CA ZAMBIA PROGRAMME EXAMINATIONS

CA CERTIFICATE IN ACCOUNTANCY

CA 1.1: FINANCIAL ACCOUNTING

MONDAY 7 SEPTEMBER 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.
   Section B: There are FIVE (5) questions in this section. Attempt QUESTION TWO (2) and any other THREE (3) questions from the remaining 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

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 sets comprise the enhancing qualitative characteristics of financial information according to the Conceptual Framework for Financial Reporting?

A. Going concern/relevance.
B. Comparability/faithful representation.
C. Historic cost/understandability.
D. Verifiability/comparability.

(2 marks)

1.2. What accounting entries are required to record goods returned by customers if the original transaction was made on cash?

A. Debit Sales Credit Trade payables.
B. Debit Returns inwards Credit Trade payables.
C. Debit Returns inwards Credit Cash.
D. Debit Trade receivables Credit Returns inwards.

(2 marks)

1.3. Sindano uses the periodic weighted average method of inventory valuation. At 1 April, 2026, he had 60 units in inventory at a total value of K2,640. The inventory movements during April were as follows:

Receipts	14 April	120 units at K45 per unit.
Receipts	26 April	150 units at K46.72 per unit.
Sales	18 April	180 units.
Sales	28 April	125 units.

What was the value of Sindano's inventory at 30 April 2026?

A. K1,472
B. K5,400
C. K3,692
D. K1,168

(2 marks)

1.4. The last electricity bill received by Muyenga was for the three (3) months to 31 December 2025. This bill was for K4,500. Assuming that electricity consumption and tariffs remain constant, what amount should be accrued when preparing the accounts for the year to 28 February 2026?

A. K4,500
B. K3,000
C. K1,500
D. K2,250

(2 marks)

1.5. Ellen is a sole trader and had capital at the start of the trading period on 1 April 2025 of K85,050 and K77,055 at the end. During the year, Ellen made withdraws of K220 per month from the business for personal use. Further, upon winning the Lottery of K1,200, he put the winnings into the business.

What was Ellen's loss for the year to 31 March 2026?

A. K6,555
B. K9,195
C. K10,630
D. K8,500

(2 marks)

1.6. The draft statement of cash flows for GHJ Co contains the following:

	K
Profit before tax	837
Proceeds from sale of non -current assets	240
Decrease in inventory	(78)
Increase in receivables	195
Increase in payables	45
Net cash inflow from operating activities	1,239

Which of the following corrections need to be made to the calculations?

1. Proceeds from a disposal of a non-current asset needs to be removed from this section.
2. Decrease in inventories should be added, not deducted.
3. Increase in receivables should be deducted, not added.
4. Increase in payables should be added, not deducted.

A. 1, 2 and 3

B. 1 and 4

C. 1 only

D. 2 and 3

(2 marks)

1.7. Which of the following is unlikely to be a user of public sector financial information?

A. Donors.

B. Non -governmental organizations.

C. Shareholders.

D. Taxpayers.

(2 marks)

1.8. At 1 January 2014 Macopolo Plc had 2,000,000 Ordinary shares of K0.25 each in issue. The company's only reserves at this date were retained profits amounting to K500,000.

On 1 May 2025 the company made a one for two bonus issue. On 1 September 2025 the company made a one for three rights issue at a price of K0.40. All shares in the issue were taken up.

What figures would appear in the equity and reserves section of the statement of financial position as at 31 December 2025?

	Equity capital	**Share premium**	**Retained earnings**
A.	K1,150,000	Nil	K250,000
B.	K1,000,000	Nil	K400,000
C.	K1,000,000	K150,000	K250,000
D.	K1,000,000	K250,000	K150,000

(2 marks)

1.9. At 1 April 2025, a club had K700 of subscriptions received in advance and 20 members still owed K25 each for their year's subscription. At 31 March 2026, K750 had been received in advance for next year and K260 was owed by members. During the year, K1,800 was received from members.

The amount to be credited to income and expenditure account for the year to 31 March 2026 is….

A. K1,800
B. K1,310
C. K1,510
D. K2,760

(2 marks)

1.10. XYZ purchased goods for cash at a price of K7,000 net of VAT. The VAT rate is 16%. State the double entry required to record this transaction if XYZ is registered for VAT purposes.

A.	Dr purchases account	K8,120
	Dr VAT claimable account	K1,120
	Credit payable account	K7,000
B.	Dr purchases	K7,000
	Dr VAT refundable account	K1,120
	Cr Cash	K8,120
C.	Dr purchases	K7,000
	Dr VAT refundable account	K1,120
	Cr Payable	K8,120
D.	Dr purchases account	K8,120
	Dr VAT claimable account	K1,120
	Credit cash account	K7,000

(2 marks)

[Total: 20 Marks]

SECTION B

Question TWO (2) in this section is compulsory and must be attempted.

Then attempt any THREE (3) questions from the remaining FOUR (4) questions.

QUESTION TWO - (COMPULSORY)

You are provided with the following information regarding the partnership business of Dingani, Hungani and Tondani.

The Trial balance as at 31 March 2026 is as follows:

	K	K
Sales		150,000
Inventory at 1 April 2025	18,000	
Purchases	87,750	
Carriage outwards	1,950	
Trade payables		12,000
Current accounts:		
Dingani		2,700
Hungani		2,250
Tondani		4,050
Capital account:		
Dingani		12,000
Hungani		15,000
Tondani		18,000
Drawings		
Dingani	6,000	
Hungani	9,000	
Tondani	15,000	
Cash at bank	21,700	
General expenses	8,400	
Trade receivables	30,000	
Wages and salaries	9,000	
Shop fittings at cost	24,000	
Shop fittings accumulated depreciation		4,800
7% loan		10,000
	230,800	230,800

The following information is relevant:

(1) Closing inventory is K16,500.

(2) Depreciation of shop fittings is to be provided for at 10% per annum using straight line method.

(3) The balances of profit or loss are to be shared in the ratio 3:8:4 between the partners.

(4) The partners are to be credited with interest on their capital account balances at the rate of 10% per annum.

(5) The partners are to be credited with annual salaries as follows:

Dingani - K9,000
Tondani - K12,000

(6) Hungani made a loan of K10,000 to the partnership at 1 October 2025. Interest on the loan has not yet been accounted for and is to be credited to the current account of Hungani.

(7) Interest on drawings is charged at 5% per annum on each partner.

(8) Wages and salaries of K1,500 are owing at 31 March 2026.

Required:

(a) Prepare the statement of profit and loss and appropriation account for the partnership for the year ended 31 March 2026. (9 marks)

(b) Prepare the partners' current accounts for the year ended 31 March 2026.

(5 marks)

(c) Prepare the partnership statement of financial position as at 31 March 2026.

(6 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Explain the following accounting concepts:

(i)	Going concern.	(1 mark)
(ii)	Accruals.	(1 mark)
(iii)	Consistency.	(1 mark)
(iv)	Prudence.	(1 mark)
(v)	Matching.	(1 mark)

(b) Briefly explain the following terms in relation to limited companies:

(i)	Dividend.	(1 mark)
(ii)	Authorised share capital.	(1 mark)
(iii)	Issued share capital.	(1 mark)
(iv)	Called up share capital.	(1 mark)
(v)	Paid up share capital.	(1 mark)

(c) The following details relate to the figures of Lindaboni at the close of the month:

Balances on 1 January 2026:	**K**
Receivables ledger - Dr	46,462
Payables ledger - Cr	25,465
Total for the month to 31 January 2026:	
Credit Purchases	76,474
Credit Sales	126,024
Purchases returns	2,154
Contra	455
Irrecoverable debts	1,253
Discounts allowed	746
Cash received from customers	120,464
Discounts received	1,942
Cash paid to Payables	70,476
Cash paid to credit customers	52

Required:

Prepare Lindaboni's:

(i) Receivables ledger control account. (5 marks)

(ii) Payables ledger control account. (5 marks)

[Total: 20 Marks]

QUESTION FOUR

Mushili Limited has provided you with the following draft financial statements:

Statement of profit or loss extract for the year ended 31 March 2026

	K'000
Gross profit	478
Expenses	(318)
Income tax expense	(20)
Profit for the year	140

Statements of financial position as at 31 March:

	2026	**2025**
	K'000	**K'000**
Non-current assets:		
Premises	2,400	2,340
Plant and machinery	1,600	1,400
	4,000	3,740
Current assets:		
Inventories	900	1,100
Receivables	1,400	1,360
Bank	600	-
	2,900	2,460
Total assets	6,900	6,200
Capital and liabilities:		
Ordinary shares of K1 each	3,600	2,600
Share premium	800	600
Retained earnings	784	734
Total shareholders' funds	5,184	3,934
Non-current liabilities:		
Loan notes	400	800
Current liabilities:		
Trade payables	1,296	1,362
Income tax payable	20	24
Bank overdraft	-	80
Total current liabilities	1,316	1,466
Total equity and liabilities	6,900	6,200

The following additional information is made available:

(1) The schedule of expenses in the above statement of profit or loss extract comprised:

	K'000
Interest expense	60
Plant depreciation	100
Premises depreciation	50
Loss on disposal	20
Other general expenses	88
Total	318

(2) Mushili paid dividends to shareholders during the year.

(3) During the year to 31 March 2026, plant which originally cost K170,000 was sold at a loss of K20,000. The sale proceeds were K100,000. The loss was recognized in profit or loss as an expense.

Required:

(a) Prepare the statement of cash flows for Mushili Ltd for the year ended 31 March 2026 using the indirect method as per IAS 7 statement of CF. (17 marks)

(b) Briefly explain the features or characteristics of Ordinary shares. (3 marks)

[Total:20 Marks]

QUESTION FIVE

Susan has been trading for slightly over twelve (12) months as a designer and tailor. She has not kept accounting records since her commencement of trading activities and is worried that she may need professional help to ascertain the financial performance and financial position of her business. You were recommended by Susan's business associate to help Susan in this matter.

Susan has presented to you the following information:

(1) She started her business on 1 January 2025 when she opened a business bank account and paid in K400,000 of her savings.

(2) During the month of January, she bought the tailoring equipment and inventories of materials at the cost of K320,000 and K144,000 respectively. All was paid for out of the business bank account.

(3) A summary of the business' bank account for the twelve (12) months ending 31 December 2025 showed the following:

	DR		CR
	K		**K**
Capital	400,000	Equipment	320,000
Cash banked	2,160,000	Inventories	144,000
		Purchases of raw materials	1,476,000
		General expenses	69,600
		Drawings	496,000
		Balance c/d	54,400
	2,560,000		2,560,000
	54,400		

(4) All the sales are on cash basis. Some of the cash is paid into the bank account while the rest is used for cash expenses. She has no idea what the total value of her sales for the year is, but she knows that she has spent K304,000 on materials purchases and K39,200 on general expenses. She took the rest of the cash not banked for her private drawings. She also keeps a cash float of K8,000.

(5) The gross profit margin on all sales is 40%.

(6) She estimates that all her tailoring equipment should last for five (5) years. You agree with her decision to depreciate the equipment using the straight line method.

(7) On 31 December 2025, the accounts payable for materials amounted to K112,000.

(8) Susan estimates that the cost of inventory at the end of the year under review was K176,000.

Required:

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

(b) Prepare a statement of financial position for Susan as at 31 December 2025. (8 marks)

(c) Discuss four (4) benefits Susan would derive from maintaining accurate accounting records for her business. (4 marks)

[Total:20 Marks]

QUESTION SIX

(a) Explain five (5) reasons for preparing a bank reconciliation statement. (5 marks)

(b) Explain the differences between preference shares and ordinary shares. (4 marks)

(c) Explain the following errors and give an example of each error:

(i) Compensating error. (2 marks)

(ii) Error of commission. (2 marks)

(d) On 31 December 2025, Mukapasa Ltd Company bank column of the cash book showed a positive balance of K6,500,000 while the bank statement showed a credit balance of K6,720,000 on the bank account.

Upon investigations, the following errors were discovered:

(1) An opening debit balance on 1 December 2025 was overcast by K100,000.

(2) A standing order of K50,000 for water bills was recorded on the bank statement but no entry was made in the cash book.

(3) Dividends received in the month from Tamwibusha Ltd Company of K500,000 were credited by the bank but no entries were made in the cash book.

(4) A Cheque drawn and paid to Mr. Kalaba of K350,000 had not been presented to the bank for payment.

(5) Bank charges of K80,000 shown on the bank statement had not been entered in the cash book.

(6) A Cheque received from Mukatasha of K300,000 was dishonored by the bank due to insufficient funds. No entry was made in the cash book.

(7) A Cheque received from Mwapona Ltd totaling K400,000 had been entered in the cash book and paid into the bank, but had not been credited by the bank until 20 January.

(8) A receipt of K150,000 was shown as a payment in the cash book.

Required:

(i) Prepare a revised cash book as at 31 December 2025. (4 marks)

(ii) Prepare a bank reconciliation statement as at 31 December 2025, starting with the balance as per revised cash book. (3 marks)

[Total: 20 Marks]

END OF PAPER

CA 1.1 – FINANCIAL ACCOUNTING

SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 D

1.2 C

1.3 D

1.4 B

1.5 A

1.6 A

1.7 C

1.8 C

1.9 C

1.10 B

SOLUTION TWO

(a) Dingani, Hungani and Tondani partnership profit and loss and appropriation account for the year ended 31 March 2026.

	K	K
Sales		150,000
Less: cost of sales:		
Opening inventory	18,000	
Purchases	87,750	
Closing inventory	(16,500)	(89,250)
Gross profit		60,750
Less: Expenses		
Carriage outwards	1,950	
General expenses	8,400	
Depreciation expenses on shop fittings (10%*K24,000)	2,400	
Wages and salaries (K9,000+K1,500)	10,500	
Interest on loan from Hungani (7%*10,000*6/12)	350	
Total expenses		(23,600)
Net profit		37,150
Appropriation account:		
Add interest on drawings:		
Dingani (5%*6,000)		300
Hungani (5%*9,000)		450
Tondani (5%*15,000		750
		38,650
Less interest on capital:		
Dingani (10%*12,000)	1,200	
Hungani(10%*15,000)	1,500	
Tondani(10%*18,000)	1,800	
Less partners' salaries:		
Dingani	9,000	
Tondani	12,000	(25,500)
Residual profits to be shared.		13,150
Share of residual profits:		
Dingani (3/15*13,150)		2,630
Hungani (8/15*13,150)		7,013
Tondani (4/15*13,150)		3,507
		13,150

(b) Dingani, Hungani and Tondani's partnership current accounts for the year ended 31 March 2026.

	Dingani K	Hungani K	Tondani K		Dingani K	Hungani K	Tondani K
Drawings	6,000	9,000	15,000	Balances b/f	2,700	2,250	4,050
Interest on drawings	300	450	750	Interest on capital	1,200	1,500	1,800

Balances c/f	9,230	1,663	5,607	Partner salaries	9,000		12,000
				Share of profit	2,630	7,013	3,507
				Interest on loan		350	
	15,530	11,113	21,357		15,530	11,113	21,357
				Balances b/d	9,230	1,663	5,607

(c) Dingani, hungani and Tondani's partnership statement of financial position as at 31 March 2026.

	K Cost	K Accumulated Depreciation*	K Carrying amount
Non-current assets:			
Shop fittings*	24,000	7,200	16,800
Current assets:			
Inventory		16,500	
Trade receivables		30,000	
Cash at bank		21,700	68,200
Total assets			85,000
Capital and liabilities:			
Capital accounts:			
Dingani		12,000	
Hungani		15,000	
Tondani		18,000	
Total capital account balances			45,000
Current accounts:			
Dingani		9,230	
Hungani		1,663	
Tondani		5,607	
Total current account balances			16,500
Non-current liabilities:			
7% loan from Hungani			10,000
Current liabilities:			
Trade payables		12,000	
Accrued wages and salaries		1,500	
			13,500
Total capital and liabilities			85,000

*Total depreciation to date is K4,800+K2,400=K7,200

SOLUTION THREE

(a) (i) **Going concern concept**

The going concern concept guides that financial statements of an entity are prepared on the basis that the enterprise will continue trading for the foreseeable future.

(ii) **Accruals concept**

States that the effects of transactions and other events are recognized when they occur rather than when cash exchanges hands and they are recorded in the books and reported in the financial statements of the period to which they relate.

(iii) **Consistency concept**

Comparability requires consistency. The measurement and display of the financial effect of similar transactions and other events must be done in a consistent way throughout the entity and over time for the entity, and in a consistent way for different entries. Users must be informed of the accounting policies used in the preparation of the financial statements. They must be informed of any changes in policies and of the effects of such changes.

(iv) **Prudence concept**

This is the inclusion of a degree of caution in the exercise of the judgement needed in making the estimates required under conditions of uncertainty, such that assets and income are not overstated and liabilities and expenses are not understated. Very often accountants have to use their judgement on which figure to take for an item.

The accountant should always exercise caution when dealing with uncertainty while, at the same time, ensuring that the financial statements are neutral – that gains and losses are neither overstated nor understated – and this is known as prudence.

(v) **Matching concept**

Where an adequate accounting record of transactions undertaken exists, during the year, profit is instead computed in accordance with the matching concept, that is, the accountant measures profit by comparing, or matching the total cost of the trading transactions undertaken during an accounting period with the total revenues arising therefrom.

(b) (i) **Dividend:** - Shareholders of a limited company obtain their reward in the form of a share of profits, known as a dividend.

(ii) **Authorised share capital:** Also referred to as nominal or registered share capital, this is the total of the share capital which the company is allowed to issue to shareholders.

(iii) **Issued share capital: -** is the total of the share capital within the authorized share capital actually issued to shareholders. The issued share capital cannot exceed the authorised share capital.

(iv) **Called up share capital: -** is that part of the issued share capital payable on each issued share which has been asked for.

(v) **Paid-up share capital: -** is the total of the amount of the called-up share capital which has been paid for by shareholders.

(c)

Receivables Ledger Control Account

	K		K
Balance b/f	46,462	Contra-	455
Sales	126,024	Irrecoverable debt	1,253
Cash	52	Discounts allowed	746
		Cash received	120,464
		Balance c/d	49,620
	172,538		**172,538**
Balance b/d	49,620		

Payables Ledger Control Account

	K		K
Purchases returns	2,154	Balance b/f	25,465
Contra (off set)	455	Purchases	76,474
Discounts received	1,942		
Cash	70,476		
Balance c/d	26,912		
	101,939		101,939
		Balance b/d	26,912

SOLUTION FOUR

(a) Mushili Ltd's

Statement of cash flows for the year ended 31 March 2026

	K'000	K'000
Cash flows from operating activities:		
Profit before tax (140+20)		160
Adjust for: depreciation expense (100+50)		150
Interest expense		60
Loss on disposal		20
Operating profit before working capital changes		390
Decrease in inventory (1,100-900)	200	
Increase in receivables (1,400-1,360)	(40)	
Decrease in payables (1,362-1,296)	(66)	94
Cash generated from other operations		484
Tax paid (24+20-20)		(24)
Interest paid		(60)
Net cash inflow from operating activities		400
Cash flows from investing activities:		
Cash paid to acquire non-current assets (W2)	(530)	
Proceeds from sale of non-current assets	100	
Cash used on investing activities		(430)
Cash flows from financing activities:		
Proceeds from the sale of shares (W3)	1,200	
Dividends paid (W4)	(90)	
Loan notes repaid (800-400)	(400)	710
Increase in cash and cash equivalents		680
Cash and cash equivalents at start		(80)
Cash and cash equivalents at the end		600

WORKINGS

			K'000	
(1)	Carrying amount of disposed plant (bal fig)	120	½	
	Proceed		100	
	Loss on disposal		20	

(2) Cash paid to acquire PPE

	K'000		K'000
Balances b/f:			
premises	2,340	Depreciation expense:	
Plant	1,400	Premises	50
Bank (bal)	530	Plant (w1)	100
		Disposal-plant	120
		Balances c/d:	
		Premises	2,400
		Plant	1,600
	4,270		4,270

(3) Proceeds from the sale of shares

	2026	2025
	K'000	K'000
Share capital	3,600	2,600
Share premium	800	600
	4,400	3,200

Proceeds = (4,400-3,200) = 1,200

(4) Dividends paid:

Retained earnings account

	K'000		K'000
Bank (bal)	90	Balances b/f	734
		Profit for the year	140
Balance c/f	784		
	874		874

(5) Cash and cash equivalents:

	2026	2025
	K'000	**K'000**
Bank	600	-
Bank overdraft	0	(80)
	600	(80)

(b) Characteristics of ordinary shares

- They are the riskiest type of shares.
- They rank last to receive dividends from the company, after preference shareholders and loan note holders are paid their dues.
- They are the last to receive capital repayment when a company winds up.
- They vote at company meetings and hence directly take part in operational and strategic decisions.
- They have no fixed rate of dividends hence may receive variable and higher returns from the company than preference shares.

SOLUTION FIVE

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

	K	K
Sales (W2)		3,100,000
Cost of sales (W2)		(1,860,000)
Gross profit		1,240,000
LESS EXPENSES		
General expenses (39,200+69,600)	108,800	
Depreciation (320,000/5)	64,000	(172,800)
Net profit		1,067,200

(b) Susan's statement of financial position as at 31 December 2025

	K	K
Non-current assets		
Equipment (320,000-64,000)		256,000
Current assets		
Inventories of raw materials	176,000	
Bank	54,400	
Cash	8,000	
		238,400
Total assets		494,400
Capital and liabilities:		
Capital		400,000
Net profit		1,067,200
Less drawings (496,000+588,800)		(1,084,800)
		382,400
Current liabilities		
Trade payables		112,000
Total equity and liabilities		494,400

WORKINGS

1. Private drawings from cash

	K
Total sales (bal figure) W2	3,100,000
Less cash banked	(2,160,000)
Less materials purchases	(304,000)
Less general expenses	(39,200)
Float	(8,000)
Drawings (private)	588,800

2. Sales

	K
Opening inventory	144,000
Cash purchases	304,000
Bank purchases	1,476,000
Payable- purchases	112,000
Closing inventory	(176,000)
Cost of sales	1,860,000
Sales (100/60*1,860,000)	3,100,000

(c) Here are the key reasons why keeping accurate accounting records matters for individuals and businesses:

- **Financial clarity and decision making**

✓ Provides a true picture of income, expenses, assets and liabilities.

✓ Helps managers and owners make informed strategic choices (budgeting, pricing, capital investments).

- **Legal and regulatory compliance**

✓ Ensures timely and accurate tax filings, VAT, payroll taxes and statutory reporting.

✓ Supports compliance with financial reporting standards and other laws.

- **Trust and accountability**

✓ Builds credibility with lenders, investors, suppliers and stakeholders.

✓ Demonstrates responsible stewardship of resources and reduces internal misuse or errors.

- **Cash flow management**

✓ Tracks receivables and payables to manage liquidity.

✓ Helps forecast shortages, avoid late payments and optimize working capital.

- **Profitability and performance analysis**

✓ Identifies profitable products, services or clients.

✓ Enables benchmarking and trend analysis over time.

- **Fraud prevention and error reduction**

✓ Creates an auditable trail of transactions.

✓ Detects inconsistencies and helps deter fraudulent activity.

- **Financing and capital access**

✓ Facilitates loan applications, investor due diligence and grant eligibility.

✓ Demonstrates financial health and repayment capability.

- **Business valuation and exit planning**

✓ Provides verifiable financial history useful for selling the business or bringing on partners.

SOLUTION SIX

(a) **Five (5) reasons for preparing a bank reconciliation statement**

1. It assists in the verification of the balances of the cash book.
2. It helps in the detection of fraud
3. It helps identify amounts that were received or charged without any notification
4. It helps identify errors made by either the bank or business
5. It establishes the correctness of the entries in the cash book and bank statement

(b) **Differences between Preference shares and Ordinary shares**

Preference shares:

- Shares which confer preferential rights to their holder.
- Right to a final dividend over ordinary shares.
- Priority right to ordinary shareholders to a return of their capital if the company goes into liquidation.
- Do not carry a right to vote.

Ordinary shares:

- Carry no right to a fixed dividend but are entitled to all profits left after payment of any preference dividend.
- Normally carry voting rights
- Should company be wound up, any surplus not distributed is shared among ordinary shareholders.

(c)

(i) **Compensating errors**

These are errors that cancel out each other. For example, understating sales and coincidentally purchases by say K5,000. The two errors would cancel out each other.

(ii) **Error of commission**

This occurs when double entry is completed correctly but in the wrong account name of same class. For instance, a sale on credit to Musonda being debited to Hamusonda's account instead of Musonda's account.

(d) **1. Mukapasa Ltd's Revised Cash Book for December 2025**

Date	Details	K'000	Date	Details	K'000
2027			2027		
31/12	Balance b/d	6,500	1/12	Overcast balance b/d	100
31/12	Credit transfer	500	31/12	Standing order	50
31/12	Error in cash book	300	31/12	Bank charges	80
			31/12	Dishonored cheque	300
			31/12	Balance c/d	6,770
		7,300			7,300

2. Mukapasa Ltd's Bank Reconciliation Statement as at 31 Dec 2025

	K'000
Balance as per bank statement	6,720
Less: Unpresented Cheques: Kalaba	(350)
	6,370
Add: Uncredited cheques: Mwapona Ltd	400
Balance as per revised cash book	**6,770**

Note: For **theory questions**, exact wordings **NOT** required.

END OF SOLUTIONS

CA ZAMBIA PROGRAMME EXAMINATIONS

CA CERTIFICATE IN ACCOUNTANCY

CA 1.2 BUSINESS STATISTICS

WEDNESDAY 9 SEPTEMBER 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.

   Section B: There are FIVE (5) questions in this section. Attempt question TWO (2) and any other THREE (3) questions from the remaining FOUR (4) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

10. A mathematical standard formulae book must be provided to you – request one if not given by the invigilator.

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

SECTION A – (COMPULSORY)

Attempt all ten (10) multiple choice questions

QUESTION ONE

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

1.1 Which of the following is an example of quantitative data?

A. My best friend has curly red hair.
B. Have green eyes.
C. My best friend drives a blue car.
D. They have two dogs.

(2 marks)

1.2 The mean of twelve (12) numbers is 60. If one of the numbers which is 5 is deleted, what is the mean of the remaining eleven (11) numbers?

A. 65
B. 5
C. 12
D. 60

(2 marks)

1.3 A bag contains 8 red and 5 blue balls. Two (2) balls are drawn at random with replacement. Calculate the probability of getting the balls of different colours.

A. $\frac{64}{169}$
B. $\frac{40}{169}$
C. $\frac{25}{169}$
D. $\frac{80}{169}$

(2 marks)

1.4 Which of the following is NOT the characteristic of a mean?

A. The sum of deviations from the mean is zero.

B. It minimizes the sum of squared deviations.

C. It is affected by extreme scores.

D. It is the middle value of the data set.

(2 marks)

1.5 Three (3) vendors were asked to supply a very high precision component. The respective probabilities of their meeting the strict design specification are 0.3, 0.25 and 0.4. Each vendor supplies one component. The probability that out of three components supplied by the vendors, all will meet the design specification is:

A. 0.03

B. 0.95

C. 0.315

D. 0.05

(2 marks)

1.6 If the value of third quartile is 61 and interquartile range of set of observation is 48 then the value of first quartile is:

A. 13

B. 24

C. 34

D. 64

(2 marks)

1.7 Which of the following is an example of time series problem?

1. Estimating number of hotel rooms booking in next 6 months.
2. Estimating the total sales in next 3 years of an insurance company.
3. Estimating the number of calls for the next one week.

A. Only 3

B. 1 and 2

C. 2 and 3

D. 1, 2 and 3

(2 marks)

1.8 A data analyst categorizes data in two (2) parts; discrete and Continuous data. Which of the following have discrete data?

A. The average income of domestic workers.
B. The mean number of rooms of hotels in a tourist town.
C. The units of non-perishable items in newly stocked shops.
D. The amount of money spent by electric company in fixing damaged transformers.

(2 marks)

1.9 Given the regression model $y = 10 + 5.4x$ where x is the amount of money spent on advertising and y is the number of products sold . Calculate the number of products sold if K1000 is spent on advertising.

A. 5410
B. 183
C. 10
D. 5400

(2 marks)

1.10 Which of the following plots is suitable for testing the linear relationship between a dependent and independent variable?

A. Pie Chart.
B. Bar Chart.
C. Scatter plot.
D. Histogram.

(2 marks)

[Total: 20 Marks]

SECTION B

Question TWO (2) in this section is compulsory and must be attempted.

Then attempt any THREE (3) questions out of the remaining FOUR (4).

QUESTION TWO – (COMPULSORY)

The following data give the speeds (in Kilometer per hour) of eight cars that were stopped on Great north road for speeding violations.

98 77 82 74 81 79 84 74 78 90

Required:

Calculate the following and interpret correctly:

(a) The values of the three quartiles (Q_1, Q_2 and Q_3). (9 marks)

(b) The interquartile range. (3 marks)

(c) The mean of the data. (3 marks)

(d) The standard deviation. (5 marks)

[Total: 20 Marks]

QUESTION THREE

Over a period of four (4) years a bank keeps a weekly record of the number of cheques with errors that are presented for payment. The results for the 200 accounting weeks are as follows:

Number of cheques with errors (x)	0	1	2	3	4	5	6	7	8	9
Number of weeks (f)	5	22	46	38	31	23	16	11	6	2

Required:

(a) Construct a histogram of these data. (4 marks)

(b) Construct the probability distribution of the data. (5 marks)

(c) Calculate the mean of the number of cheques with errors in a week. (4 marks)

(d) Calculate the standard deviation of cheques with errors in a week. (7 marks)

[Total: 20 Marks]

QUESTION FOUR

A manufacturing company wants to assess the impact of advertising on the amount of sales that can be made. He collects data on amount spent on advertising (x) and resulting amount on goods sold daily (y).

Advert (X) (in thousand kwacha)	2	3	4	5	7	8	9	12
(Y) (in thousands of Kwacha)	45	50	48	60	80	75	79	85

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

(b) Find the equation of the regression line of Y on X. (11 marks)

(c) Estimate the amount of sales if advertising cost 15 thousand kwacha. (2 marks)

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

[Total: 20 Marks]

QUESTION FIVE

(a) (i) Define what data and information is? (3 marks)

(ii) Define what secondary and primary data is? (3 marks)

(iii) What is quantitative and qualitative data with examples? (4 marks)

(b) The weights of the bags of red onion may be modelled by a normal distribution with mean 25.10Kg and standard deviation 0.6Kg.

Determine the probability that a randomly selected bag of red onion will weigh.

