropriate opinion been given.	The two audit team members should be told that they need to dispose of their share in Umoyo, if they are to remain in the audit team or they should be removed from the audit team and be replaced with independent people.
5	Offer of 1-year free life insurance to the audit team members from the date they will start the audit. This will create self-interest as the audit team members may not report material misstatements in the financial statements as an appreciation to the client for free insurance, which may lead to a wrong opinion been given.	The offer of a 1-year a free life insurance should be declined or refused politely. The timing of the offer seems to be done to entice the audit team members.
6	Representing Umoyo in negotiations with the bank to obtain the funds. This will create advocacy threat, as the auditors will be seen to be on the side of the client and they will be seen not to be independent of the client, since the	The auditors should decline or refuse the request, as the threat cannot be reduced to an acceptable low level. This is the guidance given in the ethical code of conduct.

	auditors may try by all means to impress the bank in their negotiations so that Umoyo gets the funds needed.	
7	The audit fee for the year's audit is still not paid. The unpaid audit fee may create a self-interest, as auditors may be forced to issue an unmodified opinion so that the unpaid audit fee and audit fee for the current year's audit can quickly be paid by Umoyo.	The audit Engagement Partner should communicate with the Finance Director or those charged with governance that unpaid audit fee must be paid before the commencement of the current year's audit.

(b) (i) Advantages of outsourcing Umoyo's internal audit services:

(1) Immediate audit staff
There will be no need to recruit new staff members, and this will be an instant solution.

(2) Skills and experience
Specialist skills may be provided that Umoyo's internal audit department may not have.

(3) Costs
Any associated costs such as training will be eliminated. In addition, the audit team may be required on the need basis, leading to reduced costs.

(4) Flexibility
There will be flexibility in its internal audit service. Staff can be requested to suit Umoyo's workloads and requirements.

(5) Independence
The independence of internal auditors will increase, if the inter audit function is outsourced.

(ii) Disadvantages of outsourcing internal audit services

(1) Quality control issues
Different staff members may be assigned from time to time, leading to decrease the quality of the services provided.

(2) Independence threats
If external auditors are providing the internal audit service, there may be a self-review threat, so the separate teams may be needed.

(3) Cost
As well as the cost of potential redundancies, the work to be performed by external auditors may not justify the cost or fee charged.

(4) Confidentiality
External auditors may share confidential information with outsiders. Confidentiality agreements must be signed.

(5) Own internal audit staff
The opportunity to develop own internal audit staff will be lost and there will be need to discuss areas of work and timings well in advance.

(c) Elements of internal control components that should be considered at planning stage:

(1) Control activities:
These are policies and procedures which help ensure that management directives are carried out and achieved.

(2) Risk assessment:

This includes how management identifies business risks relevant to the preparation of financial statements in accordance with the entity's applicable financial reporting framework.

(3) The information system
This includes the accounting system (consists of the procedures and records) used to initiate, record, process, and report entity transactions and events.

(4) Monitoring of controls:
The process of assessing the effectiveness of internal controls on a timely basis and taking necessary remedial actions. Internal audit helps to achieve this.

(5) The control environment:
This is management's awareness, attitudes and actions. Management should set the tone of an organisation, influencing the control consciousness of its people.

(d) Substantive procedures for bank reconciliation

(1) Cast the bank account reconciliation to verify the accuracy of the additions and subtractions.
(2) Agree the balance as per bank reconciliation to the original year-end bank statement and to the bank confirmation letter.
(3) Agree the reconciliation's balance per as the cash book to the year-end cash book.
(4) Trace all the outstanding lodgements to the pre year-end cash book, post year-end bank statement.
(5) Trace all unpresented cheques through to a pre year-end cash book and post year-end statement.
(6) For any unusual amounts or significant delays (outstanding lodgements or unpresented cheques), obtain explanations from management.
(7) Examine any old unpresented cheques to assess if they need to be written back i if they are no longer valid to be presented.
(8) Enquire from management or finance director, the reasons for outstanding or un-reconciled items.

END OF SUGGESTED SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 12: GOVERNANCE AND COMPANY LAW

FRIDAY 12 JUNE 2026

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

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question.

2. This paper is divided into TWO (2) sections:
   Section A: There are two (2) compulsory questions.
   Section B: There are three (3) questions. Attempt any two (2) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A

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

Attempt both questions.

QUESTION ONE

(a) Comco Company Limited is a company that deals in the manufacturing of heavy duty equipment. It has been doing business for the past five (5) years. Initially, its Board of Directors was one tier, but after further considerations, it was agreed that the company adopts a two tier Board which should include independent Directors. In line with this resolution, an independent member was appointed to the Board of Directors and the first meeting was scheduled for 10 August 2025. The next meeting was to be held in November 2025. You are one of the Directors at Comco Company Limited and you have since been requested to prepare a report for the next quarterly meeting to be held on 17 February 2026.

Required:

Discuss the details you are going to include in the Director's report which will be presented in the full board of Comco Ltd in February, 2026. (10 marks)

(b) You were recently retained as Company Secretary for Bugez Company Limited. One of the tasks that the Directors have given you is to clearly devise a corporate governance code which the company will be using in all its interactions with external entities especially the Stock Markets. Bearing in mind that there are several codes of corporate governance available, clearly discuss the following codes of corporate governance.

Required:

(i) The King Report of South Africa (5 marks)

(ii) The Greenbury Report – UK (5 marks)

(iii) The Hampel Report – UK (5 marks)

[Total: 25 Marks]

QUESTION TWO

Three entrepreneurs , namely; Chola, Banda and Phiri intend to start a renewable energy business in Zambia. They are considering different forms of business associations under the Companies Act No. 10 of 2017.

The following facts are relevant in their deliberations:

- Chola wants limited liability and the ability to attract foreign investors in future.
- Phiri is concerned about continuity of the business in the event of death or withdrawal of a member.
- Before registration, Chola entered into a contract with SolarTech Suppliers "on behalf of the proposed company."
- The business intends to eventually list on the Lusaka Securities Exchange.

Required:

(a) Explain the legal position regarding the contract entered into by Chola. (15 marks)

(b) Briefly outline the procedure for incorporation of a company under the Companies Act No. 10 of 2017. (10 marks)

[Total: 25 Marks]

SECTION B

There are THREE (3) questions in this section.

Attempt any TWO (2) questions.

<u>QUESTION THREE</u>

(a) Discuss the main types of meetings that a company can hold. (15 marks)

(b) Corporate governance may be defined as the system through which organizations are directed and controlled. It is further believed that if all organizations could uphold the rules of corporate governance; this would lead to better and stronger institutions in the world.

Required:

With the aid of case law or statute law, explain the importance of Corporate Governance to Zambian companies. (10 marks)

[Total: 25 Marks]

<u>QUESTION FOUR</u>

Luangwa Transport Limited is a private company incorporated in Zambia under the Companies Act No. 10 of 2017. The company has an authorized share capital of K1,000,000, divided into 100,000 ordinary shares of K10 each.

The company issued 60,000 shares to the following shareholders:

- Mr. Zulu – 30,000 shares
- Ms. Mwila – 20,000 shares
- Mr. Phiri – 10,000 shares

The company required shareholders to pay K6 per share on application and the remaining balance to be paid later when called by the company.

Mr. Zulu and Ms. Mwila paid the full K6 per share. However, Mr. Phiri only paid K4 per share and promised to pay the balance later.

Six (6) months later, the company made a call of K4 per share on all issued shares. Mr. Zulu and Ms. Mwila paid the call in full, but Mr. Phiri failed to pay any amount despite several reminders. Now they have engaged you to briefly assist them.

Required:

(a) Explain to them what is meant by;

(i) Paid up share capital. (2 marks)

(ii) Unpaid share capital. (2 marks)

(b) Calculate the paid-up share capital of Luangwa Transport Limited after the call. (5 marks)

(c) Explain the legal position of Mr. Phiri regarding the unpaid shares. (8 marks)

(d) State the rights of the company in respect of unpaid share capital under Zambian company law. (8 marks)

[Total: 25 Marks]

QUESTION FIVE

Zambezi Furniture Limited is a private company incorporated in Zambia under the Companies Act No. 10 of 2017. The company manufactures wooden furniture for the local market.

For the past two (2) years, the company has been making losses and has failed to pay its creditors on time. The company owes K500,000 to various suppliers and has defaulted on a bank loan. Several cheques issued by the company have been dishonoured due to insufficient funds.

The Directors held a Board meeting and resolved that the company is no longer able to continue operating. However, some shareholders believe the company can still recover and are opposed to closing the business.

One of the major creditors has threatened to apply to court for the winding up of the company if the debts are not settled.