(i) Less than 24Kg? (3 marks)

(ii) More than 25.6Kg? (3 marks)

(iii) Between 25.05 Kg and 25.8Kg? (4 marks)

[Total: 20 Marks]

QUESTION SIX

Given the following data on the distribution of 200 metal bars, where x is the midpoint and f the frequency:

x	40	41	42	43	44	45	46	47	48	49
f	5	9	24	36	63	45	19	5	2	2

Required:

Calculate

(i) The mean. (7 marks)

(ii) The mean deviation. (5 marks)

(iii) The variance. (5 marks)

(iv) The coefficient of variation. (3 marks)

[Total: 20 Marks]

END OF PAPER

CA 1.2 BUSINESS STTISTICS SUGGESTED SOLUTION

SOLUTION ONE

1.1 D

1.2 A

1.3 D

1.4 D

1.5 A

1.6 A

1.7 D

1.8 C

1.9 A

1.10 C

SOLUTION TWO

98 77 82 74 81 79 84 74 78 90

Arranging in increasing order we have;

74 74 77 78 79 81 82 84 90 98

(a) Median $= \left(\frac{n+1}{2}\right)$th value

$= \left(\frac{10+1}{2}\right)$th value

$= 5.5$ th value

(Average of 5th and 6th values)

$= \frac{79+81}{2}$

$= 80$

Lower Quartile $= \left(\frac{n+1}{4}\right)$th value

$= \left(\frac{10+1}{4}\right)$th value

$= 2.75$ th value

(Average of 2nd and 3rd values)

$= \frac{74+77}{2}$

$= 75.5$

Upper Quartile $= \frac{3}{4}(n+1)$th value

$= \frac{3}{4}(10+1)$th value

$= 8.25$ th value

(Average of 8th and 9th values)

$= \frac{84+90}{2} = 87$

Alternatively, since n is even, position of the lower quartile is given by $\frac{n}{4} = \frac{10}{4} = 2.5 = 3rd$,observation $Q_1 = 77$ and the upper quartile by $\frac{3n}{4} = \frac{3}{4}(10) = 7.5 = 8$th observation $Q_3 = 84$

(b) Inter-quartile range $= Upper\ Quartile - Lower\ Quartile$

$= 87 - 75.5$

$= 11.5$

Alternatively, $IQR = 84 - 77 = 7$

(c)

$$\bar{X} = \frac{\sum x_i}{n}$$

$$= \frac{98 + 77 + 82 + 74 + 81 + 79 + 84 + 74 + 78 + 90}{10}$$

$$= \frac{817}{10}$$

$$= 81.7\ .$$

(d)

$$S = \sqrt{\frac{(98-81.7)^2+(77-81.7)^2+(82-81.7)^2+(74-81.7)^2+\cdots+(78-81.7)^2+(90-81.7)^2+(98-81.7)^2}{10-1}}$$

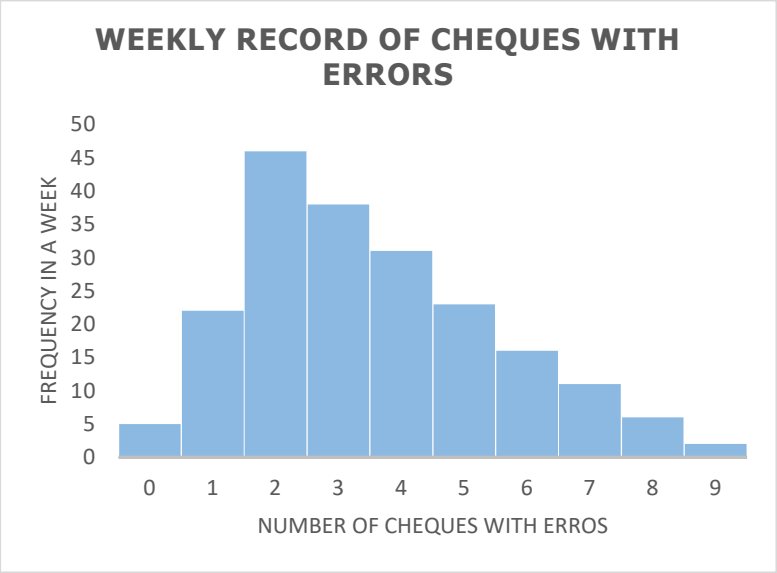
$$= \sqrt{\frac{502.1}{9}}$$

$$= \mathbf{55.79}$$

SOLUTION THREE

(a)

Histogram of the data



(b)

Number of Cheques with errors	Frequency	Relative Frequency
0	5	5/200 = 0.025
1	22	22/200 = 0.11
2	46	46/200 = 0.23
3	38	38/200 = 0.19
4	31	31/200 = 0.155
5	23	23/200 = 0.115
6	16	16/200 = 0.08
7	11	11/200 = 0.055
8	6	6/200 = 0.03
9	2	2/200 = 0.01
	n=200	Sum = 1

Therefore, the Probability distribution is;

Number of cheques with errors (x)	0	1	2	3	4	5	6	7	8	9
Probability of x	0.025	0.11	0.23	0.19	0.155	0.115	0.08	0.055	0.03	0.01

(c)

$$\mu = \sum xp(x)$$

$$= 0(0.025) + 1(0.11) + 2(0.23) + 3(0.19) + 4(0.155) + 5(0.115) + 6(0.08) + 7(0.055)$$
$$+8(0.03) + 9(0.01) = 3.53$$

(d) Standard deviation

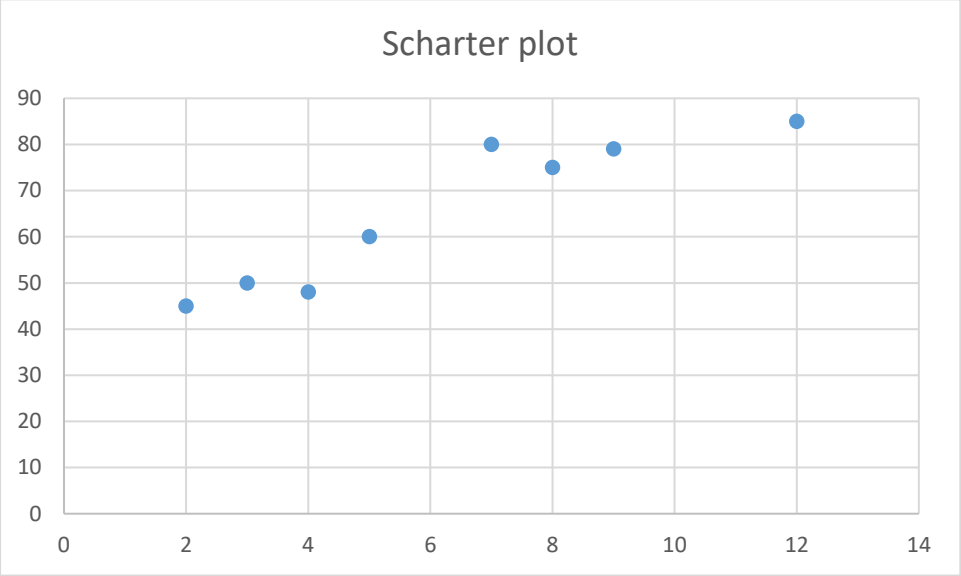
$$\boldsymbol{S^2} = \sum (x - \mu)^2 p(x)$$

$$(0 - 3.53)^2(0.025) + (1 - 3.53)^2(0.11) + (2 - 3.53)^2(0.23) + (3 - 3.53)^2(0.19)$$
$$+ (4 - 3.53)^2(0.155) + (5 - 3.53)^2(0.115) + (6 - 3.53)^2(0.08)$$
$$+(7 - 3.53)^2(0.055) + (8 - 3.53)^2(0.03) + (9 - 3.53)^2(0.01)$$

$$S = \sqrt{1.06} = 1.03$$

SOLUTION FOUR

(a)



(b)

x	y	xy	x^2	y^2	
2	45	90	4	2025	
3	50	150	9	2500	
4	48	192	16	2304	
5	60	300	25	3600	
7	80	560	49	6400	
8	75	600	64	5625	
9	79	711	81	6241	
12	85	1020	144	7225	
50	522	3623	392	35920	TOTALS

Therefore,

$$b = \frac{n\sum XY - \sum X \sum Y}{n\sum X^2 - (\sum X)^2} = \frac{8(3623) - 50 \times 522}{8 \times 392 - 50^2} = \frac{2884}{636} = 4.53$$

and

$$a = \frac{1}{n}\sum Y - b.\frac{1}{n}\sum X = \frac{522}{8} - 4.53 \times \frac{50}{8} = 36.$$

Hence, the least–squares regression line is

$$y = 36.9 + 4.53x$$

(c) $y = 36.9 + 4.53(15) = 104.85$

(d)

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

$$= \frac{8(3623) - (50)(522)}{\sqrt{[8(392) - 50^2][8(35920) - 522^2]}} = \frac{\mathbf{2884}}{\mathbf{3075.8959}} = \mathbf{0.93}$$

SOLUTION FIVE

(a) (i) Data are the raw materials for processing. Information is data that has been processed. Examples of data are the number of tourists who visit the Victoria falls, turnover sales at Shoprite, number of girlfriends one has etc.

(ii) Secondary data such as Government statistics or data provided by online databases, is not collected by or for the user. Researchers analyze secondary data to identify trends and benchmarks. Primary data is original information collected by the researcher. This is first hand data that a researcher collects to address a specific issue or problem. Researchers collect primary data using a variety of techniques, such as surveys, interviews, experiments or observations.

(iii) Qualitative data is responsive data or categorical in nature. This is data that cannot be measured, its non-numerical. Others will say they are labels. Examples are gender, types of colors, political party of affiliation, etc.

Quantitative data are numerical in nature. Examples are weight, volume, height, time, distance etc.

(b) Let X be a normal random variable. Then $\mu = 25.10 \; and \; \sigma = 0.6$

(i) $$P(X < 24) = P(Z < \frac{24 - 25.10}{0.6}) = P(Z < -1.83) = 0.5 \; - 0.4664 = 0.0336$$

(ii) $$P(X > 25.6) = P(Z > \frac{25.6 - 25.10}{0.6}) = P(Z > 0.83) = 0.5 \; - \; 0.2967 = 0.2033$$

(iii) $$P(25.05 \; < X < 25.86) = P(\frac{25.05 - 25.10}{0.6} < Z < \frac{25.86 - 25.10}{0.6}) = P(-0.08 \; < Z < 1.17)$$

$$= 0.0319 \; + \; 0.379 = 0.4109$$

SOLUTION SIX

x	f	xf	x^2f	cf
40	5	200	8 000	5
41	9	369	15 129	14
42	24	1 008	42 336	38
43	36	1 548	66 564	74
44	63	2 772	121 968	137
45	45	2 025	91 125	182
46	19	874	40 204	201
47	5	235	11 045	206
48	2	96	4 608	208
49	2	98	4 802	210
	$\sum f = 210$	$\sum xf = 9\,225$	$\sum x^2f = 405\,781$	

(a) $mean = \frac{\sum xf}{\sum f} = \frac{9\,225}{210} \approx 43.93$

(b) Mean deviation $MD = \frac{\sum f|x - \overline{x}|}{\sum f}$

$\|x - \overline{x}\|$	f	$f\|x - \overline{x}\|$
$40 - 43.93 = 3.93$	5	19.65
$41 - 43.93 = 2.93$	9	26.37
$42 - 43.93 = 1.93$	24	46.32
$43 - 43.93 = 0.93$	36	33.48
$44 - 43.93 = 0.09$	63	4.41
$45 - 43.93 = 1.07$	45	48.15
$46 - 43.93 = 2.07$	19	39.33
$47 - 43.93 = 4.346$	5	15.35
$48 - 43.93 = 4.07$	2	8.14
$49 - 43.93 = 5.07$	2	10.14
	$\sum f = 210$	$\sum f\|x - \overline{x}\| = 251.34$

Mean deviation $= \frac{251.34}{210} = 1.196857143 \approx 1.197$

(c) Standard deviation= $\sigma = \sqrt{\frac{405\,781 - \frac{(9\,225)^2}{210}}{210}} = \sqrt{2.571088435} = 1.603461392 \approx 1.60$

Variance $= \sigma^2 = (\sigma)^2 = (1.60341392)^2 = 2.571088435 \approx 2.5$

(d) $CV = \frac{\sigma}{\mu} \times 100 = \frac{1.60}{43.93} \times 100 \approx 3.64$

END OF SOLUTIONS

CA ZAMBIA PROGRAMME EXAMINATIONS

CA CERTIFICATE IN ACCOUNTANCY

CA 1.3: BUSINESS ECONOMICS

TUESDAY 8 SEPTEMBER 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: Ten (10) compulsory multiple choice questions.

   Section B: There are FIVE (5) questions in this section. Attempt question TWO (2) and any other THREE (3) questions from the remaining FOUR (4) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A – (COMPULSORY)

Attempt all Ten (10) multiple choice questions.

QUESTION ONE

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

1.1 Which one of the following is NOT a key feature of a capitalist economy?

A. Private ownership of productive resources.
B. Inequality in income distribution.
C. There is consumer sovereignty.
D. Social welfare motive.

(2 marks)

1.2 Zambia Institute of Chartered Accountants (ZiCA) is an example of an organization operating in an (a).....industry.

A. Extractive.
B. Tertiary.
C. Primary.
D. Secondary.

(2 marks)

1.3 Government issues bonds to borrow money from the general public and institutional investors. Which of the following is correct about Government bonds?

A. They are low risk investments.
B. They pay interest only once per annum.
C. They require collateral from individuals and other investors.
D. Interest rate is positively related to the bond price.

(2 marks)

1.4 Which of the following items is NOT included when computing Zambia's visible trade balance?

A. Exports of copper to China.
B. Dividends and profits earned by foreigners.
C. Import of secondhand cars from Japan.
D. Import of fuel from Iran.

(2 marks)

1.5 Which one of the following is a correct progression of regional trade integration?

A. Preferential Trade Area, free Trade Area, Customs Union, Common Market.
B. Common market, customs Union, Free Trade area, Preferential Trade Area.
C. Free Trade Area, common Market, Customs Union and Preferential trade Area.
D. Free Trade Area, Preferential Trade Area, Common Market and Customs Union.

(2 marks)

1.6 Which of the following is included in describing land as a factor of production?

A. Premises for erecting a factory.
B. Sunlight that falls on the earth.
C. Minerals under the earth's crust.
D. All the above.

(2 marks)

1.7 Which of the following statement is NOT correct about a bank overdraft?

A. It is repayable on demand.
B. It is available for current account holders only.
C. It is available for both current and savings account holders.
D. It is a calculated on daily outstanding balances.

(2 marks)

1.8 The monetary policy tool used by the Bank of Zambia which involves the selling and buying of Government securities to influence money supply is called.....

A. Discount rate policy.
B. Lender of last resort.
C. Required reserve ratio policy.
D. Open market operations policy.

(2 marks)

1.9 .....is the reward for providing capital as a factor of production.

A. Rent.
B. Interest.
C. Profit.
D. Salary.

(2 marks)

1.10 The statement 'Zambia's inflation rate is currently at 9.4%' is an example of ……..

A. Positive economics.
B. Negative economics.
C. Normative economics.
D. Descriptive economics.

(2 marks)
[Total: 20 Marks]

SECTION B

Question TWO (2) in this section is compulsory and must be attempted.

Then attempt any THREE (3) from the remaining FOUR (4) questions.

QUESTION TWO

Menyani Banda is a small-scale farmer located in Chisamba District. He is specializing in tomato production. Thanks to a loan he acquired from Citizens Economic Empowerment Commission (CEEC), he bought irrigation equipment and two (2) light trucks. This enables him to grow tomatoes throughout the year and transport them to the market. Mr. Banda sells his tomatoes at wholesale price at Soweto Market in Lusaka to many traders who order to resell in various parts of the city. Mr. Banda's main concern is the fluctuations in the price of tomatoes at Soweto market. The price may drop from K300 to K150 a box within a day depending on supply and demand situation. This makes it hard for him to have a predictable income flow to enable him meet his loan repayment obligations. This challenge is compounded by supply side problems especially producing tomatoes during the rainy season. He is calling upon the government to intervene through price floors to protect tomato small scale farmers from potential losses.

Required:

(a) Identify any three (3) factors that affect the demand for tomatoes at Soweto market.

(6 marks)

(b) Outline the type of market structure for tomatoes. (2 marks)

(c) Explain any two (2) reasons why price fluctuations are very common with agriculture products in general. (4 marks)

(d) Suppose the Government agrees with Mr. Banda and introduces a price floor for tomatoes. Using demand and supply analysis:

(i) Show graphically the equilibrium position for tomatoes before price floor.

(3 marks)

(ii) If the floor price for tomato is set above the equilibrium price, explain the effect.

(5 marks)

[Total: 20 Marks]

QUESTION THREE

In 2024, Zambia exported goods worth approximately US$441 million to the European Union, with major exports including copper, sugar, and tobacco. Access to the EU market has benefited farmers and exporters through expanded demand and foreign exchange earnings. However, local manufacturers have raised concerns about cheap imports of machinery and chemicals, which intensify competition and may undermine domestic industries. In response, some stakeholders advocate for protectionist measures**,** such as tariffs and import quotas, to safeguard local production. At the same time, heavy reliance on foreign markets exposes exporters to foreign exchange risk, as fluctuations in the kwacha can affect export revenues and import costs.

Required:

(a) Explain any two (2) gains and any two (2) losses from trade. (8 marks)

(b) Outline any three (3) points to explain whether protectionist measures are justified. (6 marks)

(c) Describe any two (2) measures the government can put in place to protect domestic jobs lost as a result of international trade. (4 marks)

(d) State any two (2) potential Foreign exchange risks arising from international trade. (2 marks)

[Total: 20 Marks]

QUESTION FOUR

ZESCO, Zambia's state-owned electricity utility, operates as a natural monopoly, responsible for the generation, transmission, and distribution of electricity across the country. As the sole provider of power to most households and businesses, ZESCO faces limited competition. Consumers frequently raise concerns over high electricity tariffs, inconsistent supply, and persistent load-shedding, which negatively affects economic activity and household welfare. In response, the Energy Regulation Board continues to debate whether greater privatization, public–private partnerships, or stricter regulation would improve efficiency, service delivery, and accountability while safeguarding public interests. In contrast, Zambia's telecommunications sector operates under an oligopolistic market structure, dominated by MTN Zambia, Airtel Zambia, and Zamtel. These firms compete aggressively through pricing strategies, promotional bundles, and extensive advertising campaigns to attract customers. However, due to the small number of dominant players, there are ongoing concerns about market coordination, and reduced consumer choice, prompting closer regulatory oversight by the Zambia Information and Communications Technology Authority.

Required:

(a) Explain the meaning of privatization and regulation. (4 marks)

(b) Outline any three (3) reasons why the Zambian Government chose not to privatize ZESCO. (6 marks)

(c) State any three (3) advantages and any three (3) disadvantages of ZESCO's monopoly power in Zambia. (6 marks)

(d) Explain any two (2) similarities between monopoly and oligopoly market structure. (4 marks)

[Total: 20 Marks]

QUESTION FIVE

Zambia operates largely as a free market economy, where prices of goods and services are determined by the forces of demand and supply. Private individuals and firms are free to own resources, start businesses, and make production decisions. Commercial banks, microfinance institutions, and other financial intermediaries play a key role in mobilizing savings and channeling funds to businesses and households for investment and consumption. However, policymakers often compare Zambia's system with a command economy, where the government owns most resources and decides what to produce, how to produce, and for whom to produce. Understanding the differences between these two systems helps explain the importance of financial institutions, the role of money in facilitating exchange, and the extent of Government involvement in economic activities under different economic systems.

(a) Outline any four (4) factors that distinguish free market economy from command economy. (8 marks)

(b) Explain any three (3) roles of financial intermediaries in a free market economy. (6 marks)

(c) State any four (4) characteristics of money. (2 marks)

(d) Explain the role of the Government in a command economy. (4 marks)

[Total: 20 Marks]

QUESTION SIX

The traditional aim of every profit making firm is to maximize profits. This can be achieved by either increasing revenue while costs remain the same or reducing operating costs while revenue remains constant. Further, business owners do pay particular attention to the distinction between economic profit and accounting profit so as to decide whether to shut down or remain in business. Some firm produce and sell multiple products while others specialize in producing and selling a single product. Costs of production in the short run are either fixed or variable. Variable costs are costs which vary with the level of activity while fixed costs do not vary with the level of activity. The table below shows the short run costs of production against the quantity produced and sold:

Number of units sold (Q)	**Fixed cost (K)**	**Average variable costs (K)**	**Variable cost(k)**	**Total cost(k)**	**Marginal cost(k)**	**AFC**
1	500	250				
2	500	220				
3	500	180				
4	500	140				
5	500	120				
6	500	100				
7	500	110				
8	500	150				
9	500	180				
10	500	300				

Required:

(a) Define the concept 'cost behaviour' in economics. (2 marks)

(b) State the difference between economic profit and accounting profit. (2 marks)

(c) Using the data in the table above:

(i) Complete the table by calculating variable cost, total cost, marginal cost, and average fixed cost. (10 marks)

(ii) Describe the shape taken by short run average costs. (3 marks)

(iii) Explain the reason behind the shape taken by short run average costs. (3 marks)

[Total 20 Marks]

END OF PAPER

CA 1.3 BUSINESS ECONOMICS

SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 D

1.2 B

1.3 A

1.4 B

1.5 A

1.6 D

1.7 C

1.8 D

1.9 B

1.10 A

SOLUTION TWO

(a) Three factors affecting demand for tomatoes at Soweto Market are:

- Price of tomatoes: If tomato prices rise, demand falls; if prices drop, demand increases.
- Income of consumers: Higher incomes increase demand for fresh produce, while lower incomes reduce it, assuming tomatoes are normal goods.
- Preferences and seasonal tastes: During festive seasons or when tomatoes are preferred in meals, demand rises; in off-seasons, demand may decline.
- Population growth: Rapid population growth and urbanization are likely increase demand for tomatoes.

(b) Tomatoes are sold in a perfectly competitive market structure because there are many small sellers and buyers, Homogeneous product (tomatoes are largely identical) and sellers are price takers, not price makers.

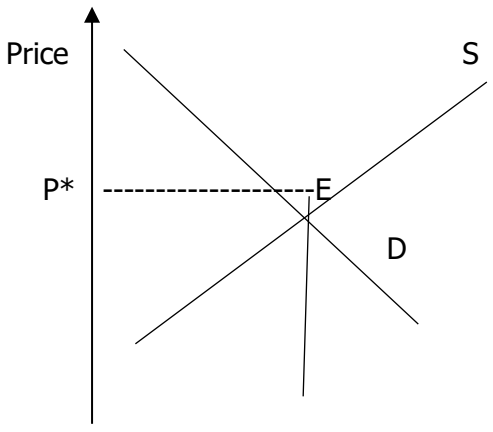
(c) Price fluctuations are common in agricultural products because:

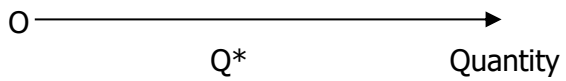
- Seasonality and weather dependence: Supply varies with rainfall, droughts, or harvest cycles.
- Perishability: Products like tomatoes cannot be stored long, so sudden supply changes cause sharp price swings.
- Expectations of buyers: When buyers expect the prices of tomatoes to change dramatically, this can influence the quantity they can buy now

(d) Price floor analysis (Demand and Supply)

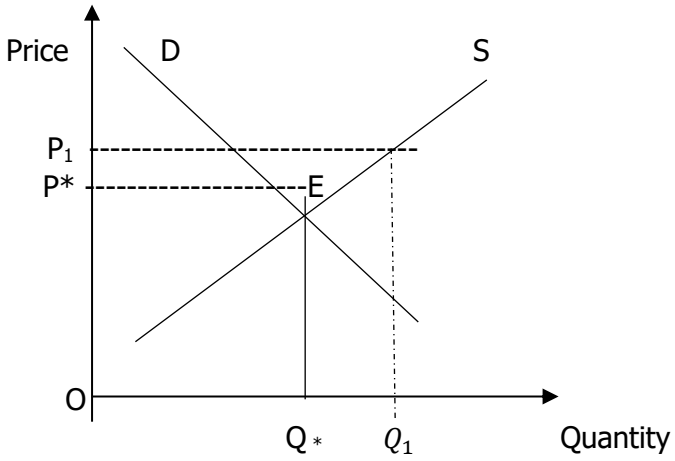
(i) Equilibrium before price floor:

- At equilibrium, the demand curve (downward sloping) and supply curve (upward sloping) intersect.
- The intersection determines the equilibrium price and equilibrium quantity where demand equals supply as shown below:





(ii) Effect of a floor price set above equilibrium:



- The equilibrium price is P*. If the price is set at P_1, there will be a Surplus (excess supply, the difference between Q_1 and Q*): Farmers supply more tomatoes at the higher price, but consumers buy fewer.
- Unsold stock: Perishable tomatoes may rot, leading to waste.
- Market inefficiency: Deadweight loss occurs as mutually beneficial trades at equilibrium are blocked.
- Possible black market: Sellers may secretly lower prices to clear stock.
- Government intervention: Authorities may need to buy excess tomatoes to maintain the floor, increasing costs.

SOLUTION THREE

(a) Gains and losses from trade:

Gains from trade:

- Access to larger markets: Zambian exporters, such as copper and sugar producers, gain access to international markets like the EU, increasing sales and foreign exchange earnings.
- Efficiency through specialization: Zambia can focus on producing goods in which it has a comparative advantage, such as copper mining, sugar, and tobacco, while importing goods that are costly to produce domestically.
- Consumer benefits: Trade allows consumers to access a wider variety of goods and services at competitive prices, improving living standards.

Losses from trade:

- Competition for local industries: Domestic manufacturers may struggle to compete with cheaper imported machinery, chemicals, or consumer goods, risking business closures.
- Vulnerability to external shocks: Dependence on exports exposes Zambia to fluctuations in global commodity prices and demand, which can affect incomes and employment.
- Resource depletion: High demand for exports can cause premature exhaustion of domestic raw materials and natural resources.

(b) Justification of protectionist measures:

- Protecting emerging industries: Tariffs or quotas can shield emerging local industries from foreign competition until they become competitive.
- Safeguarding jobs: Protectionism can prevent unemployment in vulnerable sectors like manufacturing by limiting cheap imports.
- Promoting industrialization: Limiting imports of manufactured goods encourages domestic production and value addition.
- Revenue generation for government: Import duties generate income that can be reinvested in development projects.

(c) Measures to protect domestic jobs:

- Tariffs and import quotas: Restrict cheap imports that compete directly with local products.
- Subsidies and incentives: Offer financial support to domestic manufacturers to lower production costs and maintain employment.
- Skills development and training programs: Improve workforce productivity and adaptability to new technologies.
- Promoting local products: Encourage government procurement and private contracts to source from domestic suppliers.
- Support for SMEs and agro-processing: Strengthen sectors that employ large numbers of workers, particularly in rural areas.

(d) Potential foreign exchange risks:

- Currency fluctuations: If the Zambian kwacha depreciates against the US dollar or euro, import costs rise, increasing production costs for manufacturers relying on imported inputs.
- Export revenue volatility: Earnings from exports like copper may fall if global prices decline or the kwacha appreciates, reducing competitiveness.
- Debt servicing challenges: Companies with foreign-currency loans may struggle to repay if the kwacha weakens.
- Investment uncertainty: Unstable exchange rates can discourage foreign direct investment, as investors fear losses from currency movements.

SOLUTION FOUR

(a) Privatization and regulation:

- Privatization refers to the transfer of ownership and management of a state-owned enterprise from the government to private individuals or firms. The aim is usually to improve efficiency, reduce the financial burden on government, and encourage competition and innovation.
- Regulation refers to the use of laws, rules, and oversight mechanisms by government or regulatory bodies to control the activities of firms. Regulation ensures fair pricing, quality service provision, consumer protection, and prevention of abuse of market power, especially in monopolistic or oligopolistic industries.

(b) Reasons why the Zambian Government chose not to privatize ZESCO:

- Strategic importance of electricity: Electricity is a critical public service that supports economic growth, national security, and social welfare, making full privatization politically and economically sensitive.
- Natural monopoly characteristics: Electricity generation and distribution involve high capital costs and infrastructure that make competition impractical, increasing the risk of private monopoly abuse.
- Social welfare considerations: Government ownership allows electricity to be subsidised for low-income households and rural areas that may be unprofitable for private firms.
- National control over strategic assets: Keeping ZESCO state-owned ensures national control over energy resources and infrastructure critical to development.
- Investor risk and uncertainty: Concerns about tariff recovery, currency risk, and long-term investment returns may deter private investors or lead to high tariffs if privatized.

(c) Advantages and five disadvantages of ZESCO's monopoly power in Zambia:

Advantages

- Economies of scale: ZESCO can produce electricity at a lower average cost due to large-scale operations and integrated infrastructure.
- Universal service provision: Monopoly power enables ZESCO to supply electricity nationwide, including rural and remote areas.

- Stable pricing structure
  Government oversight helps maintain predictable tariffs and protects consumers from extreme price fluctuations.
- Long-term investment capacity: ZESCO can undertake large infrastructure projects such as hydropower dams that require long planning horizons.
- Energy security: Centralized control allows coordinated planning for national energy needs and crisis management.

Disadvantages

- Lack of competition: Absence of competitors reduces pressure to improve efficiency and service quality.
- High tariffs: Monopoly power may lead to higher prices if costs are poorly controlled.
- Operational inefficiency: State monopolies may suffer from bureaucracy and weak incentives to innovate.
- Poor service delivery: Load-shedding and outages can persist without competitive pressure to improve reliability.
- Political interference: Government involvement may affect pricing, investment, and management decisions.

(d) Similarities between monopoly and oligopoly market structure:

- Both monopoly and oligopoly market structures are characterized by limited competition and barriers to entry that prevent new firms from easily entering the market.
- In both cases, firms have significant market power, enabling them to influence prices rather than accept prices set by the market.
- These market structures often require government regulation to prevent consumer exploitation and ensure fair practices.
- Additionally, firms in both structures engage in non-price competition, such as advertising and service differentiation, and their behavior has a significant impact on consumer welfare and economic efficiency.

SOLUTION FIVE

(a) Distinction between a free market economy and a command economy:

- Ownership of factors of production: In a free market economy, factors of production such as land, labour, and capital are privately owned by individuals and firms. In a command economy, the government owns and controls most or all of the factors of production.
- Decision-making authority: In a free market economy, economic decisions on what, how, and for whom to produce are made by consumers and producers through market interaction. In a command economy, these decisions are made centrally by the government.
- Price determination: Prices in a free market economy are determined by the forces of demand and supply. In a command economy, prices are fixed or heavily regulated by the government.
- Role of profit motive: The profit motive is a key driver of production and innovation in a free market economy. In a command economy, production is guided by social objectives rather than profit.
- Role of government: Government intervention in a free market economy is limited to regulation and provision of public goods. In a command economy, the government plays a dominant role in planning, production, and distribution.
- Consumer sovereignty: Consumers in a free market economy influences production decisions through their purchasing choices. In a command economy, consumer choice is limited, as production and distribution are determined by the state.
- **Social welfare and equality**: In a free market economy, income distribution depends largely on market forces, which may result in inequality, with social welfare addressed through limited government intervention. In a command economy, the government actively promotes social welfare and equality by controlling wages, prices, and distribution of goods and services.

(b) Roles of financial intermediaries in a free market economy:

- Mobilisation of savings: Financial intermediaries such as commercial banks encourage individuals and firms to save by offering secure deposit facilities. These savings are pooled together and made available for productive investment in the economy.

- Provision of credit and investment finance: They provide loans and advances to households, entrepreneurs, and businesses for consumption and investment purposes. This supports business expansion, job creation, and economic growth in a free market economy.
- Efficient allocation of resources: Financial intermediaries channel funds from surplus units to deficit units based on risk and return considerations. This ensures that resources are allocated to their most productive uses.
- Reduction of transaction costs: By acting as middlemen between savers and borrowers, financial intermediaries reduce search, negotiation, and information costs. This makes financial transactions faster and more efficient.
- Risk transformation and management: They reduce risk for savers by diversifying loans across different sectors and borrowers. This spreads risk and increases confidence in the financial system.
- Facilitation of payments and exchange: Financial intermediaries provide payment services such as cheques, debit cards, electronic transfers, and mobile banking. These services promote smooth trade and economic activity in a free market economy.

(c) Characteristics of money:

1. Acceptability
2. Durability
3. Portability
4. Divisibility
5. Scarcity
6. Stability of value

(d) Role of the government in a command economy: In a command economy, the government plans and controls economic activities. It decides what goods and services to produce. It allocates resources, sets prices and wages, and Distributes output to ensure equitable access and achieve national development goals.

SOLUTION SIX

(a) Cost behaviour refers to how a firm's costs change in response to changes in the level of output produced. It explains whether costs increase, decrease, or remain constant as production varies, typically distinguishing between fixed, variable, and mixed costs.

(b) Difference between economic profit and accounting profit:

- Accounting profit is total revenue minus explicit costs (the actual monetary expenses recorded in financial statements).
- Economic profit is total revenue minus both explicit costs and *opportunity (implicit) costs*, meaning it also accounts for the cost of foregone alternatives.

(c) From the data given:

(i) Completed table is as follows:

Q	Fixed cost	Average variable costs	Variable cost	Total cost	Marginal cost	Average Fixed Cost
1	500	250	250	750	750	500
2	500	220	440	940	190	250
3	500	180	540	1,040	100	166.7
4	500	140	560	1,060	20	125
5	500	120	600	1,100	40	100
6	500	100	600	1,100	0	83.3
7	500	110	770	1,270	170	71.4
8	500	150	1,200	1,700	430	62.5
9	500	180	1,620	2,120	420	55.6
10	500	300	3,000	3,500	1,380	50

Formulae used:

- $VC = AVC \times Q$
- $TC = FC + VC$
- $MC = \Delta TC \div \Delta Q$
- $AFC = FC \div Q$

(ii) Short-run average cost curves (particularly average total cost (ATC) and average variable cost (AVC) typically fall at first, reach a minimum, and then rise as output increases — forming a U-shape**.**
Also, average fixed cost (AFC) continually declines as output rises.

(iii) The reason behind the shape taken by short-run average costs:

- Spreading fixed costs: AFC declines with output because the same fixed cost is spread over more units.
- Increasing then diminishing returns: AVC (and thus ATC) may initially fall due to greater efficiency and specialization when variable inputs are added to fixed inputs, but after a point the law of diminishing marginal returns causes AVC and ATC to rise as production increases.
- Combining effects: The combination of falling AFC and the U-shaped AVC results in the overall U-shape of the short-run average cost curve

END OF SOLUTIONS

CA ZAMBIA PROGRAMME EXAMINATIONS

CA CERTIFICATE IN ACCOUNTANCY

CA 1.4: COMMERCIAL AND CORPORATE LAW

FRIDAY 11 SEPTEMBER 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.

   Section B: There are FIVE (5) questions in this section. Attempt Question Two (2) and any other THREE (3) Questions from the remaining FOUR (4) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A – (COMPULSORY)

Attempt all Ten (10) multiple choice questions.

QUESTION ONE

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

1.1 Which of the following is not a type of company winding up?

A. Winding up by the court.

B. Winding up by the members.

C. Winding up by the creditors.

D. Winding up by directors.

(2 marks)

1.2 …….. Cannot be appointed as a Director.

A. Someone who is 18 years.

B. Someone above 18 years.

C. A body corporate.

D. Adjudged bankrupt.

(2 marks)

1.3 A partner who has the right to take part in the management of a partnership business is known as a ……?

A. Management partner.

B. Dormant partner.

C. General partner.

D. Salaried partner.

(2 marks)

1.4 Which of the following has power to sue and be sued in its own name?

A. Unincorporated company.

B. Partnership or firm.

C. Sole proprietorship.

D. Limited liability company.

(2 marks)

1.5 Trespass to goods is an example of a…….. ?

A. Contract.

B. Sale of goods.

C. Negligence.

D. Tort.

(2 marks)

1.6 In an agency relationship, which of the following is not a duty of a principal?

A. Duty to account to the agent.

B. Duty to indemnify the agent.

C. Duty not to prevent the agent from performing his duties.

D. Duty to remunerate the agent.

(2 marks)

1.7 Employment Law requires that contracts of employment for six months and above should be made …….?

A. Either orally or in writing only.

B. Orally only.

C. In writing only.

D. For a fixed period of time.

(2 marks)

1.8 Under the Sale of Goods Act 1893, a lien is an unpaid seller's right ……?

A. To stoppage in transit.

B. To retain the goods.

C. To resell the goods.

D. To ask for payment.

(2 marks)

1.9 Anticipatory breach of contract occurs when…?

A. A party states in advance that he does not intend to carry out his side of the contract.

B. A party on the stronger side breaches the contract.

C. A contract is breached in advance by change in the law.

D. A contract is fettered with illegality and the injured party can claim damages.

(2 marks)

1.10 The Highest courts in Zambia are ……..?

A. The Supreme Court and the Court of Appeals.

B. The Supreme Court and the Constitutional Court.

C. The Constitutional Court and Court of Appeals.

D. The High Court with unlimited jurisdiction.

(2 marks)

[Total: 20 Marks]

SECTION B

Question TWO (2) in this section is compulsory and must be attempted.

Then attempt THREE (3) questions from the remaining FOUR (4).

QUESTION TWO – (COMPULSORY)

Chipolopolo Ltd is a company registered under the Companies Act No. 10 of 2017 of the Laws of Zambia, and having its registered office at Siavonga. The company manufactures and distributes various kinds of cosmetics through its agents dotted across the country.

In Mwinilunga, it operates through an agent named Mr. Mulimba Donald who has been its agent for the past four (4) years. Mr. Mulimba operates from Plot 100, Mwinilunga which is being leased from a minor and paid for by Mr. Mulimba's principal Chipolopolo Ltd. The company has paid rentals for the next six (6) months in advance.

It has come to the attention of the company that for the past two (2) months, Mr. Mulimba has been concocting and selling his own product called 'Salala' which is a mixture of Chipolopolo Ltd's products and local herbs meant for skin lightening. Customers with sensitive skin have reacted to this 'Salala' product and the story of such reactions has gone so viral that it has drastically reduced Chipolopolo Ltd's sales to record low countrywide.

In order to salvage the situation, Chipolopolo Ltd's shareholders held a meeting last week and resolved among other things that the company be wound up and a liquidator be appointed by creditors. It was further resolved that, Mr. Mulimba be sued for loss of business among other claims. The shareholders believe that when hearing this case against Mr. Mulimba, the court will interpret the law of agency using the golden rule of interpretation.

The company's Managing Director has approached you seeking an explanation on the following issues arising from the above case:

Required:

(a) Explain to him the type of the meeting shareholders held. (4 marks)

(b) What will be the powers of a liquidator that creditors will appoint? (4 marks)

(c) Can the landlord to Plot 100, Mwinilunga above, avoid the lease agreement? (4 marks)

(d) How the Managing Director can terminate Mr. Mulimba's agency relationship with Chipolopolo Ltd? (4 marks)

(e) What shareholders mean by the Golden Rule of interpretation. (4 marks)

[Total: 20 Marks]

QUESTION THREE

Tech Solutions Ltd., a registered company in Lusaka, provides IT services to local businesses. Tech Solutions purchased software licenses from Code Supplies Ltd on credit, with terms that they would pay within sixty (60) days. Due to cash flow problems, Tech Solutions is unable to pay on time, and Code Supplies threatens legal action. Further, on a different date, the company entered into a written contract with Mega Stores Ltd to provide software solutions for K1,200,000, with delivery by 1 March, 2026. TechSolutions fails to deliver on time, citing delays in receiving hardware from its supplier. Mega Stores threatens to terminate the contract and claim damages. Due to these unfortunate incidents, Tim, the company's senior software developer, is informed that his role is being made redundant due to restructuring. He has five (5) years of continuous service and a written employment contract. Tech Solutions offers him a severance pay lower than statutory entitlement and has threatened legal action. Following these changes, one of the company Directors, Mary, signs a business deal worth K500,000 without Board approval with the view of saving the company from financial pressure. Another shareholder disputes the validity of the contract, claiming that Mary acted ultra vires.

Required:

(a) Explain the breach of contract issues with Mega Stores Ltd. and discuss Tech Solutions' possible legal defenses and liabilities under Zambian Contract Law. (5 marks)

(b) Analyze Tim's employment rights under the Employment Code Act regarding redundancy and severance. (5 marks)

(c) Discuss Tech Solutions' obligations and potential liability to Code Supplies Ltd under the Sale of Goods Act 1893 principles. (6 marks)

(d) Explain the legal implications of Mary's ultra vires action under the Companies Act No.10. of 2017 and how it affects shareholder rights and the company. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

With the aid of decided cases, explain the following:

(a) Invitation to treat. (5 marks)

(b) Communication of acceptance. (5 marks)

(c) Consideration must not be in the past. (5 marks)

(d) Fraudulent Misrepresentation. (5 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) With the aid of statute and or case law, explain how the Zambian Republican Constitution is the primary and supreme source of Law in Zambia. (10 marks)

(b) Explain the procedure a company can use to reduce its share capital. (10 marks)

[Total: 20 Marks]

QUESTION SIX

Explain the following:

(a) Duty of care. (4 marks)

(b) Damage. (4 marks)

(c) Redundancy. (4 marks)

(d) Redundancy payment. (4 marks)

(e) Public limited company. (4 marks)

[Total: 20 Marks]

END OF PAPER

CA 1.4 COMMERCIAL AND CORPORATE LAW

SUGGESTED SOLUTIONS

SOLUTION ONE

1.1. D

1.2. C

1.3. C

1.4. D

1.5. D

1.6. A

1.7. C

1.8. B

1.9. A

1.10 B

SOLUTION TWO

(a) *Extra Ordinary Meeting* - The meeting shareholders held is an extra-ordinary Meeting which is called upon to discuss an emergency that has befallen the company which cannot wait for the next annual general meeting. The matter is urgent and cannot wait. The resolution will be as binding as that of a general meeting.

(b) *Powers of a liquidator* – The liquidator will have the following powers:

(i) To carry on the business of the company as far as it is necessary for the beneficial winding up of the company,

(ii) To wind up the affairs of the company and pay off all the creditors in full according to the class ranking of creditors as provided by the company.

(iii) To distribute the remainder of the company's assets to the shareholders.

(iv) To investigate and receipt if it appears that there has been a fraud committed, or suppression or concealment of material facts by the officers of the company.

(c) *Voidable Contracts of Minors* - The lease agreement is voidable as contracts with minors are voidable any time before they reach the age of majority. Thus the landlord, who is a minor in this context can avoid this contract and he would be relieved of all his future liabilities in the contract.

(d) *Termination of Mr. Mulimba's agency relationship with the company* can be done in any of the following ways:

- Mutual consent between the principal and the agent
- Either party unilaterally giving notice to the other
- By operation of law, i.e. if the agency becomes illegal, death of one of the parties, insanity, bankruptcy, etc.
- Breach of the relationship by one of the parties, for example, Mr. Donald Mulimba's behaviour breached the relationship.

(e) *Golden Rule of Interpretation* – This is a form of legal interpretation aimed at producing the most reasonable result, even though this involves departing from the prima facie meaning of the words. This is done so as to avoid absurdity – *Re Sigsworth (1935).*

SOLUTION THREE

(a) **Relevant Law:**

- **Contract Law Principles:** Offer, acceptance, consideration, breach, remedies
- **Breach of Contract:** Failure to perform obligations by the agreed date constitutes breach unless excused.
- **Defenses:**
    - **Force majeure or frustration** (e.g., supplier delay) – must be **beyond control** and unforeseeable.

Analysis:

- TechSolutions delayed delivery past 1 March 2026.
- Delay was caused by **supplier issues**.
- MegaStores may:
    - Terminate contract if time is "of the essence".
    - Claim **damages for losses caused by delay**.

Conclusion / Remedies:

- TechSolutions may try to rely on **force majeure**, but must show it could not have mitigated the delay.
- MegaStores is entitled to **compensation for losses** or may claim **specific performance** if delivery is still feasible.

(b) **Employment Law – Tim's Redundancy**
Relevant Law:

- **Employment Code Act 2019 (Zambia):**
    - Employees are entitled to **proper redundancy procedures**, **notice**, and **statutory severance**.
    - Severance is based on **years of service** and contractual terms.
    - Unfair reduction is prohibited.

Analysis:

- Tim has **5 years of service** and a written contract.
- TechSolutions offers **less than statutory entitlement**.
- Under the Act:
    - David may **challenge the reduced severance**.
    - Employer must **consult, provide notice, and pay statutory redundancy**.

Conclusion:

- Tim is entitled to **full statutory severance**.
- TechSolutions risks a **claim for unfair termination** if it does not comply**.**

(c) **Commercial Law – Code Supplies Ltd.**
Relevant Law:

- **Commercial Law / Sale of Goods**
  - Payment obligations on credit transactions.
  - Remedies for non-payment include **demand for payment, interest, or legal action**.

Analysis:

- Tech Solutions purchased licenses on **credit (60 days)** but cannot pay on time.
- CodeSupplies may:
  - Claim **late payment damages**, interest, or sue for debt recovery.
- Tech Solutions' defense: **cash flow problems** do not excuse non-payment unless agreed with creditor.

Conclusion:

- Tech Solutions is **liable to pay CodeSupplies Ltd.**, possibly with interest.
- To mitigate, it may **negotiate an extension** or repayment plan.

(d) **Company Law – Director Mary**
Relevant Law:

- **Companies Act:**
  - Directors act as agents of the company.
  - Acts **ultra vires** (beyond authority) may still bind the company if third party acted **in good faith**.
  - Board approval is often required for contracts above a certain threshold.

Analysis:

- Mary signed a **K500,000 contract without board approval**.
- Shareholder may dispute contract.
- If the counterparty acted in **good faith**, the company may be **bound**.
- Mary may be **personally liable** if she acted outside her authority and caused loss.

Conclusion:

- Contract may **stand if third party acted in good faith**.
- Internal governance: Mary could face **disciplinary action** or be **sued by shareholders** for breach of duty.

SOLUTION FOUR

(a) **Invitation to treat** – This is the holding out by one person that he is ready to receive offers, which he may then either accept or reject. For example, the advert in a newspaper is an invitation to the public to make offers to buy the products being advertised. Cases in support of invitation to treat include the following: *Partridge v. Crittenden (1968); Bell v. Fisher (1960) and Pharmaceutical Society of Great Britain v. Boots Cash Chemist Ltd (1952)*

(b) **Communication of acceptance** – Acceptance is any positive act by a person to whom an offer has been made which brings the agreement into force. It must be unconditional i.e. the offer must be accepted as it is.

Acceptance must be communicated *Powell v. Lee (1908)***.** The payment was the communication of acceptance.

(c) **Consideration must not be in the past** - This means that consideration must not be done after the act has already been done. Past consideration is no consideration at all – *Re-McArdle (1951)*. For example, a promise to pay someone whilst he is already doing his agreed work is past consideration because whether it was promised or not, he was still going to do the work and thus cannot claim the new promise. [5 marks]

(d) **Fraudulent Misrepresentation** – This is the making of a statement by a person who knows that his statement is false or has no belief in its truth or he is reckless, careless, whether it is true or false *Derry v. Peek (1889).*

For example, to falsely give a lower price to invite customers to the shop but increases the price when they want to buy.

SOLUTION FIVE

(a) *How the Zambian Republican Constitution is the primary and supreme source of law:-* The Zambian Republican Constitution is the primary and supreme source of law in that Article 1(1) of the Constitution provides that, 'this Constitution is the supreme law of the Republic of Zambia and any other written law, customary law and customary practice that is inconsistent with its provisions is void to the extent of the inconsistency'. Thus, it is the primary source of law and the most supreme law as any law that is inconsistent with its provisions is declared void to the extent of the inconsistency. This view was upheld in a number of cases such as *Banda v The People (1998), Thomas Mumba v The People (1984) and Christine Mulundika and Others v The People (1995).*

(b) The following is a procedure for reducing the company's share capital:-

(i) The company must pass a special resolution to reduce share capital.

(ii) It shall, within twenty – one days after making such a resolution, apply to the court for an order to confirm the reduction.

(iii) Once the order is done, the reduction on share capital held by shareholders will be effected.

(iv) The creditors are given a chance to object to the reduction, if any, as reduction of share capital reduces creditor's security and company's ability to pay their debt.

(v) The court hears the creditors' claims and if a creditor does not consent to the reduction, the court may order that the company pays the creditor the amount due to him or any amount the court considers enough to settle the debt.

(vi) The creditors who consent to the reduction sign a consent form/letter to the effect that they are not objecting. The company may either pay them off or simply ensure that the creditor's debt is secured. Once this is done, the company's reduction in share capital will be effected.

SOLUTION SIX

(a) *Duty of Care* – Duty of Care is also known as the neighbour principle established the case of *Donoghue v. Stevenson (1932)*. You owe a duty of care to persons who are so closely linked to yourself and are likely to be affected by your actions. Therefore, a Plaintiff would have to prove that he was owed a duty of care by the Defendant and that the duty was breached, and the breach is what caused the damage/injury.

(b) *Damage* – This is the loss or injury which comes as a result of the wrongdoer's actions. In this case, the death of the dogs is the damage. Damage must not be too remote a consequence of the defendant's breach of duty. These cases illustrate the above points *Donoghue v. Stevenson (1932); Michael Chilufya Sata v. Zambia Bottlers Ltd (2003) and* in the case of *Arida Mercy Chulu (2000)* where it was emphasized that only a person who has suffered damage can sue.

(c) *Redundancy* means termination of employment/being laid off because the employer's business has gone down, is ceasing operations, no longer needs the particular employees, is restructuring or trying to save costs so that the business can remain viable.

(d) *Redundancy payment*:- This is the separation package or payment made to an employee whose contract has been terminated by way of redundancy. This is provided for in the Employment Code Act No. 3 of 2019

(e) *Public Limited Company:-* This is a company that sells its shares on the Stock Exchange, members of the public are free to invest in the company, it cannot be limited by guarantee nor an unlimited company but only limited by shares. A public limited company's audited accounts are published in the public media and shares in such a company are freely transferable. It has no limit on the number of shareholders it can have, etc.

END OF SOLUTIONS

CA ZAMBIA PROGRAMME EXAMINATIONS

CA CERTIFICATE IN ACCOUNTANCY

CA 1.5: MANAGEMENT THEORY AND PRACTICE

MONDAY 7 SEPTEMBER 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.

   Section B: There are FIVE (5) questions in this section. Attempt question TWO (2) and any other THREE (3) questions from the remaining 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.

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.

QUESTION ONE

1.1 Which of the following is a disadvantage of partnership form of business?

A. It's required to publish its accounts annually.
B. Decisions delay because of disagreements.
C. Sharing dividends is always a problem.
D. Members fail to raise capital.

(2 marks)

1.2 Which one of the following is a proponent of motivation theories?

A. Chester Barnard- Systems- Theory.
B. Max Weber- Bureaucracy Theory.
C. McGregor- Theory X and Y.
D. Blake and Mouton- Managerial Theory.

(2 marks)

1.3 Objectives must be SMART because they should be….:

A. Simple, Manageable, Achievable, Real and Task Bound.
B. Specific, Measurable, Achievable Realistic and Time Bound.
C. Simple, Measurable, Attainable, Realistic and Time Bound.
D. Specific. Manageable, Attainable, Realistic and Task Bound.

(2 marks)

1.4 Which of the following is a good definition of a TEAM?

A. A small number of people with complementary skills who are committed to a common purpose.
B. A small number of people who have made financial contributions to support a common goal/purpose.
C. A small number of people with the aim of winning a project or contract.
D. A small number of people sponsored to participate in an event locally or internationally.

(2 marks)

1.5 How does the PESTEL analysis help Managers?

A. A model used by Managers to analyze the external environment.
B. A model by used by Manage to understand how used to explain to the Board of Directors on performance of the organization.
C. A model used by managers to strategize on how the company can enter new markets.
D. A model used to enable Manager how internal factors are being influenced by the economy.

(2 marks)

1.6 Which one of the following is a clear statement about the organization's VISION?

A. It is the organization's overriding purpose and it reflects the values or expectations of stakeholders.
B. It is a more specific statement which quantifies the why the organization exists.
C. It is the strategic intent or future state desired by the organization's strategists.
D. It is the statement of general aim or purpose that supports the mission of the organization.

(2 marks)

1.7 The Kings report (1994) on corporate governance suggested that there are five (5) moral duties (Five Cs). Which one of the following is NOT a moral duty mentioned?

A. Conscience.
B. Consistence.
C. Competence.
D. Courage.

(2 marks)

1.8 "In order to provide for Unit of action, coordination and focusing of effort, there should be one plan and the same objective for everyone engaged in a particular activity or project."

The above statement is one of the fourteen (14) principles of management by Fayol called…

A. Unity of command.
B. Unity of direction.
C. Division of work.
D. Centralization.

(2 marks)

1.9 Which of the following is a useful framework to analyze the triggers of change in the macro-environment?

A. SWOT Analysis.
B. SMART analysis.
C. PESTEL Analysis.
D. Virtual Analysis.

(2 marks)

1.10 What is Contingency management theory?

A. The theory suggests that managers should adapt their leadership styles according to the situation.
B. The Theory suggest that managers must use the motivation theories in their styles of management.
C. The theory suggests that Managers must strategically delegate their work to promote others.
D. The theory suggest that managers do things right.

(2 marks)

[Total: 20 Marks]

SECTION B

Question TWO (2) in this section is compulsory and must be attempted.

Then attempt any THREE (3) questions from the remaining FOUR (4).

QUESTION TWO - (COMPULSORY)

Mr. Musakanya the Board Chairperson for a multinational company called Ntingu Technologies Inc. has received a report during the quarterly board meeting that most of the engineers in the production section of the company have resigned. The report shows that five (5) of those who have resigned have cited personal differences with the Manager whom they have accused of being a bully while the other three (3) indicated that the working environment in the workshop is not conducive for personal expression and they work without personal protective equipment (PPE). In the report, the Manager for engineering section Mr. Evans who is an expatriate has defended himself by stating that there is less commitment to work by most of the people in the department. Mr. Evans has further indicated that it had become necessary for him to put certain restrictive measures and timelines to force people to work and remove the bad working culture. This came after the country Chief Executive Officer Chileshe reported a decline in production and failure to meet market demand.

Required:

(a) Explain four (4) major responsibilities of Mr. Chileshe the country CEO for Ntingu Technologies Inc. (8 marks)

(b) State the leadership style being used by Mr. Evans the Manager Engineering. (2 marks)

(c) Various studies have attempted to determine exactly which qualities are essential in a leader. One American study cites fifteen (15) of these qualities. Outline any ten (10) of them. (10 marks)

[Total: 20 Marks]

QUESTION THREE

An understanding of how people differ through personality types plays an important role in the improvement of relationships within and outside the organization. Managers are encouraged to understand the differences in order to solve the problems that may arise from such differences. Personality differences are described in many ways by a lot of scholars although there two (2) components that describe the actual differences. Teamwork in organizations brings people who are differently gifted together, and through their positive contributions they expected to build a vibrant productive organization.

Required:

(a) Define the term personality. (2 marks)

(b) Identify the two (2) components that define personality or ways in which people differ from each other. (6 marks)

(c) Explain the three (3) main issues in team building that should be considered to keep the team together. (12 marks)

[Total: 20 Marks]

QUESTTION FOUR

There are a lot of organizations that exist in the industry under formal or informal types. It is important to understand these differences because they bring out both the advantages and disadvantages of each type. Companies are always encouraged to formalize their activities and also appreciate the informal groupings that exist in formal organizations because they contribute to the welfare of the organization in a lot of ways that benefit employees and the organization as a whole. Generally, change is resisted by those involved due to lack of skill, conviction, and seriousness by those who are supposed to champion the process. Rosabeth Moss Kanter suggested that leaders act as agents of change.

Required:

(a) Indicate any five (5) characteristics in the formalisation of a company. (5 marks)

(b) Describe any four (4) work planning activities in the organization. (8 marks)

(c) Outline any seven (7) leadership skills as proposed by Kanter that are useful for leaders in managing change. (7 marks)

[Total: 20 Marks]

QUESTION FIVE

In the 1990s, Nokia became a pioneer in the mobile phone industry, capitalizing on the emerging GSM (Global System for Mobile Communications) standard with the famous brand Nokia 3310 phone. Nokia's rise to prominence was largely attributed to its early innovation in mobile telecommunications. With the young IT engineering team working virtually 24/7, Nokia introduced some of the first mass-market GSM phones, helping establish itself as a technology leader. Nokia built a competitive edge through large-scale production and an efficient supply chain. By focusing on mass production and cost-effective manufacturing, Nokia was able to drive down costs and offer affordable handsets to a broader customer base, while still maintaining profit margins.

Required:

(a) Nokia Company built a competitive edge through large-scale production. Explain the following methods of production.

(i) Job Production. (4 marks)

(ii) Batch Production. (4 marks)

(iii) Flow production. (4 marks)

(b) Identify the strength Nokia had to become a market leader in the industry? (5 marks)

(c) Explain what is meant by Virtual teams. (3 marks)

[Total: 20 Marks]

QUESTION SIX

In Corporate Governance, Transparency is a moral duty which means being open and clear disclosure of relevant information to shareholders and other stakeholders. Disclosure in this context includes information in the financial statements. The Kings Report (1994) suggested some moral duties of governance for board members.

Required:

(a) Describe five (5) Cs of moral duty discussed in the king report (1994). (15 marks)

(b) List any five (5) elements of Integrity in corporate governance. (5 marks)

[Total: 20 Marks]

END OF PAPER

CA 1.5 MANAGEMENT THEORY AND PRACTICE

SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 B

1.2 C

1.3 B

1.4 A

1.5 A

1.6 C

1.7 B

1.8 B

1.9 C

1.10 A

SOLUTION TWO

(a) Explain four (4) major responsibilities of Mr. Chileshe the country CEO for Ntingu Technologies Inc.

(i) Business Strategy and Management: Developing Objectives and Strategy

- Develop and implement strategies to achieve production and business objectives.
- Promote a positive workplace culture that supports employee engagement and productivity.
- Address staff turnover and improve employee retention.
- Ensure departmental goals align with the company's overall strategy.

(ii) Investment and Financing

- Allocate adequate resources for PPE, equipment, and workplace improvements.
- Invest in employee development, training, and leadership programmes.
- Evaluate and manage the financial impact of employee turnover.
- Ensure investments support long-term productivity and growth.

(iii) Risk and Management

- Identify and manage operational, human resource, health and safety, legal, and reputational risks.
- Investigate allegations of bullying and poor working conditions.
- Ensure compliance with occupational health and safety requirements.
- Implement measures to reduce employee turnover and improve workplace relations.

(iv) Board Management

- Keep the Board informed about key operational and workforce issues.
- Provide accurate reports on performance, risks, and corrective actions.
- Implement Board decisions and recommendations.
- Promote good corporate governance through accountability, transparency, and ethical leadership.

Mr. Chileshe must balance the achievement of production targets with effective people management, workplace safety, risk management, and sound corporate governance to ensure the organization's long-term success.

(b) State the leadership style being used by Mr. Evans the Manager Engineering.
Authoritarian Leadership

(c) One American study cites the following:

(i) Judgement
(ii) Drive
(iii) Fairness
(iv) Energy
(v) Initiative
(vi) Human Relations skills
(vii) Ambition
(viii) Emotional stability
(ix) Integrity
(x) Decisiveness
(xi) Dedication

(xii) Dependability
(xiii) Objectivity
(xiv) Foresight
(xv) Empathy

SOLUTION THREE

(a) Personality is defined as:

The total pattern of the characteristic ways of thinking, feeling and behaving that constitute the individual's distinctive method of relating with the environment. An individual's relationship with the environment will always depend on their personality

(b) The two (2) components that define the personality differences are:

(i) Personality traits- are relatively stable enduring qualities of an individual which cause a tendency to behave in particular ways e.g. being impulsive

(ii) Personality type- reflect the psychological preferences of the individual e.g. extrovert sociable, expressive, impulsive, practical and active

(c) The following are the three (3) issues in team building to be considered in order to keep the team together:

(i) Team identity- get people to see and feel that they belong

(ii) Team solidarity-encourage royalty so that members put in extra effort for the sake of the team

(iii) Shared objectives-encourage team to commit itself to shared work objectives and to cooperate willingly and effectively in achieving them

SOLUTION FOUR

(a) Characteristics in the formalisation of a company include:

(i) That they are governed by rules and policies,

(ii) Provision of job descriptions and other regulations,
(iii) That define acceptable work practices,
(iv) Sets limits on behaviour.
(v) Division of labour,
(vi) Hierarchy of management authority and responsibilities.

(b) The following are the (4) work planning activities:

(i) Task-sequencing or prioritization.
(ii) Scheduling or time tabling tasks.
(iii) Establishing checks and controls.
(iv) Contingency plans.
(v) Coordinating the effort of individuals.

(c) The following are the seven (7) leadership skills suggested by Kanter that are useful for leaders in managing change:

(i) Tuning into the environment by observing what is going on and be ready to respond accordingly. Being alert to the dictates of the environment around.
(ii) Challenging the prevailing organisation wisdom – being able to move from the comfort zone to something new
(iii) Communicating a compelling aspiration having the conviction about something and be able to communicate it regardless of the fears involved
(iv) Building coalitions –learn to approach invite and consult the people or organisations that can assist in different ways to gain more insights about the intended changes
(v) Transforming ownership to a working team –invite people so that they feel part and parcel of what is going on and they will freely accept the change and contribute towards it
(vi) Learning to persevere as a leader shows a lot of resilience so that you also encourage all the followers or employees
(vii) Make everyone a hero through appreciation of their efforts and contributions

SOLUTION FIVE

(a) Nokia Company built a competitive edge through large-scale production. Explain the following methods of production:

(i) **Job Production :** This involve making unique or similar products often on order. The workforce required is usually highly skilled although general purpose tools or machinery are likely to be used. It is usually a one off nature of the item to be produced by skilled workforce.

(ii) **Batch Production: :** Used for more standardized items that are aimed at a wider market. A number of items will complete each process before moving to the next. Special purpose machines are usually used.

(iii) **Flow production** : Used for standard items aimed at the mass market and allows products to be manufactured in a continually moving process.

(b) What strength did Nokia use to become a market leader in the industry?

Nokia built a competitive edge through:
(i) large-scale production
(ii) An efficient supply chain
(iii) By focusing on mass production
Cost-effective manufacturing,
(iv) Nokia was able to drive down costs and

(v) Offer affordable handsets to a broader customer base, while still maintaining profit margins.

(c) Explain what is meant by Virtual teams.

(i) These are teams able to working in remote locations and

(ii) They are able to share information,

(iii) Collaborate and communicate through the use Information and communication technology ICT.

SOLUTION SIX

(a) The Five Cs are.

(i) **Conscience**: This moral duty entails intellectual honesty and avoiding conflicts of interest.

(ii) **Care:** This requires directors exercising care in the company's affairs.

(iii) **Competence**: The Directors are excepted to have the knowledge and skills required to provide effective oversight.

(iv) **Commitment:** Directors should be diligent.

(v) **Courage:** Directors should have the courage to take decisions regardless of the risk involved.

(b) **Integrity** means straightforward dealing with completeness. It means sticking to high moral principles even under pressure:

(i) **Honey:** Being truthful and transparent.

(ii) **Ethical standards**: Adhering to ethical principles and values.

(iii) **Consistency**: Aligning actions with values and principles overtime.

(iv) **Accountability:** Taking responsibility for one's actions and decisions.

(v) **Respect:** Valuing others and treating them with dignity.

END OF SOLUTIONS

CA ZAMBIA PROGRAMME EXAMINATIONS

CA CERTIFICATE IN ACCOUNTANCY

CA 1.6: BUSINESS COMMUNICATION

WEDNESDAY 9 SEPTEMBER 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.
   Section B: There are FIVE (5) questions in this section. Attempt question TWO (2) and any other THREE (3) questions from the remaining FOUR (4) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A – (Compulsory)

Attempt all ten (10) multiple choice questions

QUESTION ONE

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

1.1 The use of … in multimedia material makes it easier to search & view related content.

A. Linkage.
B. Hyperlink.
C. Link.
D. Connection.

(2 marks)

1.2 Which menu tab in MS Excel would you select for error checking?

A. Formulas.
B. Data.
C. Review.
D. Insert.

(2 marks)

1.3 Graphics on a webpage or e-mail message that are designed to monitor who is reading the web page or e-mail message are called?

A. Viruses.
B. Cookies.
C. Web bugs.
D. Ad networks.

(2 marks)

1.4 The term minicomputer is sometimes used to describe a computer that has more processing power than a PC, but less than…….?

A. Mainframe.
B. Supercomputer.
C. Desktop.
D. Microcomputer.

(2 marks)

1.5 When the computer is turned off, where is most of the data stored?

A. The microprocessor.
B. The RAM.
C. The BIOS.
D. The disk.

(2 marks)

1.6 Which one of the following is a role of the receiver in communication?

A. To encode the message.
B. To establish the purpose of communication.
C. To decode the message.
D. To obtain the message from the receiver.

(2 marks)

1.7 What does the 'KISS' concept stands for?

A. Keep it short and straight.
B. Keep it straight and simple.
C. Keep it short and simple.
D. Keep it strong and simple.

(2 marks)

1.8 What do we call the kind of communication where departments communicate directly across authority levels without following the chain of command?

A. Vertical.
B. Diagonal.
C. Horizontal.
D. Network.

(2 marks)

1.9 Which medium of communication is the quickest and easiest method of getting information across to colleagues within your organization?

A. A Report
B. An email
C. A News letter
D. A letter.

(2 marks)

1.10 Which of the following best describes one of the roles of a secretary in a meeting?

A. To write minutes.
B. To guide the discuss.
C. To network with participants.
D. To save refreshments.

(2 marks)

[Total: 20 Marks]

SECTION B

Question TWO (2) in this section is compulsory and must be attempted.

Then Attempt any THREE (3) questions from the remaining FOUR (4).

QUESTION TWO

Three (3) Accounts Officers repeatedly arrive late, leave early, use offensive language during clients' calls, and have been observed smelling of alcohol on duty. This behaviour has led to clients' complaints, damaged team morale and caused inaccuracies in Financial reporting. This issue requires immediate disciplinary action and a formal review of performance and conduct policies.

Required:

(a) Write a memorandum to concerned staff addressing the repeated negative work behaviour. Your memo should include company expectations and consequences of continued misconduct and request affected staff to provide a written explanation within forty-eight (48) hours of receiving the memo. (16 marks)

(b) Outline two (2) roles of the main body in a memorandum. (4 marks)

[Total: 20 Marks]

QUESTION THREE

(a) HenTex Limited aims to enhance decision-making across all levels of its organisation. Management recognises that leveraging Information Technology (IT) and Information Systems (IS) can help achieve this. However, different managers require different types of information to perform their roles effectively.

Required:

Explain four (4) levels of management in an organisation identifying the type of information system commonly used at each level. (12 marks)

(b) List two (2) categories of data quality principles organizations can adopt. (2 marks)

(c) Outline the steps you would use to delete a file on a computer using Windows.

(6 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) Chalo Traders maintains a monthly sales record in Excel for five (5) products: Rice, Maize, Sugar, Oil, and Salt. The sales for each product are recorded for four weeks as shown below:

	A	B	C	D	E	F	G
1	**Product**	**WK 1**	**WK 2**	**WK 3**	**WK 4**	**Total**	**Comment**
2	Rice	1500	1800	1700	1600		
3	Maize	1200	1300	1250	1400		
4	Sugar	800	950	900	1100		
5	Oil	500	600	550	650		
6	Salt	300	350	400	380		
7							
8	**Highest**						
9							
10							

Required:

Write a formula to:

(i) Find the total sales for each product. (2 marks)

(ii) Find the product that brought more income. (2 marks)

(iii) Put a comment "Good" for each product total above 2000 and "Bad" for less. (4 marks)

(b) Chigome Solutions Ltd has just launched a new product. The Marketing Manager needs to inform all staff across different departments about the product features, launch date, and promotional plan. Additionally, the Manager wants employees to confirm receipt and provide feedback or questions.

Required:

Discuss three (3) advantages of using email for internal organizational communication. (6 marks)

(c) There are three (3) types of controls in the control mix.

Explain each type of control. (6 marks)

[Total: 20 Marks]

QUESTION FIVE

During a Board meeting, management complains that financial data may be accurate but difficult to understand due to poor presentation. They have suggested the use of other methods of presenting information such as tables, bar charts, pie charts, and line graphs (visual communication) so that it becomes easy to understand it.

Required:

(a) Outline any five (5) benefits of using visual communication during board meetings. (10 marks)

(b) Explain five (5) limitations of using visual communication. (10 marks)

[Total: 20 Marks]

QUESTION SIX

Business meetings are an essential activity of most organizations. As a Supervisor at Mulenga & Jelita Accounting Company, you are expected to prepare a notice for a meeting for this Friday.

Required:

(a) Define the following meeting terminologies that you are likely to use during a meeting session.

(i) Notice of a meeting.

(ii) Committee.

(iii) Motion.

(iv) Deliberations.

(v) Addendum. (10 marks)

(b) Explain one (1) reason it important to ensure that each of the following pieces of information are included in the notice of a meeting document:

(i) The Venue.

(ii) The members eligible to attend the meeting.

(iii) The Agenda.

(iv) The time a meeting will start.

(v) The type of a meeting. (10 marks)

[Total 20 Marks]

END OF PAPER

CA 1.6 BUSINESS COMMUNICATON

SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) **XYZ ACCOUNTING PACKAGES COMPANY**

MEMORANDUM

To : Accounts officers - John Phiri, Jacob Bwalya and Robert Mubita

From : The Assistant Accountant

DATE : 11th September 2026

SUBJECT: Negative work culture

It has been observed with concern that there has been an increasing trend of employees reporting for work late, leaving the workplace before the official closing time, and, in some instances, reporting for duty under the influence of alcohol during working hours.

These behaviours are unacceptable and have negatively affected operational efficiency, resulting in inaccuracies in financial reporting, reduced team morale, and an increase in client complaints. Such conduct undermines the professional standards expected of employees and may expose the organisation to reputational and operational risks.

Therefore, as a matter of fact, customers have lodged complaints of the same matter. Management wishes to remind you that:

(1) Official working hours are from 08:00 hours to 17:00 hours.

(2) No alcohol and smoking is allowed during working hours.

(3) Productivity will be monitored with performance reflecting on monthly reports.

All employees are therefore reminded of their responsibility to adhere to the Institute's policies, maintain the highest standards of professionalism, and conduct themselves in a manner that promotes a productive and respectful work environment. Failure to comply may result in disciplinary action in accordance with the applicable policies and procedures. You are also expected to submit a written explanation on reasons for this negative behavior within 48 hours from the time you receive this memo. Note that this serves as a first warning on this issue.

Let us work together to build a professional and productive work environment

sender's signature

Sender's name

(b) The roles of the main body:

- To provide detailed information and evidence upon the topic introduced in the opening paragraph.
- It presents facts, figures and arguments to persuade the audience or to support a proposed solution.
- It provides a basis for the suggested action in the closing paragraph.

SOLUTION THREE

(a) Four (4) levels of management in an organisation identifying the type of information system commonly used at each level.

(i) **Operational/Lower-Level Management**
Supervises day-to-day activities and ensures tasks are completed efficiently. Examples include supervisors, team leaders, or clerks.

Type of Information System: Transaction Processing System (TPS)

(ii) **Middle-Level Management**
Implements policies and monitors performance. Examples include department managers or branch managers.