Required:

(a) Identify two (2) grounds upon which Zambezi Furniture Limited may be wound up under Zambian law. (2 marks)

(b) Distinguish between voluntary winding up and compulsory winding up of a company. (6 marks)

(c) Advise the Directors on the procedure for voluntary winding up of the company. (7 marks)

(d) Explain the effects of a winding-up order on the company and its Directors. (10 marks)

[Total: 25 Marks]

END OF PAPER

DA 12: GOVERNANCE AND COMPANY LAW

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) The following are the contents of the director's report:

-The amount paid as dividends and the amount proposed to be taken to reserves

-The nature of the business of the company or its subsidiaries

-the classes of business in which the company has interest

-The principal business of the company and its subsidiaries

-Any changes in activities during the year

-Particulars of important events that have occurred during the year

-Indications of likely future developments

-Indications of research and development activities

(b)

(i) The King Report of South Africa

This is the major contribution to the corporate governance debate that South Africa has made. It was first published in 1994 and was updated in 2002 and 2009 respectively. The main focus of the Kings report as opposed to other guidance is the integrated approach to corporate governance. This is to be done in the best interests of a wide range of stakeholders, paying attention to the social, environmental and economic aspects of the company's activities. The Kings report ardently encourages active engagement by companies, shareholders, business and the financial press. The emphasis is more on disclosure as a regulatory measure.

(ii) The Greenbury report – UK

This was published in 1995 by the Greenbury committee and the emphasis was establishing principles for the determination of director's pay. This was to include detailed disclosures to be presented in the annual reports and accounts. The Greenbury report covered more than the Cadbury report as it recommended that the

remuneration committee is to determine executive directors' remuneration. Further this committee ought to comprise non-executive directors. The code also recommended that directors' service contracts should be limited to one year.

(iii) The Hampel report – UK

The Hampel report was published in 1998 and was a follow up on the issues earlier

raised in the Cadbury and Greenbury reports. The aim is to restrict the regulatory burden on companies and substituting principles for detail whenever possible.

The two main focus areas for the Hampel report are:

The book of accounts should contain a statement of how the company applies the corporate governance principles. The accounts should also explain their policies, including any circumstances justifying departure from best practice.

SOLUTION TWO

(a) **Legal Position of the Pre-Incorporation Contract**

A pre-incorporation contract is a contract entered into by a promoter on behalf of a company before it is legally incorporated. By section 20 of the Companies Act 2017, where a promoter enters into a contract on behalf of a company that has not yet been incorporated, the promoter shall be bound by such a contract and enjoy the benefits thereof.

This is in line with the common law rule as established in *Kelner v Baxter*. Baxter and others purchased wine on behalf of a hotel company that had not yet been incorporated. When the company was incorporated, it consumed the wine, but failed to pay. It was held that a company cannot be bound by a contract that was formed before it existed. Therefore, Baxter and his friends were held liable.

Legal Position:

(1) Since the company was not yet incorporated, it lacked legal personality.
(2) Therefore, the company cannot be bound by the contract at the time it was made.
(3) The promoter (Chola) is personally liable on the contract.
(4) After incorporation, the company may adopt or ratify the contract (if permitted under the Act), but this does not automatically release the promoter unless there is a novation agreement.

Thus, Chola may be personally liable to SolarTech Suppliers.

(b) **Procedure for Incorporation of a Company**

Under the Companies Act No. 10 of 2017, incorporation involves:

1. Reservation of Company Name

Apply to the Patents and Companies Registration Agency (PACRA) for name clearance.

2. Preparation of Incorporation Documents

- Application for incorporation
- Articles of Association
- Details of directors and shareholders
- Registered office address
- Declaration of compliance

3. Submission of Documents

Lodge documents with PACRA and pay prescribed fees.

4. Issuance of Certificate of Incorporation

Upon approval, PACRA issues a Certificate of Incorporation.

5. Legal Effect

- Company becomes a separate legal entity.
- Gains capacity to enter into contracts.
- Enjoys perpetual succession.

SOLUTION THREE

(a) (i) Annual General Meeting

(i) Class meeting

(ii) Extraordinary general meeting

- Annual General Meeting – this is a meeting of shareholders that is held annually. This meeting is supposed t be held at least within three months following the end of the financial year. The business that is transacted at the AGM among other, is the appointment of auditors, declaration of dividends, consideration of accounts, balance sheets and the report of the directors and auditors, election of directors replacing the retiring ones and special business as the case may be.

- Extraordinary general meeting – this is any general meeting other than the annual general meeting. This meeting may be convened by the directors whenever they think fit or if the articles of the company provides, by any other person in accordance with the provisions. Extraordinary general meetings are convened by directors to deal with urgent matters which may not wait for the annual general meeting.

- Class meeting – this is a meeting of a class of shareholders. The meeting is convened by the directors whenever they think fit; or by two or more members of that class.

(b) Corporate governance is defined as, 'the system by which organizations are directed and controlled' (Cadbury report) or; 'a set of relationships between a company's directors, its shareholders and other stakeholders. It also provides the structure through which the objectives of the company are set, and the means of achieving those objectives and monitoring the performance, are determined." (OECD). It is important to the modern-day organizations for the following reasons:

(i) It ensures adherence to strategic objectives of the organization thereby aiding effective management.
(ii) Its promotes integrity in the operations of the company.
(iii) It provides for an adequate and appropriate system of control in a company.