Type of Information System: Management Information System (MIS) or Decision Support System (DSS)

(iii) **Top-Level/Strategic Management**
Makes long-term decisions and sets organizational goals. Examples include CEOs, directors, and executives.

Type of information system: Executive Support System/Executive Information System

(iv) **Knowledge/Knowledge-Level Management**
Focuses on innovation, knowledge creation, and sharing within the organisation. Examples include knowledge managers and analysts.

Type of Information System: Knowledge Work System (KWS)

(b) Two (2) categories of data quality principles organizations can adopt.

- Intrinsic
- Accessibility
- Contextual
- Representational

(c) Deleting a file on a computer using Windows.

- Locate the file using file explorer.

- Right click on the file and select delete from pop-up menu.
- The system will ask for confirmation that you want to send the file to the recycle bin.
- Click yes to delete.

Alternatively click on the pressing the 'Delete' key or highlight and drag the item to the recycle bin.

SOLUTION FOUR

(a) (i) **=**SUM(B2:E2) or =B2+C2+D2+E2

(ii) =MAX(F2:F6)

(iii) =IF(F2 > 2000, "Good", "Bad")

(b) Three (3) advantages of using email for internal organizational communication.

(i) **Speed and Efficiency -** Emails allow messages to be sent and received almost instantly, enabling quick communication between departments and teams. This is faster than traditional memos or printed notices.

(ii) **Cost-Effective** - Sending emails reduces the need for paper, printing, and physical delivery, saving the organisation money on stationery and postage.

(iii) **Documentation and Record-Keeping** - Emails provide a written record of communication, which can be stored, searched, and referenced later for accountability, follow-ups, or legal purposes.

(iv) **Wide Reach** - A single email can reach multiple recipients across different locations simultaneously, ensuring consistent communication across the organisation.

(v) **Flexibility and Accessibility** - Emails can be accessed anytime and anywhere via computers, tablets, or smartphones, allowing employees to stay informed even when working remotely.

(vi) **Supports Attachments and Multimedia** - Important documents, spreadsheets, images, and links can be sent directly within emails, making it easy to share detailed information efficiently.

(vii) **Enhances Collaboration** - Emails facilitate collaboration through discussions, feedback, and sharing of ideas, helping teams coordinate and make informed decisions quickly.

(c) Three (3) types of controls in the control mix.

(i) **Preventive Controls** - stopping errors or damage before they occur

(ii) **Detective controls** - bring errors to the user attention after error has occurred

(iii) **Corrective controls** - rectify errors which have been detected

SOLUTION FIVE

A. **Benefits of using visual communication**

(i) They can be used for analyzing data.
(ii) It simplifies complex information
(iii) They can be used to emphasize a piece information or data
(iv) They can be useful when comparing multiple sets of data.
(v) They are easy to understand
(vi) Many people understand a picture more quickly than blocks of text
(vii) A compelling chart can help you make your point more convincingly and lend credibility to your presentation.
(viii) It is easy to remember – it has a long-lasting impact

B. **Limitations of visual communication**

(i) They may oversimplify complex data.
(ii) They can be misleading if poorly designed.
(iii) They may require explanation or interpretation which may not be available.
(iv) They are not suitable for all types of numerical information.
(v) They usually required technical skills to create them. It may not be possible if skills are lacking.
(vi) Some details maybe omitted in the presentation of visual communication.
(vii) It discriminates against people with sight impairments.

SOLUTION SIX

(a) **Meeting Terminologies**

(i) Notice of a meeting - A notice is an announcement and an invitation to attend a meeting.

(ii) Committee - A formal group of people within an organisation or appointed by a larger body that is established to fulfill a predefined, specialized objective.

(iii) Motion - A topic presented for discussion during a meeting.

(iv) Deliberations - These are discussions during a meeting that lead to planning and decision making,

(v) Addendum - A document added to an existing one to update it without rewriting the entire document.

(b) **The contents of a notice include:**

(i) **The Venue** - This ensure accessibility and attendance.

- To easily arrange for legal and formal requirements especially for corporate and public meetings.
- It allows participant to prepare for travel, security and checks
- It allows logistical efficiency especially when the meeting is far away.
- To avoid confusion and wasting time looking for a venue.

(ii) **Members eligible to attend the meeting –**To avoid authorized members to attend the meeting.

- It ensures full representations of the organizations members.
- For legal compliance and validity of proceedings as required by the governing law.
- To ensure that a proper column is formed.

(iii) **The Agenda** – This assists people to know what will be discussed in a meeting.

- It also allows members to prepare for a meeting well in advance.
- It ensures efficiency and focus during and focus during discussion.
- It aligns expectations –all participants must be on the same page.
- It prevents ambush or surprise items from being introduced.

(iv) **Time the meeting will be held**- It allows members to know when to be present, allowing them to clear their schedules and plan accordingly.

- It allows members to prepare, ensuring that they are ready to discuss the agenda items promptly which improves efficiency.
- It also allows for better time management enabling meetings to start on time and and follow the agenda which prevents wasting participants time.

(v) **The type of the meeting** – This is important for legal compliance, ensuring proper quorum and setting participants expectations.

- It defines the authority of the meeting.
- It clarifies the scope of the agenda items and ensuring that the gathering is effective and procedurally sound.

END OF SOLUTIONS

CA ZAMBIA PROGRAMME EXAMINATIONS

CA APPLICATION ADVANCED DIPLOMA IN ACCOUNTANCY

CA 2.1: FINANCIAL REPORTING

MONDAY 7 SEPTEMBER 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: FOUR (4) Optional scenario questions. Attempt any THREE (3) 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

The question in this section is compulsory and must be attempted.

QUESTION ONE – (COMPULSORY)

On 1 December 2025, Python Co. acquired 75% of the equity shares of Cobra Co. The consideration consisted of two elements; a share exchange of three shares in Python Co for every five shares acquired in Cobra Co. and K1 million cash. The share issue has not yet been recorded by Python Co. At the date of acquisition, shares in Python had a market value of K7.50 each.

Below are summarised draft financial statements of both entities:

Statements of profit or loss for the year ended 31 March 2026

	Python Co.	**Cobra Co.**
	K'000	K'000
Revenue	92,750	45,750
Cost of sales	(70,700)	(36,300)
Gross profit	22,050	9,450
Operating expenses	(8,000)	(3,200)
Profit from operations	14,050	6,250
Investment income	9,000	1,500
Profit before finance costs and income taxes	23,050	7,750
Interest expense	(5,600)	(2,400)
Profit before tax	17,450	5,350
Income tax expense	(4,200)	(1,150)
Profit for the year	13,250	4,200
Other comprehensive income:		
Gain on revaluation of land	1,500	750
Total comprehensive income	14,750	4,950

Statements of financial position as at 31 March 2026.

	Python Co.	**Cobra Co.**
Assets	K'000	K'000
Non-current assets		
Property, plant and equipment	38,300	15,450
Investments	1,900	0
Total non-current assets	40,200	15,450
Current assets	14,700	5,600
Total assets	54,900	21,050
Equity and liabilities:		
Equity		
Equity shares of K1 each	14,000	8,000
Other components of equity (see: note 6)	2,500	750
Retained earnings	10,000	5,400
Total equity	26,500	14,150
Non-current liabilities		

10% loan notes	4,000	2,000
5% loan notes	10,000	0
Total non-current liabilities	14,000	2,000
Current liabilities	14,400	4,900
Total equity and liabilities	54,900	21,050

The following information is relevant:

(1) At the date of acquisition, the fair values of Cobra's net assets were equal to their carrying amounts except for an item of machinery, which had a fair value of K2.4 million below its carrying amount. At that date the machinery had a remaining useful life of 8 years. Further, Cobra Co. had a contingent liability, which Python Co. established to have a fair value of K250,000 on the date of acquisition and the amount has not changed as at 31 March 2026.The fair value adjustments have not yet been recorded.

(2) In the post-acquisition period, Cobra Co. sold goods to Python Co. for K4 million. Python Co had one quarter of these goods in inventory at 31 March 2026. Cobra applied a markup of 25%.

(3) Cobra paid dividends of K10 million to shareholders on 31 March 2026. The investment income of Python Co. includes dividends received from Cobra Co.

(4) Python Co. had the trade payable balance of K500,000 owing to Cobra Co. at 31 March 2026, which did not agree with the trade receivable balance in Cobra's books due to a payment of K180,000 made by Python Co, which Cobra Co. had not yet received on 31 March 2026.

(5) Python's investments of K1.9 million include an investment made (equity shares) on 1 December 2025 in an unrelated entity. On 1 December 2025, the investment was classified as Fair Value Through Other Comprehensive income (FVTOCI). The fair value of the investment increased by K600,000 during the year, which Python has not yet recorded. There were no acquisitions or disposals of investments in the post-acquisition period.

(6) The other components of equity of Python include investment gain of K1 million that relates to the year ended 31 March 2025 and land revaluation surplus of K1.5 million that arose on 31 March 2026. The other components of equity of Cobra relate to land revaluation surplus of K0.750 million that arose on 31 March 2026.

(7) Python's policy is to value Non-Controlling Interest (NCI) at fair value at the date of acquisition. At that date, the NCI was deemed to be K3.7 million.

(8) An impairment test conducted on 31 March 2026 concluded that the goodwill of Cobra was impaired by K4 million due to poor trading performance.

(9) On 31 March 2026, Python Co. received an offer of K1.6 million from an interested customer for a plant with a carrying amount of K2 million and the value in use of K1.4 million. The plant can be delivered to the customer at the estimated cost of K70,000.

(10) On 1 April 2025, Python Co. issued a 5% loan note at its face value of K10 million. The loan note will be redeemed on 31 March 2028 at a substantial premium. The effective interest rate applicable is 8% per annum. Python Co. has recorded the loan note as a liability at par and charged the annual interest of 5% to finance cost.

Note: *Profits accrue evenly throughout the year unless otherwise stated. All other comprehensive income and impairment (loss) occurred after 1 December 2025.*

Required:

(a) Briefly explain circumstances under which a subsidiary may be excluded from being consolidated by its parent. (2 marks)

(b) Prepare the consolidated statement of profit or loss and other comprehensive income for Python Group for the year ended 31 March 2026. (15 marks)

(c) Prepare the consolidated statement of financial position for Python group as at 31 March 2026. (23 marks)

[Total:40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

Kaabu Co. has a year end of 31 March. The company will have its annual general meeting (AGM) on 30 May 2026. The Board of Directors will approve the financial statements for issue on 30 April 2026. You are a Chartered Accountant at BFC Consultants and you have been provided with the following trial balance to help you prepare the financial statements.

Kaabu's trial balance as at 31 March 2026 is shown below.

	Dr K'000	Cr K'000
Equity shares of K0.75 each 31 March 2026 (note (1))		45,000
Share premium 31 March 2026 (note (1))		7,500
Retained earnings 1 April 2025		12,300
8% loan notes		22,500
Owned plant and equipment at cost	120,000	
Plant and equipment accumulated depreciation -1 April 2025		48,000
Inventory at 31 March 2026	28,550	
Trade receivables	37,200	
Bank		2,900
Deferred tax		2,200
Trade payables		6,600
Right of use asset (plant)	35,000	
Leased plant accumulated depreciation-1 April 2025		7,000
Lease liabilities		29,300
Provision for decommissioning		6,500
Revenue		355,000
Cost of sales	280,500	
Administration expenses	19,000	
Distribution costs	8,200	
Loan note interest paid	1,800	
Interim dividends paid	6,900	
Current tax		1,550
Lease rental paid on 31.03.2026	9,200	
	546,350	546,350

The following additional information is relevant:

(1) The equity shares and share premium balances in the above trial balance include a fully subscribed rights issue of 1 for 5 shares at K1 per share.

(2) The Right of Use Asset (ROUA) is leased plant that was acquired on 1 April 2024 under a five-year lease agreement which meets the definition of a lease under IFRS 16 leases. The carrying amount of the leased plant in the trial balance is the present value of the future lease payments at the inception date. The lease rentals are K9.2 million per annum

payable on 31 March each year. The rate of interest implicit in the lease is 10%. The useful life of the leased plant is 7 years from commencement.

Owned plant requires decommissioning at the end of its useful life. On 1 April 2023, the present value of K6.5 million for decommissioning was correctly accounted for. However, no finance cost has been recorded in the past 3 years. Kaabu Co's cost of capital is 10%.

Note: Depreciation is yet to be charged on both owned and leased plant. Owned plant is depreciated at 20% per annum on cost. All depreciation is charged to cost of sales.

(3) During the year to 31 March 2026, one of Kaabu's major customers sued the company for supplying damaged goods. The customer is claiming damages of K200,000. On 31 March 2026, Kaabu's lawyer advised that it is probable that the customer will win the case and the legal settlement of K140,000 is probable.

(4) An 8% loan note was issued on 1 April 2025 at its face value of K22.5 million. Costs of K700,000 directly related to the issue of the loan note were incurred and have been included in the administrative expenses. The loan note will be redeemed on 31 March 2028 at a substantial premium. The effective interest rate applicable is 12%.

(5) A provision for current tax for the year ended 31 March 2026 of K5.250 million is required. The balance on current tax in the trial balance above represents the under/over provision of tax liability for the year ended 31 March 2025. The tax base of Kaabu's net assets was K18 million less than the carrying amounts. The income tax rate of Kaabu Co. is 25%. Any deferred tax adjustment should be reported in the statement of profit or loss.

(6) Directors of Kaabu Co. declared a final dividend payout of K0.02 per share on 20 March 2026.

Required:

Prepare for Kaabu Co:

(a) The statement of profit or loss and other comprehensive income for the year ended 31 March 2026. (10 marks)

(b) The statement of financial position as at 31 March 2026. (10 marks)

[Total: 20 Marks]

QUESTION THREE

Minga Co. is a public limited company, listed on the Securities Exchange Commission (SEC) and Capital Market. The financial statements below are provided to help you analyse the financial performance and position of the company for the year ended 31 March 2026.

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

	2025 K'000	2024 K'000
Revenue	90,000	125,000
Cost of sales	(60,000)	(75,000)
Gross profit	30,000	50,000
Distribution costs	(8,750)	(13,250)
Administrative expenses	(9,500)	(7,250)
Finance coats	(1,000)	(2,000)
Profit before tax	10,750	27,500
Income tax expenses	(3,250)	(8,250)
Profit for the year	7,500	19,250

Statements of financial position as at 31 December:

Assets:	2025 K'000	2024 K'000
Non-current assets:		
Property, plant and equipment	40,750	52,500
Current assets:		
Inventories	8,500	14,500
Trade receivables	3,250	6,000
Cash and cash equivalents	3,750	0
Total current assets	15,500	20,500
Total assets	56,250	73,000
Equity and liabilities:		
Equity:		
Equity shares of K1 each	25,000	25,000
Retained earnings	7,500	10,000
Total equity	32,500	35,000
Non-current liabilities:		
10% loan notes	10,000	20,000
Current liabilities:		
Trade payables	10,750	7,750
Current tax payable	3,000	6,750
Bank overdraft	0	3,500
Total current liabilities	13,750	18,000
Total equity and liabilities	56,250	73,000

The following information is relevant:

(1) On 1 January 2025, a strong competitor with cheaper products entered the market. To maintain the market share, Minga responded by discounting a number of its products and undertook an advertising campaign through local television, to raise brand awareness.

(2) A significant amount of old brand inventory was written off in October 2025 due to storage deficiencies. No insurance had been undertaken for the inventory.

(3) Minga launched a new product in July 2025 in order to beat the competition, under a new brand name and went into negotiations with large chain of stores for its distribution.

(4) In September 2025, Minga received compensation of K4 million from its insurers for a distribution truck that was involved in an accident and had not been in use since April 2025.

(5) Minga sold some surplus non-current assets with carrying amounts of K5 million for K8 million cash in June 2025.

(6) The asset turnover for Minga is 2.3 times for 2024 and 2.1 times for 2025

(7) The following are the ratios for Minga for the year ended 31 December 2024:

Gross profit margin	40%
Operating profit margin	23.6%
Return on capital employed	53.6%
Receivables days	17 days
Inventory days	71 days
Payables days	38 days
Gearing (Debt/debt+equity)	36.4%
Asset turnover	2.3 times

Required:

(a) Calculate the equivalent ratios for Minga Co for the year ended 31 December 2025. (8 marks)

(b) Taking into account, the comparative information, comment on the financial performance and position of Minga Co for the year ended 31 December 2025. (12 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) The International Financial Reporting Standards (IFRSs) are developed through an international consultation process called 'the due process', which involves interested stakeholders from around the world.

Required:

Describe the IFRS foundation's standard setting process. (10 marks)

(b) Your accounts clerk has requested your guidance on the accounting matters below. You are required to help him, so that he can have a clear understanding of all the matters below.

(i) If the seller continues to use the asset while actively advertising the asset to locate the buyer, would the asset be classified as a non-current asset held for sale according to IFRS 5? (2 marks)

(ii) A company has classified the asset as a non-current asset held for sale. However, management has no formal plan to market the asset or look for a buyer, since the asset is on high demand. Can this asset be classified as a non-current asset held for sale according to IFRS 5? (2 marks)

(iii) A company classified the asset as a non-current asset held for sale. The company was actively marketing the asset at a price of K75 million, while the fair value of similar assets on the market was K80 million. However, the market conditions have deteriorated and the fair value of similar assets on the market has reduced to K70 million. Can this asset still be classified as a non-current asset held for sale according to IFRS 5? (2 marks)

(iv) A company has been sued for supplying expired products. The customer is claiming damages of K300,000 and the company lawyer has advised that there is 60% chance that the company will lose the case and compensation of K210,000 and other legal costs of K50,000 are probable. Should the provision be recognised? (2 marks)

(v) A company recorded inventory at cost K20,000 in its financial statements at the reporting date. However, 2 days after the reporting date, the same inventory was sold for K21,000 and marketing costs of K1,500 were paid to the agent as commission. Has the inventory been correctly accounted for? (2 marks)

[Total:20 marks]

QUESTION FIVE

(a) The Directors of Mukapasa Plc are preparing financial statements for the year ended 31 December 2025. During the finalisation of the draft financial statements for the period, the financial reporting matters below arose and the financial reporting matters have arisen of need your explanation and advise.

On 1 January 2024, Mukapasa delivered a motor vehicle to a customer based in Kasama as a sale of trading inventory. The customer was invoiced K5 million which was immediately settled in full on that date. In addition to sale of the Motor vehicle, Mukapasa agreed to service the Motor vehicle for the customer free of charge over a period of three (3) years commencing 1 January 2024. Servicing this type of Motor vehicle is normally invoiced at K1.2 million (ignore discounting and compounding).

In the financial statements for the year ended 31 December 2024, Mukapasa reported the whole invoice amount of K5 million as revenue for that year. Subsequently, after financial statements for the year to 31 December 2024 were published, the Directors of Mukapasa realised that the transaction was not properly accounted for in accordance with *IFRS 15 Revenue from Contracts with Customers*. They have identified that IAS 8 must apply in correcting the past year's error in preparing the financial statements for the year to 31 December 2025.

They have asked you to advise them on how to apply the IAS 8 requirements in correcting this prior period error. You must also show the entries required to correct the error as at 1 January 2025 and the financial statement extracts in respect of the year to 31 December 2025.

Required:

(i) Explain 'control' and factors that indicate control has moved to the buyer according to IFRS 15 *Revenue from Contracts with Customers*. (5 marks)

(ii) Advise the Directors of Mukapasa Plc, taking into account the requirements of IFRS 15 and IAS 8, when addressing their concerns in each case above. (8 marks)

(b) The public sector remains the largest employer and buyer of goods and services thereby complimenting and supporting private sector development. The International Public Sector Accounting Standards Board (IPSASB) was established to promote reliable and consistent accounting practices within the public sector.

Required:

(i) Explain four (4) objectives of the International Public Sector Accounting Standards Board (IPSASB). (4 marks)

(ii) Briefly, explain three (3) ways of measuring the financial performance of public sector entities. (3 marks)

[Total 20 Marks]

END OF PAPER

CA 2.1 FINANCIAL REPORTING

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) A subsidiary may be excluded from being consolidated under the following circumstances:

- When the parent company no longer has control, whether through voting rights, or management influence, usually happens when part of the investment is disposed of.
- When subsidiary faces severe restrictions or contractual limits on transferring funds, like sanctions.
- When the subsidiary is held for sale and discontinued operation

(b) Python Co Group consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2026.

	K'000
Revenue [92,750+(4/12*45,750)-4,000 inter -sales]	104,000
Cost of sales [70,700+(4/12*36,300)-4,000+470W7-100W3+200W4]	(79,370)
Gross profit	24,630
Operating expenses ([8,000+(4/12*3,200+4,000W2]	(13,067)
Profit from operations	11,563
Investment income (9,000-7,500 +1,500*4/12)	2,000
Profit before financing and income taxes	13,563
Interest expense [5,600+(4/12*2,400+300 W10]	(6,700)
Profit before tax	6,863
Income tax expense [4,200+(4/12*1,150)]	(4,583)
Profit for the year	2,280
Other comprehensive income:	
Gain on revaluation of land (1,500+750)	2,250
Fair value gain of financial asset (W6)	600
Total comprehensive income	5,130
Profit for the year attributable to:	
Owners of the parent (bal fig)	2,955
Non-controlling interest (W13)	(675)
	2,280
Total comprehensive income attributable to:	
Owners of parent (bal fig)	5,618
Non-controlling interest (W14)	(488)
	5,130

(c) Python Co group consolidated statement of financial position as at 31 March 2026

Assets	K'000
Non-current assets	
Property, plant and equipment (38,300+15,450-2,300W3-470W7	50,980

Financial asset (W6)	1,500
Goodwill (W2)	18,350
Total non-current assets	70,830
Current assets (14,700+5,600+180W5-680W5-200W4)	19,600
Total assets	90,430
Equity and liabilities:	
Equity:	
Equity shares of K1 each (14,000+3,600W8)	17,600
Share Premium (W8)	23,400
Other components of equity (W12)	3,663
Retained earnings (W11)	7,205
Equity attributable to owners of the parent	51,868
Non-controlling interest (W9)	3,212
Total Equity	55,080
Non-current liabilities:	
10% loan notes (4,000+2,000)	6,000
5% loan notes 10,000+300W10)	10,300
Total non-current liabilities	16,300
Current liabilities (14,400+4,900-500W5+250W3)	19,050
Total equity and liabilities	90,430

WORKINGS

(1) Group structure

Python Co



75% acquisition 4 months before the reporting date

Cobra Co

(2) Goodwill on acquisition of Cobra

	K'000
Purchase consideration:	
Cash	1,000
Share exchange (75%*8,000/5 shs*3 shs*K7.5)	27,000
NCI at acquisition	3,700
	31,700
Less fair value of net assets of Cobra at acquisition (W3)	(9,350)
Gross goodwill	22,350
Impairment loss	(4,000)
Net goodwill	18,350

(3) Fair value of net assets of Cobra Co

	At acquisition	At reporting	movement
	K'000	K'000	K'000
Share capital	8,000	8,000	0
Retained earnings (5400-1400)	4,000	5,400	1,400
FV machinery	(2,400)	(2,400)	0
FV Machinery dep		100	100
Contingent liability	(250)	(250)	0
Unrealized profit	0	(200)	(200)
	9,350	10,650	1,300

(4) Unrealized profit

25/125*4,000=800*1/4=200

(5) Cash in transit

Dr group cash	K180,000
Cr group receivables	K180,000

Intra group balance cancellations

Dr group payables	500,000
Cr group receivables	500,000

(6) Financial asset-equity investment

	K'000
Per question total investment	1,900
Less recorded consideration - cash	(1,000)
Financial asset (Balance)	900
Fair value gain	600
Fair value c/f	1,500

(7) Python Co's plant impairment

	K'000
Carrying amount of plant at reporting date	2,000
FV-costs (1,600-70)	1,530
Value in use	1,400

Recoverable amount is the higher of fair value less costs of disposal and value in use. Therefore, the recoverable amount of Python Co's plant is K1,530 and since this is less than the carrying amount, the plant is impaired by K470. This to be accounted for by the following double entry:

Dr group retained earnings/cost of sales	470
Cr PPE	470

(8) Share exchange values

	K'000/shares
Shares acquired (75%*8,000)/5*3	3,600
To equity share capital account (* K1)	3,600
To share premium (other components of equity) (*K6.50)	23,400

(9) NCI at reporting date- statement of financial position

	K'000
NCI at acquisition	3,700
NCI share of Cobra Co's PARE(25%*1,300)	325
NCI share of impairment loss (25%*4,000)	(1,000)
OCI% of Rev Surp (25*750)	187
	3,212

(10) 5% loan note

	Bal b/f	Effective Interest @8%	Nominal interest @ 5%	Bala c/f
	K'000	K'000	K'000	K'000
Year ended 31/03/2026	10,000	800	(500)	10,300

As the nominal interest of K500,000 was already accounted for in the separate financial statements of Python, only the difference between the nominal interest and effective interest needs to be accounted for in the consolidated financial statements. Additionally, the nominal value of the loan was recognized and only the difference between it and the balance c/f (i.e k300,000 (10,300,000-10,000,000) needs to be recognized. The following journal entry shall apply:

Dr finance cost (profit or loss)/group retained earnings K300,000
Cr loan note K300,000

(11) Group retained earnings:

	K'000
Python Co	10,000
Python Co's share of Cobra Co's post-acquisition RE (75%*1,300 W3)	975
Python Co's share of impairment loss of goodwill (75%*4,000)	(3,000)
Python Co's Finance cost of 5% loan note, not yet accounted for W10	(300)
Python Co's plant impairment loss (W7)	(470)
	7,205

(12) Other components of equity:

	K'000
Python Co gain on land revaluation	1,500
Python Co share of Cobra Co revaluation gain on land (75%*750)	563
Python financial asset revaluation gain (1,000+600)	1,600
	3,663

(13) NCI in profit for the year:

	K'000
NCI share of Cobra Co PAPAT (25%*[4/12*4,200])	350
NCI share of FV depreciation reversal (25%*2,400/8yrs*4/12)	25
NCI share of unrealized profit (25%*200 W4)	(50)
NCI share of impairment loss of Goodwill (25%*4,000)	(1,000)
	(675)

NCI in OCI for SPLOCI:

	K'000
NCI in PFY	(675)
NCI share of Cobra Co's gain on land revaluation (25%*750)	187
	(488)

SOLUTION TWO

(a) Kaabu Co's statement of profit or loss and other comprehensive income for the year ended 31 March 2026

	K'000
Revenue	355,000
Cost of sales (W6)	(311,500)
Gross profit	43,500
Administrative expenses (W6)	(18,440)
Distribution costs	(8,200)
Operating profit	16,860
Finance costs(W9)	(6,333)
Profit before tax	10,527
Income tax expense (W5)	(6,000)
Profit for the year	4,527

(b) Kaabu Co's statement of financial position as at 31 March 2026

Non-current assets:	**K'000**
Property, plant and equipment (W2)	48,000
Right Of use asset (ROUA) (W2)	21,000
Total non-current assets	69,000
Current assets	
Inventories	28,550
Trade receivables	37,200
Total current assets	65,750
Total assets	134,750

Equity and liabilities:	
Equity shares of K0.75 each	45,000
Share premium	7,500
Retained earnings (W7)	7,362
Total equity	59,862
Non-current liabilities	
8% loan notes (W4)	22,616
Lease liability (W2)	16,133
Deferred tax (W5)	4,500
Provision (W3)	8,652
Total non-current liabilities	51,901
Current liabilities:	
Trade payables	6,600
Bank overdraft	2,900
Lease liability (W2)	6,897
Dividends payable (W8)	1,200
Provision	140
Current tax payable	5,250
Total current liabilities	22,987
Total equity and liabilities	134,750

(1) Rights issue of shares

1	=	X
6	=	K45,000
6X/6	=	K45,000/6
X	=	7,500

Therefore, K7,500 is the value of the newly issued shares

Share premium arising from this is (K7,500/K0.75*K0.25= K2,500

The opening balance are ascertained as balancing figures in the statement of changes in equity.

(2) Property, plant and equipment

	Owned plant K'000	Leased plant K'000	Total K'000
Cost b/f 1/4/25	120,000	35,000	155,000
Accumulated depreciation b/f	(48,000)	(7,000)	(55,000)
Carrying amount b/f	72,000	28,000	100,000
Depreciation expense:			
0wned plant (20%*120,000)	(24,000)		(24,000)
Leased plant (35,000/5 years)	0	(7,000)	(7,000)
Carrying amounts c/f 31.3.26	48,000	21,000	69,000

Lease obligation

	Bal b/f K'000	interest@10% K'000	rental K'000	Bal c/f K'000
Year end 31.3.25	35,000	3,500	(9,200)	29,300
Year end 31.3.26	29,300	2,930	(9,200)	23,030
Year end 31.3.27	23,030	2,303	(9,200)	16,133

Non-current liability 16,133
Current liability 6,897
Finance cost =2,930

(3) Provisions for decommissioning and warranties

	K'000
Decommissioning cost on 1 April 2023	6,500
Unwinding year to 31 March 2024	650
Decommissioning cost 1 April 2024	7,150
Unwinding year to 31 March 2025	715
Decommissioning cost 1 April 2025	7,865
Unwinding year to 31 March 2026	787
Decommissioning cost 31 March 2026	8,652

Dr retained earnings b/f	1,365	
Dr profit or loss	787	
Cr provision for decommissioning		2,152

Warranty provision (for damaged goods)
This is a matter of IAS 10 events after the reporting period. On 31/3/2026, the provision was not recognized as the lawyer advised that payment was not expected to be made hence (not probable), but before financial statements were approved, it became probable that a K140,000 would be paid and according to IAS 10, events after the reporting period, this needs to be adjusted for by the following double entry:

Dr administration expenses	140	
Cr provision		140

(4) 8% loan notes

	Balance b/f K'000	Effective interest K'000	Nominal interest K'000	Balance c/f K'000
Year ended 31/3/2026				
(22,500-700)	21,800	2,616	1,800	22,616

The direct costs on the issue of loan notes that were debited to administrative expenses need to be reversed by crediting the expense account and debiting the loan note account by the following entries.

Dr loan note	700	
Cr administrative expenses		700

This gives initial measurement of the loan amounting to K21,800 (22500-700)

(5) Income tax expense

	K'000
Current tax c/f	5,250
Deferred tax c/f (25%*18,000)	4,500
	9,750
Less current tax b/f	(1,550)
Less deferred tax b/f	(2,200)
Profit or loss charge	6,000

(6) Operating expenses

	Cost of sales	Administrative expenses	Distribution costs
Per trial balance	280,500	19,000	8,200
Depreciation expense:			
Owned plant (20%*120,000)	24,000		
Leased plant (35,000/5 years	7,000		
Direct costs on loan issue		(700)	
Provision for warranty		140	
	311,500	18,440	8,200

(7) Retained earnings at 31.3.2026

	K'000
Balance b/f	12,300
Prior period adjustment	(1,365)
Restated balance b/f	10,935
Profit for the year	4,527
Dividends paid/payable (W8)	(8,100)
Balance c/f	7,362

(8) Dividends paid/payable

	K'000
Interim dividends paid	6,900
Final dividends declared (K45,000/K0.75*K0.02)	1,200
Total	8,100

(9) Finance cost for the year

	K'000
8% loan note (W4)	2,616
Leased plant (W2)	2,930
Unwinding of discount (W3)	787
	6,333

SOLUTION THREE

(a)	Ratio	Substitution K'000	2025	2024 Per question
	Gross profit margin:			
	Gross profit/revenue *100	30,000/90,000*100	33.33%	40%
	Operating profit margin:			
	Operating profit/revenue*100	10,750+1,000/90,000*100	13.1%	23.6
	ROCE:			
	Operating profit/capital employed*100	11,750/(56,250-13,750)*100	27.6%	53.5%
	Asset turnover (given)		2.1 times	2.3 times
	Receivables days:			
	Trade receivables/revenue*365 days	3,250/90,000*365 days	13 days	17 days
	Inventory days:			
	Inventory/cost of sales *365 days	8,500/60,000*365 days	52 days	71 days
	Payables days:			
	Payables/cost of sales*365 days	10,750/60,000*365 days	65 days	38 days
	Gearing ratio:			
	Debt/debt +equity * 100	10,000/10000 +32,500 *100	23.5%	36.4%

RECALCULATED (ELIMINATING EFFECTS OF DISPOSAL AND INSURANCE CLAIM				
	Operating profit margin	11,750-3000-4000/90000*100	5.3%	23.6%
	ROCE	11,750-3,000-4000/(56,250-3000-4000)-13,750 * 100	13.4%	53.6%

(b)

Profitability

Revenue declined by 28% in 2025 (K125m-K90m/K125m). This may have been due to Minga's response to the strong competitor's entry attack based on price for which Minga reiterated.

It is unlikely the undercutting of price increased the demand for Minga's products, hence the reduced revenue. This reduced revenue is equally responsible for a decrease in gross profit margin to 33.33% in 2025 from 40% in 2024.

In addition, the inventory write-off in 2025 decreased gross profit and hence the gross profit margin. The lengthy negotiations to secure market for the new brand entail that the brand must have been offered at reduced margins, further impacting on reduced gross profit as well as reduced revenue.

The lower gross profit margin in 2025 has a spillover effect on the operating profit margin decrease by 44% (23.6%-13.1%/23.6%). This decrease worsens when we eliminate the effect of profit from disposal of excess non-current assets and insurance claim as the operating profit margin gets to a meager 5.3%.

It is also important to note that the new product has only been around for six months in 2025. It is expected that future performance could reflect a true picture of the new brand's performance when sales of it will go for the entire year.

Minga's performance based on ROCE has deteriorated in 2025 through a decrease of 48% (53.6%-27.6%/53.6%). This decrease is better before eliminating the effects of disposal of non-current assets and insurance claim income as one off items. When these are eliminated, comparable ROCE is a disappointing 13.4%, a decrease of 75% (53.6%-13.4%/53.6%).

This massive drop in ROCE is unlikely to be due to inefficiency with which assets are utilized, but due to the disappointing profit because of decreased revenue as well as increased administrative costs in 2025 which increased overall operating expenses.