(iv) It promotes best practice guidelines thereby enhancing overall performance arising from good supervision and management.

(v) It promotes ethical and effective pursuit of the company's strategy thereby offering safeguards against resource misuse.

(vi) It ensures adherence to the law in the conduct of the business of the company.

(vii) It encourages the infusion of new investments into a company.

(viii) It promotes accountability in the management of the company.

(ix) It promotes confidence in the capital markets.

(x) It promotes the independence of those who scrutinize the behaviour of the company and its managers and especially of the external auditors.

SOLUTION FOUR

(a) **Meaning of paid share capital and unpaid share capital**

(i) Paid share capital refers to the portion of the issued share capital for which the company has actually received payment from shareholders.

(ii) Unpaid share capital refers to the portion of the issued share capital that has not yet been paid by shareholders but is still owed to the company and may be called up in the future.

(b) **Paid-up share capital after the call**

Step 1: Amount payable per share
Total share value = K10 per share
Application payment required = K6 per share
Call made later = K4 per share

Step 2: Calculate amounts paid

1. **Mr. Zulu**
   30,000 shares × K10 = K300,000 (fully paid)
2. **Ms. Mwila**
   20,000 shares × K10 = K200,000 (fully paid)
3. **Mr. Phiri**
   10,000 shares × K4 = K40,000 paid (only K4 per share)

Step 3: Total paid-up share capital

- Mr. Zulu: K300,000
- Ms. Mwila: K200,000
- Mr. Phiri: K40,000

Total paid-up share capital = K540,000

(c) **Legal position of Mr. Phiri regarding unpaid shares**

Mr. Phiri is a shareholder who has **partly paid shares**. He remains **liable to pay the outstanding balance** on his shares when a valid call is made by the company.

His failure to pay the call constitutes a **breach of his obligations** as a shareholder. Under the Companies Act of Zambia, he may lose certain rights, such as the right to receive dividends or vote, until the unpaid amount is settled.

(d) **Rights of the company in respect of unpaid share capital**

The company has the following rights regarding unpaid share capital:

1. To **make calls** on unpaid shares in accordance with the Articles of Association.
2. To **charge interest** on unpaid calls if provided for in the Articles.
3. To **suspend shareholder rights**, such as voting and dividends, for non-payment.
4. To **forfeit the shares** of a defaulting shareholder after due notice.
5. To **recover the unpaid amount as a debt** through legal action.
6. To **sell or reissue forfeited shares**.

SOLUTION FIVE

(a) Grounds **for winding up Zambezi Furniture Limited**

Zambezi Furniture Limited may be wound up on the following grounds:

(1) **Inability to pay its debts**, as the company has failed to pay creditors, defaulted on a bank loan, and issued dishonoured cheques.
(2) **Resolution by the company** that it be wound up, where the directors or shareholders agree that the company can no longer continue operating.

(b) **Difference between voluntary winding up and compulsory winding up**

Voluntary winding up occurs when a company decides on its own to wind up its affairs, usually through a special resolution passed by shareholders. It may be initiated when the company is solvent or insolvent.

Compulsory winding up occurs when the company is wound up by an **order of the court**, usually upon application by a creditor, shareholder, or regulatory authority, often due to inability to pay debts.

(c) Procedure **for voluntary winding up**

The procedure for voluntary winding up under Zambian law includes the following steps:
(1) The directors hold a **Board meeting** and recommend winding up.
(2) A **special resolution** to wind up the company is passed by shareholders.
(3) A **liquidator is appointed** to take control of the company's affairs.
(4) The company **ceases business operations**, except where necessary for winding up.
(5) The liquidator collects and realizes company assets.
(6) Company debts and liabilities are **paid in order of priority**.
(7) Any surplus assets are **distributed to shareholders**.
(8) A notice of winding up is **lodged with PACRA**.
(9) Final accounts are prepared by the liquidator.
(10) The company is **dissolved** after completion of the process.

(d) **Effects of a winding-up order on the company and directors**
The effects of a winding-up order include the following:
(1) The company ceases to carry on business except for winding-up purposes.
(2) The **powers of directors cease**, and control passes to the liquidator.
(3) Legal proceedings against the company are **stayed**, unless allowed by the court.
(4) Company assets are taken over by the liquidator.
(5) Employees' contracts are terminated, subject to labour laws.
(6) Creditors are paid according to statutory priority.
(7) Directors may be investigated for **wrongful or fraudulent trading**.
(8) Transfers of shares are generally restricted.
(9) The company's name may be removed from the register after dissolution.
(10) The company ultimately **ceases to exist as a legal entity**.

END OF SUGGESTED SOLUTIONS