Among contributing factors are aggressive marketing campaigns to raise brand awareness and discounting a selection of products to customers in general. This is confirmed by the higher administrative cost to sales ratio of 10.5% compared to 5.8% in 2024. There is a high chance that additional marketing expenses are included in administrative expenses as the distribution costs to revenue ratio has declined from 10% in 2024 to 9.7% in 2025.

This decline may be attributed to the truck involved in an accident that was not operational for about nine (9) months in the year, whose operational costs may have been higher than alternative transportation arrangements used and absence of repair costs incurred as the truck had been insured.

Liquidity and working capital

The combination of lower receivables days, lower inventory days and higher payables days entails efficient working capital management which is responsible for the freeing of cash. However, a detailed look at inventory days appears to reveal something different. The inventory write-offs may have reduced inventory and hence the days ratio.

It may also be due to the higher cost of sales to revenue ratio in 2025 of 66% compared to 60% in 2024. It is also unusual that Minga does not appear to have stocked up in readiness for the feedback to the aggressive marketing embarked on in 2025. When the aggressive marketing is successful, the company faces a risk of stock outs in the near future

Gearing:

Minga's gearing reduced in 2025 by 35% (36.4%-23.5%/36.4%). This is due to the decrease in the loan from K20m to K10m in 2025. The decrease is not in any way because of increase in equity as no movement happened to equity capital whereas there was a decrease in retained earnings from K35m to K32.5m. The reduction in loans has equally led to reduction in finance costs thereby giving confidence to shareholders for potential payment of dividend in the future.

Conclusion

The performance of Minga in 2025 has deteriorated. This appears to be against the initial strategy of beating competition. However, the results in general are likely going to improve in the future when some strategies' effect mature over time.

SOLUTION FOUR

(a) (i) **Setting the agenda**

By developing high quality IFRSs, the IASB seeks to address a demand for better quality information that is of value to users of financial reports. Therefore, any proposed agenda item must address user needs. This means IASB to consider:

- Relevance and reliability of proposed agenda item
- Existing guidance available
- Quality of proposed IFRS
- Resource constraint

In addition, agenda item is discussed with other standard setters like the IFRS advisory Committee and IFRS Interpretations committee. The IASB approval of agenda items is by simple majority.

(ii) **Planning the project**

IASB decides whether to conduct project alone or with other standard setters. When considering whether to add an item to its active agenda or not, the IASB assesses the issue against criteria such as clarifying, correcting, well defined and sufficiently narrow in scope and completed on a timely basis. The IASB then establishes a working group and project team would be selected. Project manager draws up project plan under supervision of directors of the technical staff.

(iii) **Developing and publishing the discussion paper**

Developing and publishing the exposure draft

This is a mandatory step. An exposure draft is IASB's vehicle for consulting the public. It sets out specific proposal in form of proposed IFRS or amendment to it. IASB considers issues on basis of staff research, recommendations and comments received from exposure draft. Draft requires minimum 9 votes once balloted for it to be published for public comment. It requires comment period of 120 days. This period may be reduced to 30 days in times of urgency of the matter. After comment period, the IASB reviews the comment letters received and the results of other consultations. Further comments and suggestions may be solicited through field visits or arranged public hearing. IASB continually consults Advisory Council and maintains contact with it.

(iv) **Developing and publishing the standard**

This is done during IASB meetings, when the IASB considers the comments received on the exposure draft.

This is not mandatory step though. It includes comprehensive over view of the issue, possible approaches in addressing the issue, preliminary views of its authors or the IASB. It then avails an invitation to comment. Later, project team analyses and summarizes the comment letters for IASB consideration. If IASB decides to explore the issues further, it may seek additional comments and suggestions by conducting field visits, or by arranging public hearings or round table meetings.

(b) (i) For an asset to be classified as held for sale, it must be available for immediate sale in their present condition. If the seller continues using the asset, it entails that such an asset is not available for immediate sale and does not meet the classification criteria per IFRS 5.

(ii) IFRS 5 non current assets held for sale and discontinued operation sales that a sale is highly probable to sell if management is committed to a plan to sale and are actively looking for a buyer. This means their non involvement in looking for buyer or actively marketing the asset renders the sale less probable from taking place and hence disqualifies the asset from classification.

(iii) IFRS 5 sales the asset held for sale to be marketed at a reasonable price. This is a price either equal or less than the fair value of similar assets on the market. As the market conditions deteriorated, the fair value fell below the price at which the asset was being marketed. If it is to continue being held for sale and classified as such, there is need for the price at which it is marketed to be reduced or else then if the asset continues to be held for sale but at a price in excess of its fair value, then in the absence of a price reduction the asset is not available for immediate sale.

(iv) This means there is a high chance of the firm compensating the client for their loss. According to IAS 37, provisions, contingent liabilities and contingent assets, a provision needs to be recognized for an amount of the customer claim expected to be paid out and the legal charges hence K260,000 to be recognized as an expense and as a provision. The probable is confirmed by the lawyer's estimate that there is 60% chance the entity will lose the case hence the need to make the purported provision.

(v) IAS 2 Inventories states that inventory to be valued at the lower of cost and net realizable value. In the matter involving the peel, the cost of inventory is K20,000 and the net realizable value is K19,500 (K21,000-K1,500), which is lower than cost. The fact that the sale took place after the reporting, date, inventory still needs to be adjusted for following provisions of IAS 10 events after the reporting date. This standard makes an assumption real that the NRV must have fallen below cost before financial statements were approved for issue to the shareholders.

SOLUTION FIVE

(a) (i) The following are the indicators of the transfer of control:

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

(ii) IAS 8 requires that prior period errors are corrected retrospectively by adjusting opening balances in the year of correction for the cumulative effect of the error and by restating the previous amounts (comparatives) as reported in the period of correction.

In this case, the directors made an error in preparing financial statements for the year to 31 December 2024 by not correctly applying IFRS 15. The delivery of the Motor vehicle and the commitment to service the same constituted two performance obligations in accordance with IFRS 15. The total invoice amount (transaction price) must have been allocated to the two performance obligations and the amount of each obligation recognised as revenue at the point the obligation was satisfied or over the periods the obligation was satisfied. In this case, only the amount allocated to the delivery of the Motor vehicle should have been recognised at the date of delivery. The amount attributable to the servicing was supposed to be recognized over the three years the Motor vehicle had to be serviced (straight line basis).

With the above in mind, of the total invoice amount, Mukapasa should have recognised a deferred revenue liability at 31 December 2024 equal to K0.8 million (ie 1.2*2/3) in respect of the servicing for the next 2 years. The required entries to correct a past error as at 1.1.2025 are therefore:

	K'000
Dr Retained earnings	800
Cr Deferred Revenue liability	800

In addition, revenue for the year to 31 December 2024 as a comparative in the financial statements for the year to 31 December 2025 would be reduced by K0.8 million.

In the year to 31 December 2025, Mukapasa must report revenue in respect of servicing for that year equal to K0.4 million (ie 1.2/3). The required entries are to debit deferred revenue and credit revenue. The deferred revenue liability to report in the statement of financial position at 31 December 2026 would be K0.4 million (ie 1.2*1/3). This would be recognised as revenue upon servicing in the third year (ie y/e 31 December 2026).

(b) (i) **Objectives of IPSASB**

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

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

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

(ii) **Measuring performance of public sector bodies**

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

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

END OF SOLUTIONS

CA ZAMBIA PROGRAMME EXAMINATIONS

CA APPLICATION ADVANCED DIPLOMA IN ACCOUNTANCY

CA 2.2: MANAGEMENT ACCOUNTING

TUESDAY 8 SEPTEMBER 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: Four (4) Optional scenario Questions. Attempt any Three (3) 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

This question is compulsory and MUST be attempted.

QUESTION ONE – (COMPULSORY)

Gumbo Ltd is involved in the manufacture and sell of two (2) types of Gum boots (Light duty and Heavy duty) used mainly in the mining industry. The company manufactures the gum boots using the same type of materials but the amount of quantity used differs between the two products. Over the last five years, the average sales mix has been 40% light duty and 60% heavy duty. The company anticipates that this sales mix ratio will continue in the year 2026. For the year 2026, the company is targeting to make a profit of K1,024,000. The anticipated production and sales details of the products for the year 2026 are as follows:

Product	**Light**	**Heavy**
Opening inventory (in units)	2,000	3,000
Closing inventory (in units)	3,800	4,200
	K	K
Selling price per unit	400	600
Variable cost of production per unit	302	452
Raw materials usage per product	1kg	2kg

The projected data in respect of inventory of raw materials are as follows:

Opening inventory	5,400 kg
Closing inventory	6,800 kg

The average purchase price for the raw materials has been budgeted at K150 per kg.

In budgeting for the fixed production overheads for 2026, the company will use an incremental budget approach where the 2025 fixed production overheads will be increased by 20%. The 2025 total production costs were recorded as follows:

Quarter	**Production Volume (units)**	**Total Production costs**
		K
1	20,000	5,200,000
2	16,000	4,560,000
3	13,000	4,080,000
4	24,000	5,840,000

Gumbo Ltd uses the standard marginal costing system to report and measure the performance of the company's operations. As at the end of the year 2026, the Management Accountant produced the following actual sales details:

Product	Light	Heavy
Actual sales in units	31,400	52,600

Required:

(a) Calculate the annual fixed production overheads for the year 2025, using the high low method. (6 marks)

(b) Using the calculated fixed production overheads in (a) above, calculate the budgeted fixed production overheads for the year 2026. (2 marks)

(c) Calculate the:

(i) Breakeven sales mix in units. (6 marks)

(ii) Analyse the breakeven sales mix calculated in (c) (i) into units for each product. (2 marks)

(iii) Required number of units to be sold per product to achieve the target profit of K1,024,000. (4 marks)

(d) Using the sales units calculated in (c) (iii), prepare the following budgets for the year 2026:

(i) Production budget for products light and heavy (in units). (4 marks)

(ii) Raw materials purchase budget in Kwacha. (5 marks)

(e) Calculate the:

(i) Total sales volume variance using the sales units calculated in (c)(iii) above. (5 marks)

(ii) Total sales mix variance. (6 marks)

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

Milambo Level 1 Hospital (ML1H) and Senama Level 1 Hospital (SL1H) are based in Mansa District. They both attend to in-patients and out -patients. A recent survey found that patients are generally satisfied with the services provided and reported positive hospital care experiences.

However, issues such as average experiences in appointment scheduling, waiting times and sub-optimal accessibility to transport suggest that improvements in appointment systems, transportation, infrastructure and waiting area comfort could enhance the overall patient experience.

The above issues dealt with the qualitative aspects of performance of the hospitals. But management at both hospitals would like to know the quantitative factors like the cost per in-patient and out- patient attendances, bed occupancy, etc. to measure the efficiencies of these systems.

The following information relates to the two (2) hospitals for the year ended 31 March, 2025:

1.0 Patient attendance and bed occupancy.

Hospital	ML1H	SL1H
Number of in-patients	7,700	355
Average stay per in-patient	5 days	78 days
Total number of out-patient attendances	65,000	1,750
Number of available beds	255	160
Average number of beds occupied	201	154

2.0 Cost analysis.

	ML1H		**SL1H**	
	In-patient K	Out-patient K	In-patient K	Out-patient K
1.0 PATIENT CARE SERVICES				
1.1 Direct treatment services, e.g. nursing care	3,106,950	538,200	896,602	35,245
1.2 Medical supporting services				
1.2.1 Diagnostic, e.g. urinal analysis	240,240	156,000	11,076	10,325
1.2.2 Other services, e.g. physiotherapy	118,580	144,300	38,766	13,895
2.0 GENERAL SERVICES				
2.1 Patient related, e.g. catering	317,240	7,800	199,922	3,850
2.2 General, e.g. administration	1,098,380	473,850	706,450	28,350

Required:

(a) Prepare separate statements for each hospital:

(i) Cost per in-patient day (to 2 decimal places) (4 marks)

(ii) Cost per out-patient attendance (to 2 decimal places) (4 marks)
N.B.it is preferable to present the statements in a columnar format.

(iii) Calculate for each hospital the bed - occupation percentage. (2 marks)

(iv) Using the information in parts (i) and (ii), comment on the cost per in-patient day and per out-patient attendance. (4 marks)

(v) Describe two (2) situations in which the time basis of remuneration is likely to be more appropriate than the piece-work scheme. (3 marks)

(b) State an appropriate cost unit for each of the following businesses:

(i) Professional accounting office. (1 mark)

(ii) Steel works. (1 mark)

(iii) Restaurant. (1 mark)

[Total: 20 Marks]

QUESTION THREE

Bright-Way Ltd (BW Ltd) is a small company that makes high quality desk lamps. It is launching a new product called the Spark-Lite. The management team wants a simple, easy-to-follow plan for setting the price and recording costs. There are many other lamps available, but the Spark-Lite has a unique eye protection feature. The company uses a Just-In-Time (JIT) system, meaning they do not keep much inventory. They want to keep their bookkeeping as simple as possible. Management wants to make sure the products cover the costs, but they also want to be competitive enough to get people to try the new product.

You are employed as an Assistant Accountant and have been asked to write a short briefing report to the Production Manager. Your report must explain the concepts of cost plus, marginal cost, target and life cycle pricing and how they might apply to the Spark-Lite taking into consideration the questions below from the Production Manager.

(1) Why might a small company like BW Ltd find cost plus pricing the easiest way to ensure they do not lose money on every lamp sold?

(2) Explain what marginal cost means in simple terms. If BW Ltd decides to price the lamp at only its marginal cost for a one-month grand opening sale, what is the main benefit and the main risk?

(3) Explain how BW Ltd would use the market price to decide how much they are allowed to spend on making the lamp?

(4) Explain why the Spark-Lite might need a higher price during its introduction stage compared to its decline stage?

Required:

(a) Prepare a report advising the production manager upon suitable pricing strategies for the Spark-Lite taking into account the following:

(i) Cost-Plus Pricing. (4 marks)

(ii) Marginal Cost Pricing. (4 marks)

(iii) Target Pricing. (3 marks)

(iv) Life Cycle Pricing. (3 marks)

(b) Explain three (3) differences between financial accounting and management accounting. (6 marks)

[Total: 20 Marks]

QUESTION FOUR

Mabvuto Ltd (M Ltd) is experiencing problems in obtaining supplies of its component. This component is called X and is used in making products P, Q, R and S.

Supplies of the component X will be restricted to 11,200 units for the month of May, 2026. M Ltd wishes to maximise the use of this component and there are no alternatives to it and no other suppliers.

Component X costs K40 per unit whilst the fixed costs are K160,000 per month. No inventories are held of finished goods.

The following information relates to products P, Q, R and S:

	P	**Q**	**R**	**S**
Maximum demand (units)	2,000	1,250	1,800	1,350
	K per unit	**K per unit**	**K per unit**	**K per unit**
Selling price	280	240	320	340
Component X	80	40	120	160
Other variable costs	140	180	120	80

Required:

(a) (i) Prepare an optimal production plan for the month of May, 2026 which will maximise M Ltd's profit. (7 marks)

(ii) Calculate the profit that will be earned in the month based on your optimal plan in part (a)(i). (3 marks)

(b) M Ltd manufactures three other products A, B and C that do not use component X. Each product is started in the Machine Shop and completed in the Finishing Shop. The following costs associated with the products are projected for the next trading period:

	A	**B**	**C**
Budgeted production units	6,000	8,000	2,000
	K	K	K
Direct materials	37	30	45
Direct labour cost per unit:			
• Machine Shop @K10 per hour	20	10	20
• Finishing Shop @K8 per hour	12	8	16
Prime cost per unit	69	48	81

Budgeted machine hours per unit for each product in the Machine Shop are 4 hours, 1.5 hours and 3 hours for products A, B and C respectively. The budgeted fixed overheads in the Machine Shop and Finishing Shop are K201,600 and K189,000 respectively.

Required:

(i) Calculate the fixed overhead absorption rate for the Finishing Shop and the Machine Shop based on:

(1) Labour hours. (2½ marks)

(2) Machine hours. (2½ marks)

(ii) Calculate the total cost per unit for products A, B and C. (5 marks)

[Total: 20 Marks]

QUESTION FIVE

Alpha Ltd is a manufacturing company that has been in operation for just two (2) years. It makes and sells two (2) products Kojo and Kofi. The management of Alpha Ltd have noted that the company lacks appropriate systems to provide management with appropriate information as the success of the organisation depends on data and information.

In view of the above, the management of Alpha Ltd would like to have systems in place, among them, a management accounting system, a budgeting system, and a responsibility accounting system.

Required:

(a) Explain financial and non-financial information. Give two (2) examples on each type of information that a management accounting system would provide to the management of Alpha Ltd. (6 marks)

(b) Explain the difference between budgeting and responsibility accounting. (2 marks)

(c) Explain any three (3) responsibility centres that Alpha Ltd could have in place. (6 marks)

(d) Explain to the management of Alpha Ltd any three (3) functions a system of budgeting does play in an organisation. (6 marks)

[Total: 20 Marks]

END OF PAPER

CA 2.2 MANAGEMENT ACCOUNTING

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) **Calculation of annual fixed production overheads for the year 2025, using the high low method**

(i) Variable cost of production

	Units	Total cost K'000
High	24,000	5,840
Low	13,000	4,080
Difference	11,000	1,760

Variable cost per unit = K1,760,000 / 11,000 = K160/unit

(ii) Fixed Production overhead per quarter using either the highest or lowest Units

	Low units K	High units K
Total cost	4,080	5,840
Less variable cost (Units x K160/unit)	2,080	3,840
Fixed costs	2,000	2,000

(iii) Therefore annual fixed production overheads = K2,000,000 x 4 **= K8,000,000**

(b) **Calculation of budgeted fixed production overheads for the year 2026**

Budgeted fixed production overheads = 2025 annual fixed production overheads x 1.2
= K8,000,000 x 1.2
=**K9,600,000**

(c) **Multi product Break Even Analysis**

(i) **Breakeven sales for the business in units**

Step 1: Calculate the contribution per unit

Product	**Light K**	**Heavy K**
Selling price per unit	400	600
Variable cost of production per unit	302	452
Contribution per unit	98	148

Step 2: Calculate the weighted average contribution per unit, using the sale mix of 40% Light and 60% Heavy or 4 to 6.

WA contribution per unit = $\frac{(98 \times 4) + (148 \times 6)}{(4 + 6)}$

WA contribution per unit = $\frac{1,280}{10}$ = K128

Or calculated as follows:

	K
Light duty (K98 x 4/10)	39.20
Heavy duty (K148 x 6/10)	88.80
WA contribution per unit	128.00

Step 3 Calculate the breakeven in sales

BEP in units = $\frac{\text{Total fixed costs}}{\text{Weighted average contribution per unit}}$

BEP in units = $\frac{\text{K9,600,000}}{\text{K128}}$

BEP mix in units = 75,000 units

(ii) **The breakdown of the breakeven sales in units**

This is calculated by multiplying the Breakeven point by the Unit sales mix ratio

	Units
Light duty (75,000 x 4/10)	30,000
Heavy duty (75,000 x 6/10)	45,000
Total	75,000

(iii) **Number of units to be sold to achieve the target profit of K1,024,000 and the breakdown per product of the required units**

Required units = $\frac{\text{Total fixed costs + target Profit}}{\text{Weighted average contribution per unit}}$

Required units = $\frac{\text{K9,600,000+ K1,024,000}}{\text{K128}}$

Required units = 83,000 units

Breakdown per product of the required units to be sold

	Units
Light duty (83,000 x 4/10)	33,200
Heavy duty (83,000 x 6/10)	49,800
Total	83,000

(d) **Budgets for the year 2026:**

(i) *Production Budget for the year 2026 in units*

Products	**Light**	**Heavy**
Target Sales	33,200	49,800
Add: closing inventory	3,800	4,200
Total Units required	37,000	54,000
Less: Opening Inventory	2,000	3,000
Total Units to be produced	35,000	51,000

(ii) *Raw Material Purchases Budget for the year 2026 in Kwacha*

	Kg
Production requirements	
Light (35,000 x 1kg)	35,000
Heavy (51,000 x 2 Kg)	102,000
	137,000
Add: closing inventory	6,800
Total Kg required	143,800
Less: Opening Inventory	5,400
Total Kg to be purchased (or budget in Kg)	138,400
X price per kg	x 150
Purchase budget in Kwacha	K20,760,000

(e) **Sales Variances**

(i) *Total Sales Volume Variance*

	Budgeted sales Units	Actual sales Units	Volume variance Units	Contrib'n per unit K	Volume variance K
Light	33,200	31,400	1,800 (A)	98	176,400 (A)
Heavy	49,800	52,600	2,800 (F)	148	414,400 (F)
Total	83,000	84,000			238,000 (F)

(ii) *Total Sales Mix Variance*

	Actual sales Units	Std sales mix (4:6) Units	Volume variance Units	Standard Contr'n/unit K	Volume variance K
Light	31,400	33,600	2,200 (A)	98	215,600 (A)
Heavy	52,600	50,400	2,200 (F)	148	325,600 (F)
Total	84,000	84,000	0		110,000 (F)

SOLUTION TWO

(a)

	ML1H			SL1H	
	Cost per In-patient day	Cost per Out-patient day		Cost per In-patient day	Cost per Out-patient day
Number of In-patient days (W.2)	38,500	-		27,690	-
Number of Out-patient attendances (W.2)	-	65,000		-	1,750
	K	K		K	K
1.0 PATIENT CARE SERVICES					
1.1 **Direct treatment services** (W.1)	80.70	8.28		32.38	20.14
1.2 **Medical supporting services** (W.1)					
• Diagnostic	6.24	2.40		0.40	5.90
• Other services	3.08	2.22		1.40	7.94
2.0 GENERAL SERVICES (W.1)					
Patient related	8.24	0.12		7.22	2.2
General	28.53	7.29		25.51	16.20
Total cost per patient	**K126.79**	**K20.31**		**K66.91**	**K52.38**

Alternatively:

(i) Cost / in-patient day

ML1H = (3,106,950+240,240+118,580+317,240+1,098,380) / 38,500 = K126.79

SL1H = (896,602+11,076+38,766+199,922+706,450) / 27,690 = K66.91

(ii) Cost / out-patient day

ML1H = (538,200+156,000+144,300+7,800+473,850) / 65,000 = K20.31

SL1H = (35,245+10,325+13,895+3,850+28,350) / 1,750 = K52.38

Working:

W.1 **Example** of cost per patient workings

	ML1H			SL1H	
	Cost per In-patient day	Cost per Out-patient day		Cost per In-patient day	Cost per Out-patient day
	K	K		K	K
Direct treatment services	80.70	8.28		**32.38**	**20.14**

3,106,950 ; 538,200; 896,602; 38,500 65,000 27,690 35,245 1,750					
Medical supporting services					
Diagnostic 240,240 ; 156,000 38,500 65,000	6.24	2.40		0.40	5.90
Other services 118,500 ; 144,300 38,500 65,000	3.08	2.22		1.40	7.94
2.0 GENERAL SERVICES					
Patient related 317,240 ; 7,800 38,500 65,000	8.24	0.12		7.22	2.2
General 1,098,380 ; 473,850 ; 38,500 65,000	28.53	7.29		25.51	16.20
Total cost per patient	**K126.79**	**K20.31**		**K66.91**	**K52.38**

W.2

N.B. Number of in-patient days = number of in-patients x average stay

- Number of in-patient days for ML1H: 7,700 x 5 days = **38,500 days**
- Number of in-patient days for SL1H: 355 x 78 days = **27,690 days**

(iii) Bed - occupation percentage.

- ML1H: (201÷255) X 100% = **78.82%**
- SL1H: (154÷160) X 100% = **96.25%**

(iv) Comment on the cost per in-patient day and per out-patient attendance.

Cost per in-patient day

SL1H has a lower cost than ML1H.This is partly due to SL1H having a higher bed-occupancy percentage. This indicates that this hospital is making more efficient use of the available resources. A higher bed-occupation means that the fixed costs are spread over more cost units, thus reducing the unit cost.

Cost per out-patient attendance
ML1H has a lower cost in this case. This is probably due to the large volume of patients. It is likely that more efficient systems are in operation to cope with the higher activity.

It is evident from the figures that the two hospitals care for very different types of patient. SL1H deals with long stays and does not attend to many out-patients. ML1H in-patients stay for a short time and are far fewer in number than the out-patients.

Thus, it can be seen that although comparable units (patient day; patient attendance per day) have been used, caution is necessary before reaching any firm conclusions regarding the relative costs.

(v) **TWO** situations in which time basis of remuneration is more appropriate than piece-work scheme.

(i) When the quality of work is more important than the quantity.
(ii) When there is no basis for piece-work measurement, e.g. for administration staff.
(iii) When the employee is learning the job.
(iv) When the employee has no control over the level of output.

(b) Appropriate cost unit for each business:

(i) Professional accounting office = per hour of service
(ii) Steel works = per tonne of steel; per kg of steel
(iii) Restaurant = per meal served; per table

SOLUTION THREE

(a)

Report

To: Production Manager, Bright-Way Ltd.

From: Assistant Accountant

Subject: Explanation on the Pricing Strategies for the Spark-Lite

Introduction

This report has been prepared as requested by the Production Manager to advise on the pricing strategies for the Spark-Lite.

1. Cost-Plus Pricing

This pricing method involves calculating the total cost of making one Spark-Lite unit and then adding a percentage mark-up or profit margin to determine the selling price. As a small company, this is the safest way to ensure that every sale contributes toward paying off the factory's bills. It is easy to calculate because it relies on internal data rather than complex market research. If it costs K200 to make a lamp and we add a 50% markup, we know we are making K100 profit per unit.

2. Marginal Cost Pricing

Marginal cost is the extra cost of making one extra unit which usually is just the raw materials, direct labour and variable overheads. It ignores fixed costs like rent or manager salaries. During a grand opening sale, pricing at marginal cost makes the lamp very cheap. This attracts many customers quickly and helps BW Ltd to have a share of the market from bigger competitors. The main danger is that if we sell at this price for too long, we will not have enough money to pay our fixed overheads like rent, which could lead to the business failing despite high sales volumes.

3. Target Pricing

This is price-led costing. We look at what customers are willing to pay for a lamp with eye-protection features and then subtract our desired profit. What remains is our Target Cost. If the market price for similar lamps is K400 and we want a K100 profit, our team must find a way to manufacture the Spark-Lite for K300 or less. This forces the design team to be efficient and avoid using unnecessarily expensive materials before production even starts.

4. Life Cycle Pricing

This strategy recognizes that a product’s value and costs change as it passes through different stages of its life. Products go through stages: introduction, growth, maturity, and decline. During the introduction stage there could be a drive to recover costs hence demanding a higher price while at decline, promotional prices are charged to ensure sales of the product continue as it nears the decline stage.

Recommendation

For the launch of the Spark-Lite, I recommend using Target Pricing to ensure we stay competitive.

Signed: Assistant Accountant

(b) **Differences Between Financial and Management Accounting**

- **Users:** Financial reports are for external users (creditors, stockholders), while management reports are for internal users (managers, executives).
- **Purpose:**

  Financial accounting tracks past performance to report financial position. Management accounting focuses on forecasting, budgeting, and planning to drive future strategy.

- **Rules & Standards:** Financial accounting must adhere to Generally Accepted Accounting Principles (GAAP) or IFRS. Management accounting has no mandatory rules and uses customized formats.
- **Time Focus:** Financial accounting is historical (backward-looking). Management accounting uses both historical and estimated future data.
- **Frequency:** Financial reports are typically annual or quarterly. Management reports are created as needed (daily, weekly, monthly).
- **Scope:** Financial accounting covers the entire organization. Management accounting often focuses on specific segments, products, or departments.
- **Precision vs. Timeliness:** Financial data must be highly precise and audited. Management data focuses on speed, often using estimates to facilitate quick decisions.

SOLUTION FOUR

(a)

(i) Optimal production plan for the month of May, 2026

W.1 Component required per unit: K80/K40; K40/K40; K120/K40 and K160/K40 = 2, 1, 3 and 4 per unit of P, Q, R and S respectively

Step 1: Confirm Limiting Factor

Product	Demand	Components per Product (W.1)	Total components
P	2,000	2	4,000
Q	1,250	1	1,250
R	1,800	3	5,400
S	1,350	4	5,400
Total components **required**			16,050
Total components **available**			11,200
Shortfall			4,850

Conclusion: components are a limiting factor

Step 2: Computation of contribution per limiting factor and ranking

	P	Q	R	S
	K	K	K	K
Selling price	280	240	320	340
Variable costs	220	220	240	240
Contribution per unit	60	20	80	100
Components per unit	2	1	3	4
Contribution per LF	30	20	26.67	25
Ranking	1st	4th	2nd	3rd

Step 2: Optimal budget

Ranking	Product	Demand	Components per product	Total components
1st	P	2,000	2	4,000
2nd	R	1,800	3	5,400
3rd	S	450	4	1,800
	Total components			11,200

(ii) **Profit Earned from Optimal Plan for Month May of 2026**

Product	Demand	Contribution per Product(K)	Total Contribution (K'000)
P	2,000	60	120
R	1,800	80	144
S	450	100	45
Total contribution			309
Less: fixed costs			(160)
Optimal profit			**149**

(b) (i) Fixed overhead absorption rate for the Finishing Shop and the Machine Shop.

	Finishing Shop	Machine Shop
Budgeted overheads	K189,000	K201,600
Budgeted labour hours/machine hours	21,000W.1	42,000W.2
OAR per labour hour	**K9**	
OAR per machine hour		**K4.80**

Workings:

W.1 Labour hours per unit in the Finishing Shop

	A	B	C
[12÷8/8÷8/16÷8]	1.5 hour	1 hour	2 hours

W.2 Total labour and machine hours in the Finishing and Machine Shops

	Finishing Shop	Machine Shop
Labour hrs [6,000x1.5+8,000x1+2,000x2]	21,000 hours	
Machine hours[6,000x4+8,000x1.5+2,000x3]		42,000 hours

(ii) Total cost per unit for products A, B and C.

	A	B	C
	K	K	K
Direct material	37	30	45
Direct labour:			
• Machine Shop	20	10	20
• Finishing Shop	12	8	16
Prime cost	69	48	81
Overhead costs			
• Machine Shop K4.8 x4/1.5/3	19.20	7.2	14.40
• Finishing Shop K9 x1.5/1.0/2	13.5	9.0	18
Total cost per unit	**101.70**	**64.20**	**113.40**

SOLUTION FIVE

(a) **Information from a Management accounting system**

A management accounting system would provide the management of Alpha Ltd the following two broad types of information:

- **Financial information** - management accounting provides targeted internal financial data to help managers plan, control operations, and make operational and strategic decisions. Examples of such financial information will be information on cost analysis (i.e. composition of cost and identifying the source of each cost), planned performance (budgets, target pricing etc.), and actual performance reports (variance analysis, departmental performance, product profitability etc.)

- **Non-financial information** – this is information not directly derived from financial data but which is necessary for management to plan, control operations and make decisions. Examples of such information include customer satisfaction, brand reputation, market share, employee turnover rates, safety records for employees, time required to produce a product, machinery downtime, measurement of material wastage, quality of materials etc.

(b) **Budgeting and responsibility accounting**

Budgeting is the process of creating a formal quantified financial plan that outlines projected revenues and expenses for the forthcoming accounting period; whereas responsibility accounting is a method of budgeting and comparing actual costs to budgets for each responsibility centre.

(c) **Responsibility centres for Alpha Ltd**

Responsibility centers are areas of the business for which costs or revenues are gathered and compared to budgets for control purposes. As a manufacturing business Alpha Ltd could have any of the following responsibility centres:

(i) *Cost Centre*

A cost centre is a collecting point for costs before they are analyzed and assigned to cost units or cost objects. It may be a production or service location, a person, function, activity, item of equipment, or a group of these whose costs are accumulated (collected) and allocated to cost units or cost objects. For Alpha Ltd, examples of cost centres could be a production department, a machine or group of machines, or a person such as the production manager etc.

(ii) *Revenue centre*

A revenue centre is a distinct operating unit of a business that is responsible for generating sales from product sales or services provided. The manager in a revenue center is accountable for revenue only. For Alpha Ltd, the examples are the sales departments for Kojo and Kofi.

(iii) *Profit centre*

A profit centre is a part of the business for which both the costs and revenues earned are identified. The manager is responsible for both costs and revenues. For Alpha Ltd, an example of a profit centre would be each product line – Kojo and Kofi. Costs and revenue earned by each product would be tracked and

Managers responsible for each product line held accountable for performance of the products.

(iv) *Investment centre*
An investment centre is a centre responsible for profits and returns on investment. Managers of investment centres are responsible not just for decisions affecting costs and revenues but also investment decisions. For Alpha Ltd examples could include a specific product division (e.g., Kojo division) or a geographically distinct manufacturing plant that decides on machinery purchase or a subsidiary, a separate business unit with its own management team.

(d) **Functions a system of budgeting**
A budgeting system plays a number of functions in an organisation like Alpha Ltd, and these are:

(i) *To ensure the achievement of the organisation's objectives* – objectives are set for the organisation as a whole, and for individual departments. Quantified expressions of these objectives are then drawn up as targets to be achieved within the timescale of the budget plan.

(ii) *To compel planning* – planning forces management to look ahead, to set out detailed plans for achieving the targets for each department, operation and each manager and to anticipate problems. It thus prevents management from relying on ad hoc or uncoordinated planning which may be detrimental to the performance of the organisation.

(iv) *To communicate ideas and plans* – a formal system is necessary to ensure that each person affected by the plans is aware of what he or she is supposed to be doing. Communication may be one way, with managers giving orders to subordinates, or there might be a two-way dialogue and exchange of ideas.

(v) *To coordinate activities* – the activities of different departments or sub-units of the organisation need to be coordinated to ensure maximum integration of effort towards common goals. For example, the purchases department should base its budget on production requirements and that the production budget should in turn be based on sales expectations.

(vi) *To provide a framework for responsibility accounting* – budgetary planning and control systems require that managers of budget centres are made responsible for the achievement of budget targets for the operations under their personal control.

(vii) *To establish a system of control* – a budget is a yardstick against which actual performance is measured and assessed. Control over actual performance is provided by the comparisons of actual results against the budget plan. Departures from budget can then be investigated and the reasons for the departures can be divided into controllable and uncontrollable factors.

(viii) *To motivate employees to improve their performance* – the interest and commitment of employees can be retained via a system of feedback of actual results, which lets them know how well or badly they are performing. The identification of controllable reasons for departures from budgets with managers responsible provides an incentive for improving future performance.

END OF SOLUTIONS

CA ZAMBIA PROGRAMME EXAMINATION

CA APPLICATION ADVANCED DIPLOMA IN ACCOUNTANCY

CA 2.3: AUDITING PRINCIPLES AND PRACTICE

THURSDAY 10 SEPTEMBER 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: FOUR (4) Optional questions. Attempt any THREE (3) 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

This question is compulsory and must be attempted

QUESTION ONE – COMPULSORY

You are the Audit Supervisor of Chumbu & Associates and you are planning the audit of Kamba Medical Services, that specialise in the provision of medical services to individuals and companies. Chumbu & Associates has audited Kamba Medical Services for many years. The Audit Manager has provided you with the following notes of the meeting he had with the Finance Director.

Planning meeting notes

Management of Kamba Medical Services is planning to list its shares on the stock exchange within the next few months and have asked if the Audit Engagement Partner can attend the meetings with potential investors. In addition, the Finance Director has requested Chumbu & Associates to prepare the financial statements for the current year.

During the year, the Finance Manager of Kamba Medical Services left and joined Chumbu & Associates as a partner. It has been suggested that due to his familiarity with Kamba Medical Services, he should be appointed engagement partner on the audit of the financial statements of Kamba Medical Services.

Once Kamba Medical Services obtains its stock exchange listing it will also require auditors to provide non-audit services. Chumbu & Associates wishes to be considered for the offer of non-audit services. Kamba Medical Services has stated that in order to be assigned non-audit services, Chumbu & Associates will need to complete the external audit quickly and with minimal audit queries.

The Finance Director has promised the Audit Engagement Partner that once the stock exchange listing has been obtained, he would like the engagement team to attend a weekend away at a luxury hotel with his team. In addition, Kamba Medical Services has offered a senior member of the engagement team a free medical scheme. Kamba Medical Services has not yet paid the audit fee for last year's audit due to liquidity challenges.

You are aware that assertions for transactions, balances and disclosures are considered in designing audit procedures. The assertions help assess risks and they help the auditor consider potential misstatements and so design audit procedures for those particular risks. The Audit Engagement Partner has mentioned that the revenue amount in the financial statements is material and of high risk, therefore, it should be properly audited.

The Audit Engagement Partner has also suggested that in order to meet the deadline for your audit, the firm should carry out both an interim and final audit.

Additional information on inventory:

You will lead the audit of inventory and in preparation you have been reviewing the inventory count instructions provided by Kamba Medical Services.

The count will be undertaken by ten (10) teams of two (2) counters from the warehouse department with Kamba Medical Service's Financial Controller providing overall supervision. Each team of two (2) counters will be allocated a number of bays within the warehouse to count and they will be provided with sequentially numbered inventory sheets which contain product codes and quantities extracted from the inventory records to ensure that all inventory items are

counted. The counters will move through each allocated bay counting the inventory and confirming that it agrees with the inventory sheet quantities. Where a discrepancy is found, they will note this on the inventory sheet.

The warehouse is large and approximately 25% of the bays have been rented out to third parties with similar inventory items; these are scattered throughout the warehouse. To meet inventory count deadline, the counters will be required to count the inventory for all bays noting the third-party inventories on separate blank inventory sheets, and the finance department will make any necessary adjustments. Some of Kamba Medical Service's inventories are high in value and are stored in a locked area of the warehouse and all the counting teams will be given the password to access this area.

Each area will be counted once by the allocated team; the sheets will be completed in pencil for easy amendment in case of any counting errors. The inventory sheets will require to be signed by the team and returned after each bay is counted. As no two (2) teams are allocated the same bays, there will be no need to note that an area has not been counted.

Required:

(a) Explain six (6) ethical threats in the audit of the financial statements of Kamba Medical Services and for each threat suggest a suitable safeguard. (12 marks)

(b) Explain three (3) financial statement assertions relevant to account balances and related disclosures for the year under audit; and for each assertion, describe a substantive audit procedure relevant to each assertion. (6 marks)

(c) Explain the difference between an interim and a final audit. (3 marks)

(d) Describe any four (4) procedures which are likely to be performed during an interim audit. (4 marks)

(e) (i) Describe five (5) audit procedures that should be performed on the figure of inventory in the financial statements. (5 marks)

(ii) Explain five (5) weaknesses in the inventory count instructions and suggest an appropriate improvement for each weakness. (10 marks)

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

(a) ZamCare Ltd is a Zambian company that manufactures and distributes medical products. You are the Audit Supervisor at Lunda & Associates, preparing for the audit of ZamCare Ltd for the year ending 30 September 2025. ZamCare Ltd has projected revenue of K580 million. During the year, the company spent K52 million developing five (5) new medicines, of which three (3) are near regulatory approval while two (2) remain in early testing stage. Management intends to recognise the full amount as an intangible asset in the financial statements.

ZamCare Ltd values inventory using standard costing for raw materials, work-in-progress, and finished goods. These costs are rarely updated after initial setup, despite fluctuating input prices. Significant levels of work-in-progress are expected at year end due to bulk production of medical products. Additionally, about 40% of inventory is stored in third-party warehouses in Lusaka, Ndola, and Chipata, which ZamCare Ltd controls but does not own, increasing the complexity of year-end inventory verification.

In January 2025, the company implemented a new accounting system developed by its Enterprise Resource Planning (ERP) Specialist. The system was introduced without parallel running or full testing, and the ERP Specialist resigned in March, leaving the role vacant.

Management performed a year-end revaluation of land and buildings to reflect the current market prices. The Finance Director has also requested that the audit be completed quickly, as ZamCare Ltd has committed to publishing its audited financial statements by 31 October 2025 for regulatory reporting purposes.

In order to confirm raw material inventory and work in progress (WIP) quantities and values, Lunda & Associates intends to rely on the work undertaken by an independent inventory valuation expert engaged by ZamCare Ltd.'s management.

Required:

Explain five (5) audit risks in the audit of ZamCare Ltd and provide an appropriate auditor's response for each risk. (10 marks)

(b) You are Audit Senior on the audit of the financial statements of Tree Top Plc for the year ended 30 September 2025.

The following information relates to the current year audit, which is at review and finalisation stage.

(1) Members of the audit team attended the year-end inventory count that was conducted at the period end. The final inventory valuation was performed and audit procedures conducted. A few days after the year end in the new financial year, a fire in the warehouse destroyed inventory valued at K4.3 million at cost.

The Audit Senior requested management to write off the inventory that was destroyed and management agreed to the request.

(2) Tree Top Plc has an outstanding loan of K10 million with an investment bank. The loan is due for repayment in the next two (2) years. The company defaulted on its quarterly loan repayment and has not made any payment in the current year.

The bank has threatened to take legal action and also enforce the security if the loan repayment arrears are not cleared in the next twelve (12) months. In view of the failure to make the quarterly payments, management and the Audit Senior agreed that a material uncertainty relating to going concern exists.

The financial statements for the year were prepared on a going concern basis and adequate disclosures were made in the financial statements regarding the material uncertainty.

Required:

(i) Explain the audit risk with regards subsequent events in the audit of Tree Top Plc. (4 marks)

(ii) Discuss the treatment of matters (1) and (2) and the possible implications they have on the audit opinion. (6 marks)

[Total: 20 Marks]

QUESTION THREE

(a) You are the Audit Manager on the audit of the financial statements of Zimba Ltd and the audit work has been completed. Miti was the Audit Senior on this audit and this was his first audit engagement since he was employed. The audit working papers have been given to you for review.

Audit working papers extract one (1):

(1) The audit team obtained sufficient appropriate evidence.
(2) There is a total of K1.3 million in uncorrected misstatements which the management declined to correct.
(3) The draft financial statements show profit before tax of K10.5 million and total assets of K15.0 million.

Audit working papers extract two (2):

The firm and management of Zimba Ltd agreed that the audit team could seek direct assistance of the internal auditors. The audit team assigned the internal auditors to perform the following tasks:

(1) There is a legal case against Zimba Ltd and a provision was made in the financial statements. One (1) of the internal auditors estimated the provision to be made. He has a legal background having studied law at the university.

(2) One (1) of the internal auditors was assigned to review the audit working papers of the internal audit department. This information was necessary for making a decision whether or not the audit team should seek direct assistance of internal audit after evaluating how they conduct audits.

(3) Performing substance audit procedures on samples extracted by the Audit Senior in relation to testing expenses.

Required:

(i) Explain the matters that will be considered in arriving at an opinion, considering the summary of uncorrected misstatement in the audit of the financial statements of Zimba Ltd. (3 marks)

(ii) Explain the impact on the audit opinion if the audit team had not obtained the required evidence on account of there being a limitation of scope. (2 marks)

(iii) Evaluate the appropriateness of using internal auditors to perform the tasks in (1) to (3) above by the audit team. (3 marks)

(b) Kingsley retired from employment six (6) years ago and soon after receiving his retirement benefits, he started a business of importing and selling hardware under the trading name of Nshimbi Hardware. The business has grown significantly over the years. He needed fresh capital injection and he asked his friend James if he could join him so that they run the business as a partnership. James agreed and contributed K2.5 million capital and he informed Kingsley that he would continue working.

A partnership agreement was entered into which specified the profit sharing ratio and the salary that would be paid to Kingsley for managing the business.

The financial records of Nshimbi Hardware have until now been audited by Rex & Co, a small firm of accountants. The audit fee has increased over the years and Kingsley decided not to reappoint Rex & Co.

You work for Rose & Associates a medium size audit firm. Kingsley approached your firm requesting that you take up the audit with immediate effect informing you that the previous auditor's contract had been terminated. Kingsley and James believe the benefits of external audit are more than the related costs, hence the request for your firm to become their external auditors. You informed Kingsley that you cannot accept appointment before ensuring that all professional issues are addressed particularly with regards seeking clearance of Rex & Co.

Required:

(i) Explain four (4) benefits of Nshimbi Hardware having its annual financial statements audited by external auditors. (8 marks)

(ii) Explain the procedure your firm will follow in seeking professional clearance from Rex & Co. before accepting appointment. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

Mukulu Co. is a Zambian-owned agribusiness engaged in the cultivation, processing, and export of organic maize, soybeans, and groundnuts. It serves both local and international markets and recently expanded into value-added products such as organic animal feed. To support its growth, Mukulu Co. is actively pursuing external financing.

You are an Audit Supervisor at Kaonde & Associates, currently assigned to the audit of Mukulu Co. for the year ended 30 September 2025. Kaonde & Associates has audited Mukulu Co. for the past ten (10) years, with the same Audit Engagement Partner leading the audit for the last seven (7) years. During this time, the Audit Engagement Partner has developed a close working relationship with the Finance Director and other senior finance staff.

During the current year, Kaonde & Associates assisted Mukulu Co. in preparing cash flow projections and supporting documentation to secure a K25 million loan from the Development Bank (DB). Additionally, one (1) of Kaonde's Audit Managers inherited shares in Mukulu Co. last year. Although the matter was disclosed internally, the Audit Manager has not taken any further action. Kaonde & Associates has also been asked to assist Mukulu Co. in restructuring its accounting system and to prepare the draft financial statements in advance of the audit. Furthermore, the Audit Engagement Partner has been invited to speak publicly on Mukulu Co.'s behalf at an International Agriculture Expo (IAE), where they are expected to promote the company's sustainability practices.

Mukulu Co.'s Chief Executive Officer recently expressed dissatisfaction with the previous year's audit report and stated that reappointment of Kaonde & Associates as auditors may depend on a more favourable report this year. Due to internal staff shortages, the Finance Director asked Kaonde & Associates' audit team to assist in making key accounting estimates and decisions, as the internal finance team is currently overwhelmed.

Mukulu Co. has acquired modern agricultural plant and equipment at a cost of K20 million to support the production of a new animal feed product line. The acquisition is expected to increase annual production capacity by three (3) million tonnes. Due to its materiality, the Audit Manager has requested that this area should be tested in detail. The audit team is expected to perform substantive tests, exercise professional scepticism and obtain sufficient and appropriate audit evidence.

Required:

(a) Explain five (5) ethical dilemmas which Kaonde & Associates may face during the audit of Mukulu Co. (5 marks)

(b) (i) Explain the difference between tests of detail and analytical procedures. (3 marks)

(ii) Describe five (5) substantive audit procedures that should be performed on the acquired Plant and Equipment of Mukulu Co. (5 marks)

(c) Explain the difference between professional scepticism and professional judgement. (3 marks)

(d) Explain the meaning of sufficient evidence and appropriate evidence. (4 marks)

[Total 20 Marks]

QUESTION FIVE

You are the Audit Supervisor at Kunda & Associates, and you are leading the audit of Malaiti Power Ltd for the year ended 30 September 2025. Malaiti Power Ltd is a state-owned company involved in the generation, transmission, and distribution of electricity across Zambia.

During your review of the draft financial statements and audit planning documents, you note that Malaiti Power Ltd has reported a net loss of K150 million, compared to a profit of K6 million in the prior year. The loss is mainly attributed to reduced hydro-generation capacity due to maintenance delays and low water levels.

The financial position appears weak, with current liabilities exceeding current assets by K100 million. The company has breached covenants on a K300 million long-term loan and is currently negotiating with the lender for a waiver. Several major suppliers have suspended deliveries due to outstanding payments. Further, the company has experienced delays in paying salaries and statutory obligations, including pension contributions and taxes. Management has requested for Government financial support and tariff increase, but the energy regulator has rejected the company's recent request for a tariff adjustment.

You note that Malaiti Power Ltd shut down two (2) regional offices and retrenched over two thousand (2,000) employees, causing significant service disruptions and a rise in customer complaints. Although management is optimistic about a turnaround, no formal recovery plan or cash flow forecast has been approved by the board, and discussions with creditors and regulators remain unresolved.

Your Audit Manager has informed the audit team that Computer-Assisted Audit Techniques (CAATs) will be used during the audit of Malaiti Power Ltd due to the scale and complexity of its operations. As Audit Supervisor, you are required to oversee the effective use of CAATs and ensure they are applied appropriately in key audit areas.

The state holding company has made changes at the management level of Malaiti Power Ltd. Further, the external auditors will be required to conduct an audit of the internal controls in addition to the audit of financial statements. For effective oversight a new Board of Directors has been put in place. The engagement letter for Maliati Power Ltd has remained the same for the past five (5) years.

You are also responsible for ensuring that the audit remains compliant with professional standards and regulatory requirements set by the Zambia Institute of Chartered Accountants (ZICA).

Required:

(a) Using the information provided, explain five (5) potential indicators that may indicate that Malaiti Co may not be a going concern. (5 marks)

(b) Describe five (5) substantive procedures the auditor should perform to assess whether Malaiti Power Ltd is a going concern or not. (5 marks)

(c) Explain two (2) advantages and two (2) disadvantages of using Computer-Assisted Audit Techniques (CAATs) during the audit of Malaiti Power Ltd. (4 marks)

(d) Explain three (3) matters that may necessitate a revision of the engagement letter. (3 marks)

(e) Explain the importance of regulating auditors by the Zambia Institute of Chartered Accountants (ZICA). (3 marks)

[Total 20 Marks]

END OF PAPER

CA2.3 AUDITING PRINCIPLES AND PRACTICE

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Ethical threats and responses

S/N	Threat	Response
1	Kamba Medical Services has asked the engagement partner of Chumbu to attend meetings with potential investors. this represents an advocacy threat as the audit firm may be perceived as promoting investment in orange and this threatens objectivity. This may lead to an advocacy threat,	The Engagement Partner should politely decline this request from Kambi, as this is a great a threat to the auditors' independence.
2	Kamba Medical Services has requested that Chumbu to produce the financial statements. This represents a self-review threat. As Kambi is currently not a listed company then Chumbu are permitted to produce the financial statements and also audit them.	If Chumbu choose to produce the financial statements, then separate teams should undertake each assignment, and the audit team should not be part of the accounts preparation process.
3	The Finance Manager of Kamba Medical Services has joined Chumbu as a partner and has been proposed as the review partner. This represents a self-review threat, as he may be reviewing his own work The auditor may not report material misstatement in the financial statements.	This partner must not be involved in the audit of Kambi for a period of at least 2 years. An independent review partner should be appointed.
4	Kamba Medical Services has several potential assurance assignments available and Chumbu wish to be appointed to these. This creates self-interest threat as these assurance fees along with the external audit fee could represent a significant proportion of Chumbu's fee income. The auditors may not report material misstatement in the financial statements.	If the company obtains its listing, It will be a public interest company. If the recurring fees are likely to exceed 15% of annual practice income then additional consideration should be given as to whether these assignments should be sought by the firm.
5	Auditors have been told complete the audit quickly and with minimal audit queries. This creates an intimidation threat on the team as they may feel pressure to cut corners and not raise issues, and this could compromise the objectivity of the audit	The audit should be done in accordance with all relevant ISAs and quality control procedures. This means that the audit will take as long as is necessary to obtain sufficient, appropriate evidence to form

	team. The auditors may not report material misstatement in the financial statements.	an opinion.
6	The Finance Director has offered the team a free weekend away at a luxury hotel. This represents a self-interest threat as the acceptance of goods and services, unless insignificant in value, is not permitted. The auditors may not report material misstatement in the financial statements.	It is unlikely that a weekend at a luxury hotel for the whole team has an insignificant value, so this offer should be politely declined.
7	Self-interest threat- The senior member of the audit team has been given a free medical scheme. This creates a self-interest threat. The auditor may not report material misstatement in the financial statements.	This offer should be politely declined so that the auditor is seen to be independent. The free medical scheme seems to be given to the senior member of the audit team so that the client can receive favours in return.
8	Intimidation/self-interest threat- The unpaid audit fee may create intimidation or self-interest threat. The auditors may not report material misstatement in the financial statements.	The audit partner should inform management (Finance Director) or those charged with governance that audit fees should be paid before the start of the current audit.
9	The fact that Chumbu & Associates has audited Kamba Medical Services for many years creates a familiarity threat which may impact objectivity.	The firm should consider rotating staff on this audit and possibly have quality control reviews undertaken by someone not involved in the audit.

(b) **Assertions about account balances and related disclosures at the period end**

1. Existence – assets, liabilities and equity interests exist.
   Substantive audit procedure - inspect physically the office building to verify existence.
2. Rights and obligations – the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
   Substantive procedure - inspect the legal documentation (title deeds) or invoices to verify ownership.
3. Completeness – all assets, liabilities and equity interests that should have been recorded and all related disclosures that should have been included in the financial statements have been included.
   Substantive audit procedure - agree the office building details to the assets register and fixed assets general ledger (GL) account.
4. Accuracy, valuation and allocation – assets, liabilities and equity interests have been included in the financial statements at appropriate amounts.
   Substantive procedure – Recalculate the carrying amount to verify accuracy of the carrying value of the office building.
5. Classification – assets, liabilities and equity interests have been recorded in the proper accounts.
   Substantive audit procedure – review the financial statements to verify that the office building is classified under property, plant and equipment (P.P.E).

6. Presentation – assets, liabilities and equity interests are appropriately aggregated or disaggregated and clearly described, and related disclosures.
   Substantive audit procedure – review the disclosure notes to the financial statements to verify that the adequate and appropriate.

(c) **Differences between an interim and a final audits:**

Interim Audit:
The interim audit is that part of the audit which takes place before the year end. The auditor uses the interim audit visit to carry out procedures that do not necessarily require to be done at the final audit such as planning. This way the time spent at the final audit is reduced.

Final audit:
The final audit will take place after the year end and concludes with the auditor forming and expressing an opinion on the financial statements for the whole year subject to audit.

(d) Procedures which could be undertaken during the interim audit include:

1. Review and update the documentation of accounting systems.
2. Assess the risks which will impact the final audit.
3. Perform tests of controls on key transaction cycles of sales, purchases and inventory, and credit control.
4. Perform substantive procedures on profit and loss transactions for the year to date and any other completed material transactions.
5. Discuss with management the major or significant changes that have occurred during the period.

(e) (i) Audit procedures for inventory:

1. Attend inventory count and observe that the count is being done according to instructions and can be relied upon to determine the value of inventory.
2. Note the last GDN and GRNs before and after the year end confirm accounted for in the correct accounting period.
3. Review the inventory listing to ensure that the inventory has been properly classified between raw material, work in progress and finished goods.
4. Review the financial statements to confirm whether appropriate disclosures have been made with regards to relevant accounti8mng standards.
5. Review the valuation working for a sample of inventory lines to ensure it has been done in accordance with the provisions of IAS 2 and valued at the lower of cost and NRV

(ii) Deficiencies in the inventory count instructions:

S/N	Deficiencies	Recommendations
1	Inventory count -The count will be undertaken by teams of warehouse staff. There is no segregation of duties. If the same team are responsible for maintaining and checking inventory, then	The counting teams should be independent of the warehouse; hence members from other departments should undertake the counting rather than the warehouse staff.

	errors and fraud could be hidden or go unnoticed.	
2	The inventory sheets – These contain quantities as per the inventory records. There is a risk that the counting teams may simply agree with the pre-printed quantities rather than counting the balances correctly, resulting in significant errors in inventory	The count sheets should be sequentially numbered and contain product codes and descriptions but no quantities.
3	Ten (10) teams of counters - Each team having two (2) members of staff. However, there is no clear division of responsibilities within the team. Therefore, both members of staff could count together rather than checking each other's count; and errors in their count may not be identified.	Each team should be informed that both members are required to count their assigned inventory separately. Therefore, one member counts and the second member also undertakes a count as a check and then records the inventory on the count sheets correctly.
4	Third parties' inventories – This is also being included in the inventory count. There is a risk that these goods may not be correctly removed from the inventory count sheets, resulting in inventory being overstated.	All inventories belonging to third parties should be moved to one (1) location. This area should be clearly marked and excluded from the counting process.
5	High value inventory – These are stored in a secure location but its accessible by all team members using the same password. This significantly increases the risk of theft as any member of the counting team could subsequently access these goods.	The high value inventory should be kept in the locked area of the warehouse. Senior members of the team should be allocated to count these goods, and they should be given the password to enter the area.
6	Each bay of the warehouse is counted once only. If inventory is only checked once, then counting errors may arise resulting in under or overstated inventory.	Once all inventories have been counted once, each area should be recounted by a different team. Any differences on the first count should be promptly notified to the count supervisor and a third count undertaken if necessary.
7	Areas not flagged - Once areas are counted, the teams are not marking the bays as completed. Therefore, there is the risk that some areas of the warehouse could be double counted or missed out.	All bays should be flagged as completed, once the inventory has been counted. In addition, the count supervisor should check at the end of the count that all of the bays with Kambi's inventory have been flagged as completed.
8	No sequence check – There is no sequential check on inventory sheets. If sheets are missing, then the inventory records could be understated.	After the counting has finished, each team should return all of their sequentially numbered sheets, and the supervisor should

		check the sequence of all sheets at the end of the count.
9	The recording of the inventory counted in pencil to enable corrections to easily be made is an internal control weakness. Changes to the inventory counts could be made fraudulently.	All counts should be made in ink to reduce the risk of fraudulent changes to counts made.
10	The nature of the industry that ZamCare Ltd is involved in is such that there is a chance that it will hold inventory that has ether expired or is nearing expiry. This inventory should be valued at net realisable value which is likely to be below cost. There is a risk that this inventory will be overstated resulting in an overstatement of the profit for the year.	Review the inventory count instruction related to slow or expired inventory and during the inventory count confirm that such inventory is appropriately identified. After the inventory count confirm slow or expired inventory appropriately valued in accordance with IAS 2

SOLUTION TWO

(a) Audit risks and auditor responses:

S/N	Audit Risks	Auditor's Response
1	Capitalisation of K52 million development costs – There is a risk of overstating intangible assets if development costs for products still in the early testing phase do not meet recognition criteria. Management may also be biased in their assessment of commercial viability.	Review supporting documentation (e.g. project plans, regulatory approvals, forecast revenues) to assess if criteria for capitalisation are met – IAS 38. Test a sample of costs to ensure they are directly attributable and not research-related or administrative.
2	Use of outdated standard costs for inventory valuation – Standard costs may no longer reflect current market conditions or production costs, leading to over- or understatement of inventory balances.	Compare the standard and actual costs to assess the reasonableness of standard costs. Evaluate or review management's process for reviewing standard costs. Recalculate inventory value for a sample and assess reasonableness.
3	High level of work-in-progress (WIP) at year end – WIP involves management estimates and allocations which can be subjective and prone to error or manipulation. WIP may be materially misstated.	Consider using Valuation expert to value WIP. Review the method used to value WIP (e.g. stage of completion and cost accumulation). Attend the inventory count and test sample WIP items for accuracy and consistency with prior periods.
4	Inventory held at third-party warehouses – There is a risk of inventory not physically existing, not being recorded or materially overstated, or not being accessible for year-end verification.	Obtain direct confirmations from third-party warehouse providers. Where possible, attend inventory count or arrange observation visits to verify physical existence. Review warehouse stock reports and reconcile with accounting records.
5	New accounting system implemented without parallel run – The lack of dual-run increases (control risk) the risk of data migration errors, incomplete transaction capture, and weak audit trail.	Test opening balances for accuracy and completeness. Perform walkthrough tests on key processes. Increase substantive testing in areas affected by the system change to test accuracy and completeness transactions.
6	Resignation of ERP Specialist – The absence of key IT personnel may lead to unresolved system issues, reduced oversight, and increased control risk, leading to misstatements in financial statements.	Inquire from management or Finance Director about interim IT support arrangements. Assess whether system access controls remain adequate. Test the reliability of system-generated financial reports.
7	Year-end revaluation of land and buildings – There is a risk that revaluation is overstated to reflect current market prices. Revaluations may also be based on unsupported assumptions.	Assess the independence and qualifications of the valuer. Review valuation methodology and key assumptions (e.g., market data, discount rates). Consider engaging an independent valuation expert to review the report.
8	Tight audit deadline and management pressure – The pressure to report by 31 October 2025 increases the detection risk or risk of errors going undetected, especially if audit procedures are rushed.	Agree a realistic and detailed audit timetable with management. Assign experienced staff and ensure sufficient time is allocated to high-risk areas. Perform early planning and interim work to reduce pressure during final audit.

(b) (i) The audit risk with regards subsequent events:

The audit risk which could cause the misstatement of financial statements regarding subsequent events is that they may be inappropriately accounted for by management.

Subsequent events are either adjusting or non-adjusting events. There is a risk that management will adjust the year-end figures for an event that is non adjusting or not adjust year end figure for an event that is an adjusting event.

(ii) Subsequent events and implications for the opinion:

Inventory destroyed in a fire.

1. The event that took place after the period end is an example of a non-adjusting subsequent event in accordance with provisions of IAS 10 Events after the reporting period.
2. The correct accounting for the destroyed inventory is that the inventory existed at the period end and is supposed to be included in the inventory figure in the statement of financial position as at 30 September 2025.
3. By writing off the inventory at the period end means that profit is understated and the current assets understated. The financial statements under audit are for the year just ended and the fact that the inventory worth K4.3 million does not give any evidence of conditions that existed at the year end.
4. Management should be requested to re-instate the cost of the destroyed inventory in the year end closing inventory value. If the entry is not reversed, the profit and the current assets for the year will be understated by the same amount.

Outstanding loan of K10 million:

1. The impact of the existence of material misstatement on the auditor's opinion is dependent on the disclosure made in the financial statements.
2. In the case at hand, there is no disagreement between the auditors and management about the existence of the material uncertainty. Management has adequately disclosed the issue in the financial statements.
3. The correct opinion that should be issued is an unmodified opinion. The auditors will disclose the existence of material uncertainty in the audit report in a paragraph titled Material Uncertainty Related to Going Concern.

SOLUTION THREE

(a) (i) **Matters to consider in arriving at an audit opinion**

Materiality of the uncorrected misstatements as follows
K1.3 m /K10,5 m = 12.3% of profit
K1.3 m /K15.0 m = 8.7%
The amount is material to both the profit before tax and the total assets. It impacts the financial statements.

Pervasive:
Most users of financial statements, use profit in making decisions. The matter is of importance and so is considered pervasive.

In view of the fact that sufficient appropriate audit evidence was obtained, an adverse opinion will be appropriate and the reasons for this will be explained in the Basis for adverse opinion paragraph.

(i) **Impact on the opinion if there had been a limitation of scope:**

The implication of a limitation of scope on the opinion is that the opinion is dependent on the materiality and pervasiveness of the matter of concern.

In the situation at hand the uncorrected misstatements are material to both profit before tax and total assets. The amount involved has an impact on the financial statements as a whole and therefore pervasive.

The appropriate opinion in this case will be a disclaimer of opinion with the auditor stating that they are not able to form an opinion on account of the limitation of scope.

(ii) **Work assigned to internal auditors:**
ISA 610(Revised) *Using the work of internal auditors* gives guidance in this area. When seeking direct assistance of internal audit, the external auditors should bear in mind that the internal auditors are employees of the client company and their objectivity is limited. The standard prohibits the use of internal auditors to provide direct assistance to perform specified procedures.

1. Determining an accounting estimate that should be recognized in view of the legal case requires judgement. Further, this is a risk rea to audit. ISA 610 prohibits the use of internal auditors doing work requiring significant judgement.
   The evidence obtained may not be relied upon and further work should be done by the Audit Senior.
2. Assigning an internal auditor to perform the evaluation of the internal audit function should be done by an independent person. The internal auditors assigned are employees and they are being required to assess the work that they have done.
   In future, this evaluation should not be done by internal audit staff and is prohibited by the ISA
3. The performing of substantive tests for expenses under the supervision of the Audit Senior is acceptable. This is not specifically prohibited and the evidence gathered can be relied upon.

(b) (i) **Benefits of an external audit to the partnership:**

1. External audits enhance the credibility of the financial statements and it may be easier for the bank to approve a loan based on audited financial statements.
2. James who is a sleeping partner will benefit from the audited financial statements and have more confidence particularly that he is not involved in the day to day running of the company.
3. Audited financial statements will be a basis for sharing profits by the partners.
4. The partnership will benefit from its financial statements being audited by professionals. Internal control deficiencies the auditors will come across will be communicated to the partnership.

(ii) **Procedure to follow in seeking professional clearance:**

1. Rose & Associates should seek the permission of Nshimbi Hardware to communicate with Rex & Co to seek professional clearance.
2. If permission is given, Rose & Associates will write to Rex & Co to find out if there are any reasons why they should not accept appointment. If permission is not granted by Nshimbi Hardware, Rose & Associates should decline the appointment.
3. If a letter is sent to Rex & Co by Rose & Associates, Rex & Co should seek the permission of Nshimbi Hardware to reply to the letter. If permission is not granted, then Rose & Associates should decline appointment. If permission is granted, then Rex & Co will respond and then Rose & Co will make a decision on whether or not to accept appointment.

SOLUTION FOUR

(a)**Ethical dilemmas:**

S/N	Ethical Dilemma
1	The same Engagement Partner has led the Mukulu audit for years, and a close relationship has developed with the Finance Director, so he may not report financial statements material misstatements. This can lead to familiarity threat.
2	The Audit Manager at Kaonde has inherited shares in Mukulu, creating a direct financial interest. He may not report financial statements misstatements to protect his financial interest. This can lead to self interest threat.
3	if Kaonde is involved in preparing Mukulu's draft financial statements and then later audit the same, they may not report their own errors or financial statements misstatements. This can lead to self-review threat.
4	The audit partner was invited to represent Mukulu publicly at an agriculture expo, promoting the company. The engagement partner may be seen to be on the side of the audit client. This will lead to an advocacy threat.
5	Mukulu's CEO suggested auditor's reappointment depends on a more favourable audit report. This may put pressure on auditors to given unmodified audit opinion, so that they remain auditors. This can lead to an intimidation threat.
6	Kaonde helped prepare cash flow projections used to obtain a K25 million loan from DBZ. The auditors will be seen to be on the side of the client, as they will act in the best interest of the client. This can lead to an advocacy threat

(b) (i) **Tests of detail and analytical procedures:**

Tests of detail
These test in detail to detect material misstatements, including errors and omissions, For example, recalculation of a carrying amount of property, plant and equipment.

Analytical procedures
This involves making comparisons using trend analysis to identify and investigate unusual differences. For example, comparing the trade payables days for two accounting periods.

(ii) **Substantive audit procedures that should be performed on the acquired Plant and Equipment:**

1. Inspect purchase invoices and contracts to verify the cost, ownership, and acquisition terms of the asset.
2. Review internal authorisation documents (board minutes) to confirm the acquisition was approved in line with company policies.
3. Inspect physically the asset to confirm its existence, location, and usage.
4. Review the fixed asset register for accurate recording of the asset's details such as cost and acquisition date.

5. Inspect the supporting documents to ensure only qualifying capital expenditure has been capitalised under IAS 16.
6. Recalculate depreciation to confirm accuracy and compliance with the entity's depreciation policy.
7. Assess for impairment indicators like under-utilisation or damage that may require an impairment review.
8. Review the classification of Property Plant and Equipment in the financial statements to ensure proper classification.
9. Agree the details recorded in the assets register to the details in the general ledger to verify accuracy.

(c) **Difference between professional scepticism and professional judgement:**

Professional scepticism
Is the auditor's alert and having a questioning mind towards possible misstatements.

Professional judgement
Is the auditor's ability to make sound decisions based on knowledge, skills and experience.

(d) **Meaning of sufficient evidence and appropriate evidence:**

Sufficient evidence
Refers to the quantity of audit evidence needed to support the auditor's conclusions. It depends on the risk of material misstatement and the effectiveness of the client's internal controls.

Appropriate evidence
Refers to the quality of audit evidence, based on its relevance to the audit objective and its reliability, with external evidence generally being more reliable than internal sources.

SOLUTION FIVE

(a) **Indicators of going concern problems:**

1. Significant Net Loss (K150 million)- this sharp decline from the prior year's profit signals financial instability and raises doubt over future profitability.
2. Negative Working Capital - current liabilities exceed current assets by K100 million, this suggests that Malaiti may struggle to meet its short-term obligations, indicating a serious liquidity problem.
3. Breach of Loan Covenants - the company has breached key terms on a K300 million loan. This could lead to immediate repayment demands, legal action, or withdrawal of funding.
4. Several major suppliers have suspended services due to unpaid balances. This threatens operational continuity and may result in further loss of revenue and customer confidence.
5. Delayed Salaries and Statutory Obligations - this indicates severe cash flow difficulties and may expose the company to legal or regulatory penalties.
6. Operational Downsizing (2,000 staff) and Service Disruptions - have led to blackouts and customer complaints. This impacts service delivery, customer trust, and revenue generation.
7. Unsuccessful tariff adjustment request - this limits the company's ability to improve cash inflows and affects long-term financial sustainability.
8. Lack of Formal Recovery Plan or Updated cash flow - this reflects weak forward planning, and casts doubt on the company's ability to resolve its financial difficulties.

(b) **Substantive audit procedures to assess Going Concern:**

1. Review cash flow forecasts to assess whether the company expects to meet its obligations for at least 12 months after the reporting date.
2. Evaluate or assess the assumptions used in the cash flow forecasts (e.g., revenue growth, tariff changes, cost reductions) to determine their reasonableness.
3. Inspect correspondence with lenders to confirm whether any waivers have been granted for breached loan covenants and assess the likelihood of continued support.
4. Review board minutes for any discussions or decisions related to financial support, restructuring plans, and the company's ability to continue operating.
5. Examine correspondence with the government to verify whether any formal commitments have been made regarding funding support.
6. Inspect post-year-end cash receipts and payments to assess whether the company is meeting its obligations, including staff salaries and statutory dues.
7. Review for any legal actions or supplier claims filed after the year-end that may impact the company's ability to operate.
8. Review management accounts and budgets to assess the future plans of the company.
9. Discuss going concern assessment with management and those charged with governance and obtain written representation.
10. Evaluate post-year-end events that may impact the going concern and assess the adequacy of management's going concern disclosures.

(c) **Advantages and disadvantages of CAATs:**

Advantages of using CAATs:

1. Efficiency in testing large volumes of data – CAATs allow the auditor to test the entire population (e.g. billing or payroll data), improving coverage.
2. Increased accuracy – Reduces the risk of human error associated with manual testing.
3. Time-saving – Enables faster execution of audit procedures, freeing up time for other activities.
4. Improved detection of anomalies – CAATs can identify unusual transactions or patterns more effectively.
5. Audit trail and documentation – Electronic results can be saved and reviewed, providing strong audit evidence.

Disadvantages of using CAATs:

1. High setup cost – Initial setup, training, and acquisition of software can be expensive.
2. Technical expertise required – Auditors must be trained to use CAATs effectively.
3. Dependence on client systems – If client data is incomplete or corrupted, CAATs may not produce reliable results.

(d) **Three factors that may indicate the need to revise an Engagement Letter:**

1. Change in the scope of the audit – for example, if Malaiti changes its financial reporting framework.
2. Change in senior management or ownership – a new board or management structure may require clarification of responsibilities.
3. Change in legal or regulatory requirements – new laws may impact the terms of the engagement.
4. Significant changes in client operations – for instance, major restructuring or new business lines.
5. Change in the ISAs – If ISAs change, the auditors have to comply with the changes and may need to revise the current engagement letter.

(e) **Importance of regulation of auditors by ZICA:**

1. To ensure professional competence – ZICA sets and monitors education and training standards for auditors.
2. To uphold ethical conduct – ZICA enforces the Code of Ethics, ensuring independence, integrity, and objectivity.
3. To protect the public interest – Regulation helps maintain trust in financial reporting and audit quality.
4. To ensure compliance with standards – ZICA monitors auditors to ensure adherence to auditing and accounting standards.
5. To provide disciplinary oversight – ZICA investigates misconduct and enforces disciplinary measures where necessary.

END OF SOLUTIONS

CA ZAMBIA PROGRAMME EXAMINATIONS

CA APPLICATION ADVANCED DIPLOMA IN ACCOUNTANCY

CA 2.4: TAXATION

THURSDAY 10 SEPTEMBER 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: FOUR (4) Optional scenario questions. Attempt any THREE (3) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

10. A Taxation table is provided from page 2 to page 6 of the question paper.

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

Taxation Table

Income Tax

Standard personal income tax rates

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

Income from farming for individuals

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

Company Income Tax rates

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

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

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

Capital allowances

Implements, plant and machinery and commercial vehicles:

Wear and tear allowance –	Standard wear and tear allowance	25%
	Wear and tear allowance if used in manufacturing and leasing	50%
	Wear and tear allowance if used in farming and agro-processing	100%
	Wear and tear allowance if used in Mining and Mineral processing	20%
Non-commercial vehicles		
Wear and tear allowance		20%
Industrial buildings:		
Wear and tear allowance		5%
Initial allowance		10%

Investment allowance	10%

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

Commercial buildings:	
Wear and tear allowance	2%

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

Presumptive Taxes

Turnover Tax

Annual turnover	
First 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

This question is compulsory and must be attempted.

QUESTION ONE – (COMPULSORY)

Pule, Puta and Puzo are in partnership running a manufacturing business. They share profits and losses in the ratio of 5:3:2 respectively after allowing for annual partnership salaries amounting to K316,800 for Pule, K356,400 for Puta and K361,200 for Puzo. The annual turnover of the partnership business has always exceeded K5,000,000.

On 1 September 2026, Puta resigned from the business and with effect from that date profits and losses were to be shared in the ratio 3:2 between Pule and Puzo respectively. Pule was now entitled to an annual partnership salary amounting to K393,600 while Puzo was entitled to an annual partnership salary amounting to K352,800.

For the year ended 31 December 2026, the partnership made a profit amounting to K3,100,000. This profit figure was arrived at after taking into account the following:

(1) Salaries and wages amounting to K3,800,000. This figure includes partners' salaries amounting to K733,000. The balance is made up of salaries paid to employees.

(2) Rent and rates amounting to K420,000. This figure is made up of rent paid for partners' houses of K211,800 and rent paid for business premises of K208,200.

(3) Professional and legal fees amounting to K1,260,000. This figure is made up of legal fees incurred in defending Pule in a land dispute case of K82,100, legal fees incurred in preparing staff contracts of K66,800, legal fees in connection with recovery of loans to former employees of K82,900, legal fees in connection with recovery of trade debts of K54,000, accountancy fees of K418,400, audit fees of K488,300 and legal fees in connection with an unsuccessful income tax appeal case for the tax year 2024 amounting to K67,500.

(4) Irrecoverable debts written off amounting to K381,000. This is made up of trade debts written off amounting to K162,300, loans to former employees written off amounting to K156,200, increase in general provisions of K188,200, decrease in specific provision for irrecoverable debts of K23,000, trade debts previously written off now recovered amounting to K52,000 and loans to former employees previously written off now recovered amounting to K50,700.

(5) Entertainment and meals expenses amounting to K886,400. This figure includes expenditure on entertaining customers of K180,000, employees staff Christmas party of K221,000, staff canteen expenses of K206,600, meals allowances paid to employees on performance of duties of employment of K142,000 and entertainment expenses for the partners of K136,800.

(6) General operating expenses amounting to K6,220,000. These expenses are made up of the following:

	K
Donations to political parties	102,400
Gifts to suppliers of the partnership's calendars each costing K100	40,000
Gifts to customers of business diaries costing K300 each	240,000
Repairs to existing non-current assets	110,000
Advertising and distribution expenses	520,000

Theft of money by cashiers	50,000
Donations to approved public benefit organizations	580,000
Depreciation of non-current assets	310,000
Other revenue allowable expenses	4,267,600
	6,220,000

Other information

(i) **Buildings**

On 20 August 2026, the partnership business completed the construction of a building at a cost of K5,600,000. This cost is made up of land with a cost of K600,000, staff canteen valued at K400,000, factory valued at K4,125,000 and administration offices valued at K475,000. The building was brought into use on 1 September 2026.

(ii) **Implements, plant and machinery**

At 1 January 2026, the business held the following implements, plant and machinery:

Asset	**Original cost**	**Income tax value at 1 January 2026**
	K	**K**
Office equipment	400,000	100,000
Toyota Mark – X Car (2400 cc)	210,000	168,000
Toyota Allion Car (2000 cc)	260,000	208,000

During the year ended 31 December 2026, the business acquired the following assets:

Date	**Assets acquired**	**Cost**
		K
20 April 2026	Volvo Delivery Truck	1,200,000
31 May 2026	Fixtures and fittings	520,000
1 June 2026	Manufacturing equipment	2,200,000

The Toyota Mark – X car and Toyota Allion car are used by Pule and Puzo respectively for both business and private purposes. It has been agreed with the Commissioner General that the business use in each car by each individual is 60%.

(iii) **Provisional income tax**

Provisional income tax paid by Pule, Puta and Puzo amounted to K311,009, K138,082 and K189,444 respectively for the year ended 31 December 2026.

Required:

(a) Calculate the amount of capital allowances claimable by the business for the tax year 2026 on:

(i) Buildings (7 marks)

(ii) Implements, plant and machinery (6½ marks)

(b) Calculate the partnership adjusted business profits for the year ended 31 December 2026. (9½ marks)

(c) Calculate the amount of profits on which each partner will be assessed to income tax for the year ended 31 December 2026. (8 marks)

(d) Calculate the amount of income tax payable by each partner for the tax year 2026. (9 marks)

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

You are employed in the Tax department of a firm of Chartered Accountants. Your supervisor has asked you to prepare brief notes explaining how the fundamental principles of the IESBA Code of Ethics for professional accountants apply to the provision of tax services. You have also been provided with the following information relating to Josephine Mutinta Chanda:

Josephine is employed as a Marketing Officer at a Zambian resident company. She is entitled to the following benefits under her contract of employment:

Annual basic salary	K168,000
Annual transport allowance	5% of annual basic salary
Annual housing allowance	13% of annual basic salary

On 1 March 2026, she was awarded a salary increment of 8% of her annual basic salary effective from that date.

The following additional benefits were provided to Josephine during her employment in the tax year 2026.

(1) On 31 May 2026, she was paid a bonus of 10% of her monthly basic salary for meeting her sales targets for that month.

(2) During July 2026, she was required to attend a work-related training workshop out of town for five (5) days. The company paid her a transport subsistence of K1,500 cash per day and an accommodation subsistence of K5,000 per day.

(3) Through the tax year 2026, she was provided with meals from the staff canteen valued at K2,200 per month.

(4) Throughout the year 2026, she was provided with free airtime valued at K2,000 per month for her sole use in making business calls.

(5) She is entitled to 2.5 leave days per month which she commuted on 31 December 2026 at the rate of K490 per day, as she did not take any leave during the year ended 31 December 2026.

(6) The company made the following payments on her behalf in the tax year 2026:

	K
Membership fees to Fitness GYM	6,000
School fees for Children	15,000

(7) The following deductions and payments were made from her gross employment earnings during the tax year 2026:

	K
National Health Insurance Scheme Contributions	1,800
NAPSA Contributions	20,498
Pay As You Earn	45,996
Donation to approved public benefit organisation	5,500

(8) Josephine received the following additional income in the tax year 2026.

	K
Fixed deposit interest	2,200
Treasury bill discount	4,500
Copy right royalties	14,960

The above amounts are the actual amounts received by Josephine in each case.

Required:

(a) Explain how any three (3) fundamental principles of the IESBA code of ethics apply to the provision of taxation services. (6 marks)

(b) Calculate the amount of income tax payable by Josephine in the tax year 2026. You should clearly indicate in your computation, using a zero (0), any benefits provided to Josephine in the tax year 2026, which are not taxable. (14 marks)

[Total: 20 Marks]

QUESTION THREE

You are employed in the tax department of a firm of Chartered Accountants. Your firm is preparing a training workshop for newly recruited trainee accountants. The Tax Manager has asked you to prepare notes on the following topics which will be used in the training workshop:

(i) The classification of taxes

(ii) Penalties for late submission of tax returns

The Tax Manager has also asked you to prepare a Value Added Tax return for Joseph Kalumbi, a VAT registered client of your firm, for the month of March 2026.

Kalumbi has provided you with the following information for the month ended 31 March 2026:

(1) Sales invoices totaling K1,044,000 were issued to customers. 60% of these sales were standard rated supplies while 30% are exempt supplies and the remainder are Zero-rated supplies. Standard rated sales attracted a cash discount of 5% for prompt payment. All customers took up the discount.

(2) Purchases totaling K696,000 were made from suppliers. These comprised of 70% of standard rated purchases, 20% zero-rated and the balance relates to exempt purchases.

The standard rated purchases included 15% of purchases made from suppliers who are not registered for VAT purposes.

(3) The standard rated operating expenses which are all VAT inclusive, comprised of the following:

	K
Entertaining customers	46,400
Motor vehicle servicing	34,800
Petrol	65,000
Diesel	58,000
General overheads	127,600
	331,800

The expenses were incurred in making both taxable and exempt supplies in the same proportion as sales.

(4) Joseph Kalumbi purchased the following assets during the month of March 2026:

	K
Mitsubishi light truck	232,000
Nissan Juke car	185,600
Toyota Auris car	82,800

The Nissan Juke was used for both business and private purposes and it has been agreed with the Commissioner General that the business use of the car was 80%. All the assets are used in making both taxable and exempt supplies in the proportion of sales.

Unless specifically stated otherwise, all the above figures are exclusive of VAT.

Required:

(a) Prepare brief notes to be used in the training workshop:

(i) Explaining the difference between direct and indirect taxes giving examples in each taxes. (4 marks)

(ii) Explaining the consequences of submitting a self-assessment income tax return late. (2 marks)

(b) Calculate the Value Added Tax payable/ (refundable) by Joseph Kalumbi for the month of March 2026. You should indicate using a zero (0) any items on which VAT is not payable or recoverable. (14 marks)

[Total: 20 Marks]

QUESTION FOUR

Kasweka runs a public passenger transportation business. During the tax year 2026, he held a sixteen (16) seater Toyota Hiace mini-bus which operated everyday on the Lusaka to Chongwe route from 1 May 2026, to 31 December 2026. The bus had broken down during the first part of the year.

In September 2026, he decided to purchase a twenty (26) seater brand new Rosa bus from a motor vehicle dealer in Japan for the same route. The bus was operational every day from 15 September to 31 December 2026.

The purchase price of the Rosa bus was $16,500 (Free on Board). He incurred insurance charges of $1,200, freight charges up to Chirundu border post of $2,800. Other incidental costs incurred up to the border were $900. He further incurred transport costs from Chirundu to Lusaka amounting to $700. In Lusaka, the bus was insured comprehensively for K12,000 and he paid K600 for the Road tax. The year of manufacture of the bus was 2025.

The exchange rate provided by the Commissioner General at the time of importation of the bus was K24.50 per $1. However, most commercial banks had quoted an exchange rate of K24.90 per US$1.

During the year ended 31 December 2026, Kasweka sold the following capital assets:

(1) On 5 January 2026, he sold ten (10) acres of land for net proceeds of K395,000 to his Nephew after deducting legal fees for the transfer of title of K5,000 from the gross sales value. The open market value as determined by the Commissioner General was K350,000. He acquired the land from a farmer at a cost of K150,000 in 2019.

(2) On 20 February 2026, he sold a three (3) bedroomed house for net proceeds of K475,000 to an unconnected third party after deducting estate agent's fees of 5% of the gross sales value. The house had been valued at K450,000 by the Government valuation experts.

(3) On 10 March 2026, he sold 20,000 K2 ordinary shares in PMC Limited, a private limited company for K10 each to his close friend. However, the shares were valued at K15 each on that date using share valuation methods approved by the Commissioner General.

(4) On 8 April 2026, he sold 8,000 K1 ordinary shares in ZACO Plc, a LuSE listed company for K8 per share to a private Limited company. He bought these shares in 2022 at a total cost of K40,000. The market value of the shares as determined by the approved valuation methods was K10 per share.

(5) On 15 June 2026, he transferred a two (2) bedroomed residential house to his daughter who had just graduated with a distinction from UK top class University. The open market value of the house as determined by the Commissioner General was K290,000. He acquired the house twelve (12) years ago for K150,000. The daughter paid K10,000 to him to facilitate the transfer of title.

Required:

(a) Calculate the amount of presumptive tax paid by Kasweka for the tax year 2026. (2 marks)

(b) State three (3) conditions that should be met in order for the transaction value method to be used to determine the Value of imported goods for Customs Duty Purposes. (3 marks)

(c) Calculate the Customs Value (Value for Duty Purposes) of the Rosa bus and the total import taxes paid by Kasweka on the importation of the bus. (6 marks)

(d) Explain the Property Transfer Tax (PTT) implications of each of the above transactions that Kasweka undertook in the tax year 2026. Your explanation must state the realised value and calculation of the amount of Property Transfer Tax arising where applicable. (9 marks)

[Total: 20 Marks]

QUESTION FIVE

Elias Ntembwa has run a farming business generating an annual turnover exceeding K5,000,000 for many years. He also run a retail business which generates an annual turnover of above K5,000,000. At the start of the tax year 2026 he estimated his taxable income from his businesses to be as follows:

	K
Estimated taxable profit from farming operations	280,000
Estimated taxable profit from retail operations	35,800

On 1 January 2026, there was an unrelieved tax loss from farming amounting to K1,632,000, which was loss incurred in the previous tax year (the tax year 2025).

For the year ended 2026, the actual final taxable profit from retail operations after capital allowances was K76,200.

The actual taxable profits from farming operations before capital allowances was K2,156,000. This figure was before taking into account the following expenditure incurred in relation to farming operations:

Note 1: Expenditure on farm dwellings

During the tax year 2026, he constructed the following units of dwelling houses for farm workers:

Farm Dwelling	**Cost**
Unit 1	K80,000
Unit 2	K250,000

Note 2: Other Farm expenditure

He incurred the following expenditure during the tax year 2026:

Construction of fish ponds	K380,000
Drilling boreholes	K240,000
Development of citrus fruits plantation	K420,000
Purchase of farm implements	K150,000
Purchase of Ford Ranger Single cab Van	K540,000

Ntembwa uses the Ford Ranger single cab van partly for private purposes. It has been agreed with the Commissioner General that his private use of the vehicle in the tax year 2026 was 20%.

Other Information

He received the following additional income during the tax year 2026:

Fixed deposit interest from Bank Account	K10,400
Dividends from LuSE listed companies	K30,600
Copyright royalties	K25,500

The above amounts represent the actual amounts received in each case. Withholding tax was deducted at source in where applicable in each case.

Required:

(a) Compute the amount of provisional income tax paid by Ntembwa in the tax year 2026. **You are NOT required to state the due dates for the payment of the tax.** (4 marks)

(b) Compute the final taxable profits from farming operations after capital allowances for the tax year 2026. Your answer should clearly show the amount of the loss brought forward from the previous year, which will be relieved and the amount remaining unrelieved on 31 December 2026. (10 marks)

(c) Calculate the income tax payable by Ntembwa for the tax year 2026. (6 marks)

[Total: 20 Marks]

END OF PAPER

CA 2.4 TAXATION

SUGGESSTED SOLUTIONS

SOLUTION ONE

(a) COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR 2026

(i) ON BUILDINGS

	K
Staff canteen	
Initial allowance (K400,000 x 10%)	40,000
Investment allowance (K400,000 x 10%)	40,000
Wear & tear (K400,000 x 5%)	20,000
Factory	
Initial allowance (K4,125,000 x 10%)	412,500
Investment allowance (K4,125,000 x 10%)	412,500
Wear & tear (K4,125,000 x 5%)	206,250
Administration offices	
Initial allowance (K475,000 x 10%)	47,500
Investment allowance (K475,000 x 10%)	47,500
Wear & tear: (K475,000 x 5%)	23,750
Total capital allowances	1,250,000

WORKINGS

Qualifying expenditure: K5,600,000 – K600,000 = K5,000,000.
K5,000,000 x 10% = K500,000.

The non-industrial component; i.e., the administration offices have a cost of K475,000 which is less than 10% of the qualifying expenditure. Therefore, the administration offices should be classified as industrial buildings for the purposes of capital allowances.

(ii) ON IMPLEMENTS, PLANT AND MACHINERY

	K
Office equipment	
Wear & tear (K400,000 x 25%)	100,000
Toyota Mark-X car	
Wear & tear (K210,000 x 20% x 60%)	25,200
Toyota Allion Car	
Wear & tear (K260,000 x 20% x 60%)	31,200
Volvo Delivery truck	
Wear & tear (K1,200,000 x 25%)	300,000
Fixtures & fittings	
Wear & tear (K520,000 x 25%)	130,000
Manufacturing equipment	
Wear & tear (K2,200,000 x 50%)	1,100,000
Total capital allowances	1,686,400

(b) PARTNERSHIP ADJUSTED BUSINESS PROFIT FOR THE TAX YEAR 2026

	K	K
Net profit		3,100,000
Add:		
Partners' salaries	733,000	
Rent for partners' houses	211,800	
Legal fees – defending Pule	82,100	
Legal fees – recovery of loans	82,900	
Legal fees – income tax appeal	67,500	
Loans to former employees written off	156,200	
Increase in general provisions	188,200	
Entertaining customers and suppliers	180,000	
Staff canteen expenses	206,600	
Entertainment expenses for partners	136,800	
Donations to political parties	102,400	
Gifts to customers of diaries (K240,000 x K200/K300)	160,000	
Depreciation	310,000	
		2,617,500
		5,717,500
Less:		
Loans to former employees recovered	50,700	
Capital allowances:		
Buildings	1,250,000	
Implements, plant and machinery	1,686,400	
		(2,987,100)
Taxable business profits		2,730,400

(c) ALLOCATION OF TAXABLE BUSINESS PROFITS TO PARTNERS FOR THE YEAR ENDED 31 DECEMBER 2026

	Pule	Puta	Puzo	Total
First 8 months	K	K	K	K
Salaries	211,200	237,600	240,800	689,600
Balance: 5:3:2	565,334	339,200	226,133	1,130,667
(K2,730,400 x 8/12)	776,534	576,800	466,933	1,820,267
Last 4 months				
Salaries	131,200	Nil	117,600	248,800
Balance: 3:2	396,800	Nil	264,533	661,333
(K2,730,400 x 4/12)	528,000	Nil	382,133	910,133
Total taxable income	1,304,534	576,800	849,066	2,730,400

(d) PERSONAL INCOME TX COMPUTATIONS EACH PARTNER FOR THE TAX YEAR 2026

	Pule K	Puta K	Puzo K
Taxable business profits	1,304,534	576,800	849,066
Computation			
First K61,200 @0%	0	0	0
Next K24,000 @ 20%	4,800	4,800	4,800
Next K25,200 @30%	7,560	7,560	7,560
Excess:			
(K1,304,534 – K110,400) x 37%	441,830	---	---
(K576,800 – K110,400) x 37%	---	172,568	----
(K849,066 – K110,400) x 37%	----------	----------	273,306
Income tax liability	454,190	184,928	285,666
Provisional income tax paid	(311,009)	(138,082)	(189,444)
Income tax payable	143,181	46,846	96,222

SOLUTION TWO

(a) Fundamental Principles

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 behavior

Members shall comply with relevant laws and regulations to avoid any action that discredits the profession. Members shall act in a manner consistent with the good reputation of the Institute and the tax profession, refraining from any conduct that might bring the Institute and/or tax profession into disrepute.

(b) JOSEPHINE MUTINTA CHANDA
PERSONAL INCOME TAX COMPUTTAION FOR THE TAX YEAR 2026

	K
Basic salary (K168,000 x2/12) + (K168,000 x108% x 10/12)	179,200
Transport allowance (5% x K179,200)	8,960
Housing allowance (13% x K179,200)	23,296
Bonus (108% x K168,000 x 1/12= K15,120 x 10%	1,512
Transport subsistence (exempt)	0
Accommodation subsistence (exempt)	0
Free staff meals (exempt)	0
Free airtime	0
Commuted leave pay (2.5 days x 12 months x K490)	14,700
Gym Membership fees	6,000
School fees for children	15,000
	248,668
Investment income:	
Copyright royalties (K14,960 x 100/85)	17,600
	266,268
Less allowable deductions	
Professional subscriptions	(5,500)
Taxable income	260,768
Income Tax	
On first K61,200 x 0%	0
On next K24,000 x 20%	4,800
On next K25,200 x 30%	7,560
On excess (K260,768 – K110,400) x 37%	55,636
Income tax liability	67,996
Less tax already paid	
PAYE	(45,996)
WHT on royalties (K17,600 x 15%)	(2,640)
	19,360

Total Marks

SOLUTION THREE

(a) (i) Direct taxes are taxes that are levied directly on the income and gains. Normally a percentage of the income or a gain is paid in the form of tax. Examples include; income tax, property transfer tax. In general, direct taxes are progressive. The amount payable is dependent on the level of income. The higher the income, the higher the amount of tax, and the lower the income, the lower the tax.

While, indirect taxes are taxes that are imposed indirectly on expenditure and therefore, are borne by consumers. The amount of indirect tax payable does not depend upon the level of income of the consumer. Both those are in the low income group and those who are in the higher income group pay an equal amount in the form of taxes. An example of an indirect tax is Value Added Tax.

(ii) If the self-assessment income tax return is submitted late, the amount of penalty charged depends on whether the taxpayer is an individual or a person other than an individual:

(1) Where the taxpayer is an individual, the penalty is 1,000 penalty units (K400) per month or part thereof.

(2) Where the taxpayer is a person other than an individual, for example a company, the penalty is 2,000 penalty units (K800) per month or part thereof.

(b) JOSEPH KALUMBI
COMPUTATION OF VAT REFUNDABLE/ PAYABLE FOR THE MONTH OF MARCH 2026

	K	K
OUTPUT VAT		
Standard rated sales (K1,044,000 x 60% x 16%)		100,224
Zero rates sales (1,044,000 x 10% x 0%)		0
Exempt sales		0
Total output tax		100,224
INPUT VAT		
Purchases (K696,000 X 16% X 70% X 85%)	66,259	
Zero rated purchases	0	
Exempt purchases	0	
Entertaining customers	0	
Motor vehicle servicing (K34,800 4/29 X 70%)	3,360	
Petrol	0	
Diesel (K58,000 4/29 X 90% X 70%)	5,040	
General overheads (K127,600 X 4/29 X 70%)	12,320	
Mitsubishi Light Truck (K232,000 X 16% X 70%)	25,984	
Nissan juke	0	
Toyota Auris	0	
		(112,963)
VAT refundable		(12,739)

Workings:

Proportion taxable supplies = $\frac{\text{Taxable supplies}}{\text{Taxable supplies}} \times 100$

$= \frac{730,000}{1,049,000} \times 100$

$= 70\%$

SOLUTION FOUR

(a) Presumptive tax

	K	
Minibus (K648 x 3)	1,944	(1 mark)
Rosa bus (K1,944 x 2)	3,888	(1 mark)
	5,832	

(b) In order for the transaction value to be used for customs duty purposes, the following conditions should be met:

(1) There should be no restrictions to the use of the goods.

(2) There should be no conditions to deter determination of the 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.

(c) COMPUTATION OF VDP

	$
Cost	16,500
Insurance charges	1,200
Freight charges	2,800
Incidental costs	900
CIF	21,400
Value for Duty purposes ($21,400 X K24.50)	524,300

COMPUTATION OF IMPORT TAXES PAID

	Value K	Taxes paid K
VDP	524,300	
Customs duty @ 15%	78,645	78,645
	602,945	
Excuse duty	0	0
	602,945	
Import VAT (602,945 X 16%)	96,471	96,471
Total value	699,416	
Total import taxes paid		175,116

(d) (1) The transfer of ten (10) acres of land is chargeable to property transfer tax. The realized value is the higher of the actual price paid and the open market value. Therefore, the ealised value is the actual price of K400,000 (K395,000 + K5,000).

PTT = K400,000 X 8% = K32,000

(2) The transfer of a three (3) bedroomed house is chargeable to property transfer tax. Therefore, the realised value is the higher of the actual price and the open market value. The realised value is the actual price paid of K500,000 (K475,000 X 100/95).

PTT = K500,000 X 8% =K40,000

(3) The transfer of shares in PMC Limited, a company which is not listed on the Lusaka Securities Exchange (LuSE) is chargeable to property transfer tax. The realised value is the higher of the nominal value and the open market value. The realised value is K300,000 (20,000 X K15) as the value determined by the valuation methods approved by the Commissioner General.

PTT = K300,000 X 8% = K24,000

(4) The transfer of shares in a company listed on Lusaka Securities Exchange is not chargeable to PTT. Therefore, the realised value is Nil and no PTT will be charged.

(5) The transfer of property to a member of an immediate family is not chargeable to property transfer tax, unless a consideration was paid. The daughter qualifies as a member of an immediate family. However, the realised value is the consideration of K10,000 she paid to her father.

PTT = K10,000 X 8% = K800

SOLUTION FIVE

(a) COMPUTATION OF PROVISIONAL INCOME TAX PAID IN THE TAX YEAR 2026

	Total	Non farming	Farming
Estimated taxable income	315,800	35,800	280,000
Less tax-free income	(61,200)	(35,800)	(25,400)
	254,600	0	254,600
Provisional Income Tax on farming income			
K254,600 x 10%			25,460

(b) COMPUTATION OF FINAL TAXABLE FARMING INCOME

	K	K
Profit before capital allowances		2,156,000
Less capital allowances		
Farm dwelling – farm improvement allowance		
Unit 1 (K80,000 x 100%)	80,000	
Unit 2 (K100,000 x 100%)	100,000	
Construction of fish ponds		
(K380,000 x 100%)	380,000	
Drilling boreholes		
(K240,000 x 100%)	240,000	
Development of citrus fruits plantation		
(K420,000 x 10%)	42,000	
Farm implements		
(K150,000 x 100%)	150,000	
Purchase of Ford Ranger Single cab Van		
(K540,000 x 25% x 80%)	108,000	
		(1,100,000)
		1,056,000
Less loss relief (W)		(528,000)
Final Taxable profit		528,000
WORKING		
Loss brought forward		1,632,000
Less loss Relief restricted to (50% x K1,056,000)		(528,000)
Unrelieved loss at 31 December 2026		1,104,000

(c) NTEMBWA

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2026

	Total K
Non farming income	
Retail Profits	76,200
Royalties (K25,500 x 100/85)	30,000
Total non-farming income	106,200
Farming income	528,000
Total taxable income	634,200

Income Tax on non- farming income	
On first K61,200 x 0%	0
On next K24,000 x 20%	4,800
On balance (K106,200 – K85,200) x 30%	6,300
	11,100
Income Tax on farming profits	
(K528,000 x 10%)	52,800
Income tax liability	63,900
Less tax already paid	
Provisional income tax	(25,460)
WHT on royalties (K30,000 x 15%)	(4,500)
Income tax payable	33,940

END OF SOLUTIONS

CA ZAMBIA PROGRAMME EXAMINATIONS

CA APPLICATION ADVANCED DIPLOMA IN ACCOUNTANCY

CA2.5: FINANCIAL MANAGEMENT

FRIDAY 11 SEPTEMBER 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: FOUR (4) Optional scenario questions. Attempt any THREE (3) 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. Formulae, Present Value and Annuity tables are attached at the end of the paper.

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

SECTION A

This question is compulsory and must be attempted.

QUESTION ONE – (COMPULSORY)

DV Ltd is considering an investment in a new product (Product A) which will cost K12.5 million in new machinery. An extract of the forecast annual income statement from the proposed project for the next five years is as follows:

PROJECT INCOME STATEMENT FOR PRODUCT A

Description	**K'000**
Forecast cash inflows from sales of the product	6,000
Variable costs (note 1)	(2,100)
Contribution	3,900
Fixed costs (note 2)	(1,500)
Profit before interest and taxation	2,400

Note 1: The variable costs are 35% of sales.

Note 2: Fixed costs include depreciation of K1 million and Amortization of K0.5 million.

The forecast sales have a probability of 0.7, with a probability of 0.2 that they will be 30% higher, and a 0.1 probability that they will be 20% lower.

The project is estimated to last for a period of five years. At the end of the five-year period the machinery can be sold for its written down tax value. The investment will require working capital of K100,000 in real terms from the start of year 1. At the end of year five the working capital can be released in cash back to the company. Inflation is expected to be 6% per annum on working capital for the period under review.

The company pays tax at the rate of 30% in the year profits are earned. Tax relief is available on capital expenditure at 25% on a reducing balance. The first claim is made in year 1.

Assume all cash flows occur at the end of the year except the purchase of the new machinery which occurs at the beginning of the year.

DV Ltd has in issue 100,000 ordinary shares of K20 each with an ex-dividend market value of K50 each. A dividend of K4 per share has just been paid on the ordinary shares. Dividends have grown consistently at 5% over the past few years and this pattern is expected to continue. It has in issue K1.5 million, 10% bonds with a par value of K150 each redeemable in 3 years' time at a premium of 30% of par. The bonds have an ex-interest market value of K200 each.

The management is considering several methods of investment appraisal for the proposed project including sensitivity analysis as it believes that the Net Present Value method alone is not sufficient to appraise an investment for management decision making.

Required:

(a) Calculate the company's weighted average cost of capital. (9 marks)

(b) Evaluate the financial viability of the proposed project using net present value (NPV) method. (17 marks)

(c) Calculate the sensitivity of the project's NPV to its initial investment and discuss the use of sensitivity analysis as a way of evaluating project risk. (8 marks)

(d) Explain six (6) limitations of the Net Present Value method of investment appraisal. (6 marks)

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

ABC Manufacturing Ltd produces specialized machine parts and faces challenges in managing its inventory due to fluctuating demand and supplier discount offers. The company has an annual demand of 12,000 units, an ordering cost of K200 per order, and a holding cost equal to 15% of the unit cost per year.

The supplier offers two pricing options:

Option one: K50 per unit for orders below 1,000 units.

Option two: K48 per unit for orders of 1,000 units or more.

Management is also considering whether to adopt a Just-in-Time (JIT) system to reduce inventory levels, while currently financing working capital through a short-term bank overdraft at 12% interest per annum.

Required:

(a) Calculate the Economic Order Quantity (EOQ) and the total annual cost of holding inventory under both pricing options. (8 marks)

(b) Explain the benefits and risks of adopting a JIT system for ABC Manufacturing Ltd. (6 marks)

(c) Discuss alternative working capital funding strategies available to the company, comparing short term overdraft financing with the alternatives. (6 marks)

[Total: 20 Marks]

QUESTION THREE

ZedCopper Ltd, unquoted company, is a mid-sized Zambian copper exporter. The company is considering undertaking a business valuation. They recorded a revenue of K210 million and net profit margin of 23.81%. The total assets amounted to K600 million while the total liabilities were 41.67% of the total assets. The projected cash flows are as follows:

Year	1	2	3
Before tax cash flows (K'million)	85.71	92.86	100

The terminal growth rate of cash flows is 3% and the industry average Price/Earnings (P/E) ratio is 8. ZedCopper Ltd pays annual corporate tax at the rate of 30% and the minimum expected rate of return by the investors is 12%. The average industrial cost of capital is 10%.

Required:

(a) Estimate the value of ZedCopper Ltd using the following business valuation methods:

(i) Income-based (P/E ratio); (3 marks)

(ii) Cash Flow-based (Discounted Cash Flow); (10 marks)

(iii) Asset-based (Net Asset Value); (3 marks)

(b) Explain the assumptions for each valuation method used in part (a). (3 marks)

(c) Explain the reasons a company such as ZedCopper Ltd can undertake business valuation. (4 marks)

[Total: 20 Marks]

QUESTION FOUR

Ndola Manufacturing Ltd, a medium-sized company producing industrial paints, has experienced rapid growth in recent years. The directors are concerned about maintaining liquidity and profitability as the company expands. They have asked the finance team to prepare forecasts and analyze financial ratios to assess performance and financial health.

The following information is available:

Statement of profit or loss extract for the year ended 31 December 2025.

Description	**K'000**
Sales	48,000
Cost of sales	30,000
Gross profit	18,000
Operating expenses	9,000
Finance expense	2,000
Profit before tax	7,000
Tax @30%	2,100
Profit after tax	4,900

The statement of financial position extract as at 31 December 2025.

Description	**K'000**
Non-current assets	40,000
Inventory	8,000
Trade receivables	6,000
Cash	2,000
Payables	5,000
Short term loan	3,000

Forecast Assumptions for 2026:

(1) The Directors expect revenue to increase by 15% in 2026, driven by expansion into new markets and improved product lines.

(2) Gross profit margin is expected to be 40%.

(3) Operating expenses are forecast to grow by 10%, due to additional marketing expenditure and higher administrative costs.

(4) Finance costs are expected to remain unchanged, while the corporate tax rate will continue at 30%.

(5) Working capital requirements will also change. Inventory levels are forecast to grow by 20%, receivables by 15%, and payables by 10%, while cash balances are expected to remain constant.

(6) Non-current assets will increase by K5 million due to new machinery purchases, financed partly by equity and partly by retained earnings.

Required:

(a) Prepare a forecasted income statement for the year ending 31 December 2026, together with a forecasted statement of financial position as at that date. (10 marks)

(b) Evaluate the financial performance and position of the company and highlighting strengths and risks using the gross profit margin, net profit margin, current ratio, quick ratio, and return on capital employed (ROCE) for both 2025 (actual) and 2026 (forecast).

(10 marks)

[Total: 20 marks]

QUESTION FIVE

(a) Greenfield Manufacturing Ltd, a medium-sized textile manufacturing company, is running an internal training programme for newly appointed management staff. As the Finance Manager, you have been asked to prepare short explanatory notes on selected topics on financing, working capital management and investment appraisal.

Required:

(i) Distinguish between 'hard' and "soft' capital rationing and explain the reasons capital rationing may arise. (6 marks)

(ii) Overtrading can expose a business to serious financial difficulties. Explain four (4) key signs that indicate that a company may be overtrading, and reasons each sign is a cause for concern. (4 marks)

(iii) Explain two (2) main features of convertible bonds and discuss two (2) attractions of convertible bonds to an investor and to the company's as a potential issuer. (4 marks)

(b) The Greenfield Ltd.'s treasury department is reviewing its cash-management policy and has decided to apply the Baumol cash-management model. The following information is available:

- Annual cash disbursements (total cash requirement): K1,200,000
- Fixed transaction cost per conversion of marketable securities into cash: K200
- Annual opportunity cost of holding cash (rate of return on marketable securities): 10%

Required:

(i) Calculate the optimal cash transfer size using the Baumol model. (3 marks)

(ii) Determine the number of cash transfers required per year. (1 mark)

(iii) Calculate the annual total cost of cash management under the Baumol model. (2 marks)

[Total: 20 Marks]

END OF PAPER

CA 2.5 FINANCIAL MANAGEMENT

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) **Weighted Average Cost of Capital**

(i) **Cost of equity**

Ke = [do (1+g)/Po] +g

= [4(1+0.05)/50] + 0.05

= 0.134

= 13.4% **2 Marks**

(ii) **Cost of Debt**

Year	Narration	cash flow	DF	PV	DF	PV
			4%		10%	
0	MV	(200)	1	(200)	1	(200)
1-3	Interest	10.5	2.775	29.14	2.487	37.305
3	RV	195	0.889	173.36	0.751	146.445
			NPV	2.5	NPV	(16.25)

(iii) **WACC**

Cost of debt (Kd)

Kd = a+NPVa/(NPVa-NPVb)* (b-a)

= 4% + 2.5/(2.5+16.25) * (10-4)%

= 4**.8%**

WACC = 13.4% x K5m/(K5m+K2m) + 4.8% x K2m/(K5m +K2m)

=**10.94%**

Approx. **11%**

(b) **Financial Evaluation**

NPV COMPUTATION - PRODUCT A

		1	2	3	4	5
		K000	K000	K000	K000	K000
Sales		6,240	6,240	6,240	6,240	6,240
Variable costs		(2,184)	(2,184)	(2,184)	(2,184)	(2,184)
Contribution		4,056	4,056	4,056	4,056	4,056
Tax @ 30%		(1,216.8)	(1,216.8)	(1,216.8)	(1,216.8)	(1,216.8)
Initial Investment	(12,500)					
Disposal						2,966.3
Capital allowances		937.5	703.125	527.34	395.5	296.63
Working capital		(100)	(6)	(6.36)	(6.74)	119.1
Net Cash flow	(12,500)	3,676.7	3,536.33	3,360.18	3,227.96	6,221.23
DF @ 11%	1	0.901	0.812	0.731	0.659	0.593
PV	(12,500)	3,312.71	2,871.50	2,456.29	2,127.23	3,689.19
NPV	**1,956.92**					

WORKINGS

NOTE 1

EXPECTED SALES	sales	Probability	Expected Value
30% Higher	7,800	0.2	1,560
Forecast	6,000	0.7	4,200
20% Lower	4,800	0.1	480
Total			6,240

NOTE 2 – capital allowances and tax savings

Year			K000
	12500 x 25% x		
1	30%		937.5
2		75%	703.12
3		75%	527.34
4		75%	395.51
5		75%	296.63

There is no balancing allowance as the machine will be sold at its WDV.

WDV= 12500* 0.75^5 = K2966.3

NOTE 3

working capital	1	2	3	4	5
	K000	K000	K000	K000	K000
Amounts	100	106	112.36	119.1016	
Incremental	-100	-6	-6.36	-6.7416	119.102

(c) **Sensitivity of NPV to initial investment**

Sensitivity of NPV to initial investment = (K1,956.92/K12,500) X 100 =15.66%
The basic approach to sensitivity analysis is to calculate the project NPV under alternative conditions. This will assist in measuring how sensitive the NPV is to various variables.
It helps management to determine the critical areas of concentration being those areas to which the NPV is most sensitive. A slight change in the most sensitive variable will result in a negative NPV.
Sensitivity analysis provides an indication of why a project might fail.
Management should review the most sensitive variables to assess the probability of change leading to a negative NPV. Management should try as much as possible to control the most sensitive variables once the investment is undertaken to ensure success of the project.
In the case of the proposed investment in product A, the cost of initial investment should rise by 15.66% before the NPV becomes negative. However, other variables such as sales volume and variable costs need testing as well to determine the most sensitive variable on which management should concentrate.

(d) **Limitations of the NPV method of investment appraisal.**

1. Sensitivity to the discount rate: Small changes in the discount rate can significantly affect the NPV and investment decision.
2. Dependence on cash flow forecasts: NPV relies on estimated future cash flows, which may be inaccurate or biased.
3. Single discount rate for risk: Using one discount rate may not adequately reflect varying risk levels over the project's life.
4. Ignores non-financial factors: Strategic, social, environmental, or qualitative factors are not considered.

5. Unrealistic reinvestment assumption: Assumes interim cash flows are reinvested at the discount rate, which may not be achievable.
6. Scale and comparability problem: As an absolute measure, NPV may favor larger projects over smaller but more efficient ones.
7. Ignores managerial flexibility: NPV does not account for real options such as delaying, expanding, or abandoning a project.
8. Long-term estimation difficulties: Forecasting cash flows over long periods is highly uncertain and assumption-driven.

SOLUTION TWO

(a)

Option one

EOQ and Total Annual cost

Unit cost = K50 (orders below 1,000 units)

D = 12,000 units

Co = K200

Ch = 15% x K50 = K7.5

$$EOQ = \sqrt{\frac{2 \times 200 \times 12{,}000}{7.5}}$$

= **800 units**

Total Annual cost = [12,000 X K50]+ [K7.5 X 800/2] + [K200 X 12,000/800]

= K600,000 + K3,000 + K3,000

= **K606,000**

Option Two

Unit cost = K48 (Orders of 1,000 units or more)

D = 12,000 units

Co = K200

Ch = 15% x K48 = K7.2

$$EOQ = \sqrt{\frac{2 \times 200 \times 12{,}000}{7.2}}$$

= **816 units**

EOQ is 816 units, but the supplier requires a minimum of 1,000 units to qualify for the discount. Therefore, the company must order 1,000 units.

Total cost = [12,000 units x K48] + [K7.2 X 1,000 / 2] + [K200 X 12,000/ 1,000]

= K576,000 + K3,600 + K2,400

= **K582,000**

Decision:

Total cost without discount = 606,000

Total cost with discount = 582,000

Net annual saving 24,000

(b) Benefits and Risks of JIT

Adopting a Just-in-Time (JIT) system would bring several benefits to ABC Manufacturing Ltd.

Benefits:

- It reduces holding costs because inventory levels are kept minimal.
- Lowers the risk of obsolescence since parts are produced closer to demand.
- Improves cash flow by freeing up capital otherwise tied in stock.
- Encourages stronger supplier quality focus.

Risks:

However, JIT also carries risks. The company becomes vulnerable to supply chain disruptions, as any delay from suppliers could halt production. It relies heavily on supplier reliability and logistics, and the absence of buffer stock means the company may struggle to meet sudden spikes in demand.

(c) Working Capital Funding Strategies

Currently, ABC Manufacturing Ltd finances working capital through a short-term overdraft at 12% interest. This provides flexibility, allowing funds to be drawn as needed, but it is expensive in the long run.

Alternative strategies include trade credit, which allows the company to delay payments to suppliers and improve liquidity, though this may strain supplier relationships. Short-term loans or commercial paper provide funding at lower interest rates than overdrafts but require fixed repayments, reducing flexibility. Equity or long-term debt financing offers stability and reduces reliance on short-term borrowing, though these options may dilute ownership or increase gearing.

Recommendation:

The company should negotiate better trade credit terms or explore short-term loans with lower interest rates. Combined with JIT adoption, this would reduce reliance on external funding, improve efficiency, and strengthen cash flow management.

SOLUTION THREE

(a) **Business valuation methods**

1. **Income-Based Valuation (Earnings Multiple)**

$$\text{Valuation} = \text{Net Income} \times \text{P/E Ratio}$$
$$= 50\,\text{million} \times 8 = ZMW400\,\text{million}$$

Net income = 23.81% x K210 million

= K50 million

2. **Cash Flow-Based Valuation (Discounted Cash Flow, DCF)**

Year	1	2	3
Before tax cash flow (K'm)	85.71	92.86	100
Tax@30%	25.71	27.86	30
After tax cash flow	**60**	**65**	**70**

Step 1: Discount Cash Flows

$$DCF = \frac{60}{(1+0.12)^1} + \frac{65}{(1+0.12)^2} + \frac{70}{(1+0.12)^3}$$
$$= 53.6 + 51.8 + 49.9 = ZMW155.3\,\text{million}$$

Step 2: Terminal Value

$$TV = \frac{70 \times (1+0.03)}{0.12 - 0.03} = \frac{72.1}{0.09} = ZMW801.1\,\text{million}$$

Discounted back:

$$TV_{PV} = \frac{801.1}{(1+0.12)^3} = 570.9\,\text{million}$$

Total DCF Valuation:

$$155.3 + 570.9 = ZMW726.2\,\text{million}$$

3. Asset-Based Valuation (Net Asset Value)

$$NAV = \text{Assets} - \text{Liabilities} = 600 - 250 = ZMW350\,\text{million}$$

Liabilities = 41.67% x K600 million

= K250 million

Conclusion

- DCF (726.2m) gives the highest valuation, reflecting strong future cash flows.

- Income-based (400m) is moderate, showing current profitability.
- Asset-based (350m) is lowest, as it ignores growth potential.

Practical takeaway: For ZedCopper Ltd., investors would likely rely most on DCF for strategic valuation, but cross-check with P/E multiples and NAV to ensure robustness.

(b) Explain the assumptions for each valuation method used in part (a).

i) Income-Based Valuation (Earnings Multiple) : This method assumes investors value the company based on its earnings relative to peers. It's simple and widely used but ignores future growth potential and cash flow timing.

ii) Cash Flow-Based Valuation (Discounted Cash Flow, DCF): DCF captures future cash flows and growth, making it more forward-looking. However, it is highly sensitive to assumptions about discount rates and growth.

iii) Asset-Based Valuation (Net Asset Value): This method values the company based on its statement of financial position. It's useful for asset-heavy firms (like mining companies) but ignores intangible value such as brand, future growth, or market position.

(c) For unquoted companies such as ZedCopper Ltd, the reasons for undertaking business valuation include:

i. The company wishes to 'go public' and must fix an issue price for its shares
ii. There is a scheme of merger
iii. Shares are sold
iv. Shares need to be valued for the purposes of taxation
v. Shares are pledged as collateral for a loan

SOLUTION FOUR

(a) Forecast Financial statements.

The forecasted income statement ffor the year ended 31 December 2026

	K'000
Revenue 1.15 X K48,000	55,200
Cost of sales 55,200-22,080	(33,120)
Gross profit	22,080
Operating expenses 1.10 X 9,000	(9,900)
Operating profit	12,180
Finance costs	(2,000)
Profit before tax	10,180
Ttax at 30% X 10,180	(3,054)
Profit after tax	**7,126**

The forecasted statement of financial position as at 31 December 2026

	K'000	K'000
Non-current assets increasing		45,000
Current assets:		
Inventory (8,000 x 1.20)	9,600	
Receivables (6,000 x 1.15)	6,900	
Cash	2,000	
Total current assets		18,500
Total assets		63,500
Equity and Liabilities:		
Equity (Balancing figure)		47,874
Retained earnings		7,126

Current liabilities:		
Payables	5,500	
Short-term loan	3,000	
		8,500
Total equity and liabilities		63,500

(b) Ratio Analysis

Actual 2025:

Gross Profit Margin = 18,000,000 /48,000,000

= 37.5%

Net Profit Margin = 4,900,000 / 48,000,000

= 10.2%

Current Ratio = 16,000,000 / 8,000,000

= 2.0

Quick Ratio = (16,000,000 – 8,000,000) /8,000,000

= 1.0

ROCE = 9,000,000 / (40,000,000 + 16,000,000 – 8,000,000)

= 9,000,000 /48,000,000

= 18.75%

2026 (Forecast):

Gross Profit Margin = 22,080,000 / 55,200,000

= 40%

Net Profit Margin = 7,126,000 /55,200,000

= 12.9%

Current Ratio = 18,500,000 /8,500,000

= 2.2

Quick Ratio = (18,500,000 – 9,600,000) /8,500,000

= 8,900,000 /8,500,000

= 1.05

ROCE = 12,180,000 /63,500,000 – 8,500,000

= 12,180,000 / 55,000,000

= 22.1%

Comment:

The forecast indicates that profitability is expected to improve, with both gross and net profit margins rising due to revenue growth outpacing cost increases. Liquidity ratios also strengthen, with the current ratio improving from 2.0 to 2.2 and the quick ratio rising above 1.0, suggesting adequate short-term solvency. ROCE increases from 18.75% to 22.1%, demonstrating improved efficiency in generating returns from capital employed.

However, Inventory levels are rising faster than sales, which could tie up cash and increase holding costs. The growth in receivables may expose the company to credit risk if customers delay payments. Management should therefore monitor working capital closely to ensure that expansion does not strain liquidity.

SOLUTION FIVE

(a) (i) **Distinguish between hard and soft capital rationing**

• Hard capital rationing: External limits on a firm's ability to raise funds — e.g., credit rationing by banks, absence of access to capital markets, legal/regulatory borrowing limits, or macroeconomic restrictions. These constraints are largely beyond management's immediate control and reduce available funds even for profitable projects.

• Soft capital rationing: Internal, management-imposed limits on capital expenditure — e.g., annual budget ceilings, strategic limits set by the board, deliberate prioritisation of projects, or managerial risk-aversion. These are discretionary and used to control growth, risk or preserve certain financial ratios.

Reasons capital rationing may arise

1. **Limited external finance / market imperfections**
2. Lenders or investors may refuse or limit financing because of information asymmetry, high perceived risk, or underdeveloped capital markets.
3. **High cost of capital / adverse macro conditions**
4. When borrowing costs rise (or equity markets are depressed), management/owners restrict new investments.
5. **Corporate policy / strategic choice**
6. Firms deliberately cap investment to focus on core projects, protect cash flows, or maintain target leverage/credit ratings.
7. **Agency and managerial factors**
8. Managers may ration capital to retain control, avoid dilution, or because of risk aversion and lack of confidence in project appraisal.
9. **Liquidity or short-term cash constraints**
10. Temporary cash shortages (e.g., working capital pressure) force prioritisation of projects.

(ii) Signs of overtrading

Overtrading occurs when a business expands its operations faster than its financial resources can support.

Four (4) key signs of overtrading are:

1. **Persistent cash shortages / heavy reliance on overdrafts**
   Why this is a concern: Indicates that internal cash generation is insufficient to support the level of operations, leading to rising interest costs and increased liquidity risk.

2. **Rapid growth in sales without a corresponding increase in profits**
   Why this is a concern: Suggests that growth is being financed through short-term credit, while margins may be falling due to higher operating and financing costs.
3. **Increasing levels of trade receivables and delayed customer payments**
   Why this is a concern: Cash is tied up in receivables, weakening the firm's ability to meet short-term obligations and increasing the risk of bad debts.
4. **Rising inventory levels or lengthening operating cycle**
   Why this is a concern: Excessive funds are locked in inventory, increasing storage costs and financing needs, and placing further pressure on working capital.

(iii) Convertible bonds

Two main features

1. **Hybrid security:** Convertible bonds are debt instruments carrying an option to convert the bond into a predetermined number of equity shares at a specified conversion price or ratio.
2. **Fixed income + conversion feature:** They pay a coupon (interest) and have maturity, providing bond-like protection while offering possible equity upside via conversion.

Two attractions to an investor

1. **Downside protection:** As bonds, they pay coupons and offer principal repayment if not converted, reducing downside risk versus equity.
2. **Upside potential:** The conversion option allows participation in future equity appreciation if the company's share price rises.

Two attractions to the issuer (company)

1. **Lower coupon cost:** Convertibles usually carry a lower coupon than straight debt because of the conversion option.
2. **Deferred dilution:** If conversion occurs later, immediate issuance of shares (dilution) is postponed; also attracts investors who seek both income and potential equity gains.

(b) Baumol cash-management model

Formula

$C = \sqrt{(2TF / r)}$

C = optimal cash transfer size (optimal cash balance)

T = total annual cash requirement (annual cash disbursements)

F = fixed transaction cost per conversion of marketable securities into cash

r = annual opportunity cost of holding cash (interest rate)

N= number of cash transfers per year

n = T / C

Total annual cost of cash management

Total Cost = (T / C) × F + (C / 2) × r

Given:

- Annual cash disbursements (T) = **K1,200,000**
- Fixed transaction cost per conversion (F) = **K200**
- Annual opportunity cost (r) = **10% = 0.10**

i) Optimal cash transfer

C= [(2x 1200000X200)/0.1]^0.5

K69282

ii) Number of cash transfer per year.

N= 1200000/69282= **17.3**

iii) Total cost = (1200000/69282) x 200+(69282/2) x 0.1

17.3x200 + 34641*0.1

K6924

END OF SOLUTIONS

CA ZAMBIA PROGRAMME EXAMINATIONS

CA APPLICATION ADVANCED DIPLOMA IN ACCOUNTANCY

CA 2.6 STRATEGIC BUSINESS ANALYSIS

WEDNESDAY 9 SEPTEMBER 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: One (1) compulsory scenario question.
   Section B: Four (4) Optional scenario Questions. Attempt any three (3) 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

This question is compulsory and must be attempted.

QUESTION ONE – (COMPULSORY)

Choppies Enterprise Growth Strategy

Choppies Enterprises Limited has demonstrated remarkable resilience and strategic progress in its 2025 financial year, navigating significant macroeconomic headwinds across Sub-Saharan Africa. Despite challenges such as regional currency fluctuations, inflation, and severe droughts, the Group delivered strong top-line growth and advanced key strategic objectives. A major achievement was the successful exit from the Zimbabwean market, allowing management to sharpen its focus on core, profitable regions. Our strategy remains anchored in creating shared value for all stakeholders, driven by a people-led, technology-enabled retail platform. We are committed to enhancing shareholder returns, strengthening our balance sheet, and embedding sustainability into every facet of our operations, ensuring long-term growth and a positive impact on the communities we serve.

The 2025 financial year was marked by significant operational achievements that reinforce our market leadership. All core segments; Botswana, Namibia, and Zambia achieved profitable Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), demonstrating the health of our primary markets. The strategic exit from Zimbabwe has streamlined our operations and unlocked management capacity to focus on high-potential regions.

We expanded our footprint by opening 30 new stores across our operating regions and successfully launched our first wholesale store in Lobatse, Botswana. This expansion contributed to a 10.5% increase in retail footfall, as customers continue to respond positively to our value and convenience offerings. Furthermore, we have commenced the implementation of a new Enterprise Resource Planning (ERP) system, a crucial step in our digital transformation journey, which is targeted for completion by Financial Year 2027.

Our corporate strategy is built on four key pillars designed to ensure sustainable growth and value creation: improving shareholder returns, advancing our shared value journey through sustainability and social responsibility, driving digital transformation, and becoming the employer of choice in our regions. We are focused on building a high-return, technology-powered Omni-channel retail model that serves our communities effectively. The Board is confident that Choppies is well-positioned for sustainable growth and improved shareholder returns in the coming years.

Choppies is committed to the highest standards of corporate governance, which serves as the cornerstone of investor trust. Our risk management framework, aligned with ISO 31000:2018, provides a structured approach to identifying, evaluating, and mitigating uncertainties. The Board of Directors, supported by the Audit and Risk Committee, maintains overall responsibility for risk governance.

Key business risks identified for the period include foreign exchange fluctuations, the Sub-Saharan African power crisis and its impact on business continuity, cash flow and liquidity risks, dependence on key executives, and information technology (IT) and food safety risks. We employ

robust mitigation strategies for each of these areas, including hedging contracts for imports, investing in solar power and backup generators, maintaining strong financial discipline, and implementing comprehensive succession planning and IT security protocols.

Source: Extracts from Choppies Enterprises Limited (CHOPPI.bw) 2025 Annual Report.

Required:

(a) Evaluate key defining aspects of corporate strategy and identify pillars upon which Choppies Enterprises Ltd is building its corporate strategy. (10 marks)

(b) Analyze the main risks that Choppies Enterprise Ltd faced in 2025 and the measures that management put in place to mitigate them. (10 marks)

(c) The Board of Directors, supported by Board Committees ensures that Choppies remains steadfast in its strategic objectives. Evaluate the main Board Committees and their main responsibilities. (8 marks)

(d) A major achievement for Choppies in 2025 was the successful strategic exit from the Zimbabwean market. Discuss possible exit barriers a business like Choppies is likely to encounter in pursuit of a withdrawal strategy. (12 marks)

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this Section.

Attempt any THREE (3) questions.

QUESTION TWO

The traditional view of corporate responsibility, often associated with economist Milton Friedman, posits that a company's main obligation is to generate profit for its shareholders. However, the perspective of strategic ethics challenges this narrow focus. Strategic ethics involves integrating moral principles and social responsibility into a firm's core business strategy, recognizing that ethical conduct and financial success are not mutually exclusive but can be interdependent. This approach argues that balancing the interests of all stakeholders' not just shareholders is crucial for sustained competitive advantage and long-term viability and this is guided in the International Ethics and Standards Board for Accountants (IESBA) codes of ethics

Required:

(a) Propose four (4) benefits to the company that adopts a strategic ethics approach, as it navigates its environment. (12 marks)

(b) Discuss Four (4) ethical threats for accountants as identified by the IESBA. (8 marks)

[Total: 20 Marks]

QUESTION THREE

Following the increasing remote-work trends, Airtel (Zambia) Limited has transitioned its Customer Support and Marketing departments into a Virtual Organization. Management is now struggling to maintain the same level of oversight they had in a physical office. It was easier previously to monitor staff coming to work for the normal required labor hours. However, this transition to a virtual set up, is posing a new challenge to supervise workers directly who are working remotely. However, some of the stakeholders are uncertain on productivity and one board member has insisted on constant monitoring of members of staff as they work.

Required:

(a) Describe the four (4) steps of the Control Process used by Airtel. (4 marks)

(b) Describe the business model Airtel Zambia is adopting for its Customer Support and Marketing departments. (4 marks)

(c) State two (2) advantages and one (1) disadvantage of a virtual organization. (6 marks)

(d) Discuss the concept of Skepticism concept on governance. (6 marks)

[Total: 20 Marks]

QUESTION FOUR

Isabel and Associates Consulting (IAC) company, plans to sale its product formula to an international company. The strategic advantages of selling intellectual property right is that you will receive a one-off lump sum payment and be released from the continuing responsibility of maintaining, policing and enforcing the right. However, the disadvantages are that, relative to licensing, you risk receiving an overall smaller return on your initial investment. This arises primarily due to the difficulties associated with valuing intellectual property rights in the light of changing market forces. One of the methods used to get the right value of the intangible Asset is using the Calculated Intangible Values (CIV). CIV calculates an excess return on tangible assets. The figure is then used in determining the proportion of return attributed to intangible assets.

Required:

(a) Illustrate to Isabel Consulting Company a step by step approach used in computing the Calculated Intangible Values (CIV). (14 marks)

(b) Discuss two (2) problems with the CIV approach. (6 marks)

[Total: 20 Marks]

QUESTION FIVE

NutriGrain Foods Ltd is a Kitwe-based manufacturer of packaged cereal products serving the Zambian retail market. The company sources maize, soya, and other grains from a nationwide network of farmers. In recent years, imported cereal brands and aggressive pricing by regional competitors have eroded NutriGrain's market share. At the same time, volatility in agricultural input prices and rising energy costs have weakened margins.

Management has responded by scaling up production volumes, forming long-term supply partnerships with farmer cooperatives, automating key production and packaging stages, and investing in structured workforce development programs. However, the Board is concerned that cost efficiency initiatives must support long-term strategic capability rather than create short-term savings that undermine operational resilience. Management has requested a strategic review of the company's cost efficiency drivers.

Required:

(a) Analyse how economies of scale can improve NutriGrain's cost efficiency in the context of the scenario. (5 marks)

(b) Evaluate the impact of managing supply costs on the firm's ability to maintain competitive pricing. (5 marks)

(c) Assess how the design of production processes contributes to operational cost efficiency. (5 marks)

(d) Discuss the role of workforce experience and learning effects in enhancing long-term cost efficiency. (5 marks)

[Total: 20 Marks]

END OF PAPER

CA2.6 STRATEGIC BUSINESS ANALYSIS

SUGGESTED SOLUTIONS

SOLUTION ONE

Choppies Enterprise Growth Strategy case study.

(a) Key defining aspects of corporate strategy and pillars upon which Choppies Enterprises Ltd is building its corporate strategy:

Defining aspects of corporate strategy include:

(i) **Scope of activities**: corporate strategy impact upon the whole organization; all parts of the business operation should support and further the corporate strategy.

(ii) **Expectation of stakeholders**: Stakeholder expectations must be prioritized i.e. an organization striving to meet or exceed stakeholder expectations.

(iii) **Resources:** strategy involves choices about allocating or obtaining corporate resources now and in the future.

Four (4) Pillars upon which Choppies Enterprises Ltd is building its corporate strategy are:

1) Improving shareholder returns,
2) Advancing shared value journey through sustainability and social responsibility,
3) Driving digital transformation, and
4) Becoming the employer of choice in our regions.

(b) **The main risks that Choppies Enterprise Ltd faced in 2025 and the measures that management put in place to mitigate them are:**

(i) Foreign exchange fluctuations,

(ii) The sub-Saharan African power crisis and its impact on business continuity,

(iii) Cash flow and liquidity risks,

(iv) Dependence on key executives, and

(v) information technology (IT) and food safety risks.

Mitigation strategies for each of these areas include;

(i) Including hedging contracts for imports,

(ii) Investing in solar power and backup generators,

(iii) maintaining strong financial discipline, and

(iv) implementing comprehensive succession planning and

(v) IT security protocols.

(c) The main board committees and their main responsibilities are:

(i) **Audit Committee**: This is the most important committee of the board whose major responsibilities include; liaising with external audit, supervising internal audit and reviewing the annual accounts and internal controls.

(ii) **Nomination Committee**: This committee is responsible for recommending the appointments of new directors to the board.

(iii) **Remuneration Committee**: This committee is responsible for advising on executive director remuneration policy and the specific package for each director.

(iv) **Risk Committee**: The risk committee is responsible for overseeing the organization's risk response and management strategies.

(d) **Possible exit barriers a business like Choppies is likely to encounter in pursuit of a withdrawal strategy are:**

(i) Cost barriers that may include redundancy costs and the difficult of selling assets.

(ii) Managers might fail to grasp the idea of decision relevant costs (i.e. we have spent all this money, so we must go on).

(iii) Political barriers that may include government attitudes for examples Defense.

(iv) Marketing considerations may delay withdrawal. A company may be dealing in a product classified as a loss leader for others, or might contribute to the company's reputation for its breadth of coverage.

(v) Psychological factors where managers hate to admit failure, and there might be a desire to avoid embarrassment.

(vi) People might wrongly assume that carrying on is a low-risk strategy.

SOLUTION TWO

(a) Propose four (4) benefits to the company that adopting a strategic ethics approach that transforms how it operates and interacts with its environment.

Solution:

Adopting a strategic ethics approach transforms how a company operates and interacts with its environment, leading to several key benefits:

(i) **Enhanced Reputation and Brand Loyalty:** Companies known for integrity, social responsibility, and transparent practices build strong brand loyalty and a positive reputation, which can be a powerful differentiator in crowded markets.

(ii) **Talent Attraction and Retention:** Ethical organizations attract highly qualified and committed employees who want to work for a company whose values align with their own. This reduces recruitment costs and improves productivity and innovation.

(iii) **Risk Management:** By proactively identifying and managing ethical risks (e.g., in supply chains, product development), firms can avoid crises and legal penalties, ensuring greater stability and predictability.

(iv) **Sustainable Practices and Innovation:** A commitment to strategic ethics often drives innovation toward more sustainable products, efficient processes, and new market opportunities, creating shared value for both the business and society. The overall goal for the responsible business is to achieve an economic competitive advantage while simultaneously creating above-average social value.

(b) Discuss Four (4) ethical threats for accountants as identified by the IESBA.

Solution

IESBA identify certain ethical threats to compliance with the fundamental principles for accountants working practice:

(i) **Self-interest:-** Financial or other interest of a professional accountant or of an immediate family member inappropriately influence judgement or behavior

(ii) **Self-review:-** Evaluation of a judgement by the accountant who made the judgement, or a member of the same organization.

(iii) **Advocacy**:- Accountant promoting a position or opinion to the point where objectivity may be compromised

(iv) **Familiarity:-** A close relationship resulting in excessive trust in, or sympathy for, others.

(v) **Intimidation: -** Accountant not acting objectively because of actual perceived pressures.

SOLUTION THREE

(a) **Control Process**:

1. Establish performance standards;
2. Measure actual performance;
3. Compare actual performance with standard performance;
4. Take corrective action where deviations are observed.

(b) Virtual Organization - An organization that uses ICT to link people, assets, and ideas regardless of physical location.

(c) Advantages of virtual organisations are:

(i) Lower rent costs for physical work facilities and

(ii) access to talent across Zambia.

Disadvantage: Possible loss of corporate culture/team spirit.

(d) **Concept of Skepticism concept in governance**: Board members- especially Non-Executive Members- ought to adopt an air of skepticism, so that they can effectively challenge management decisions in theory role of scrutiny. This does not mean that that all management decisions and evidence have to be approached with suspicion or mistrust; but rather that an open and enquiring mind must always be employed. A healthy corporate culture and environment is one that encourages and enables such skepticism to thrive.

SOLUTION FOUR

(a) Explain the step by step approach in Calculated Intangible Values (CIV). (14 marks)

Solution

Step-1 Calculate average pre-tax earnings over a time period

Step-2 Calculate the average year end tangible assets over the time period using statement of financial position figures

Step-3 Divide earning by average assets to get the return on assets

Step-4 Find the industry's return on assets

Step-5 Multiply the industry's return on assets percentage by the entity's average tangible asset. Subtract this from the entity's pre-tax earnings to calculate the return.

Step-6 Calculate the average tax rate over the time period and multiply this by the excess return. Subtract this from the excess return to give the after-tax premium attributable to intangible asset.

Step-7 Calculate the NPV of the premium by dividing it by the entity's cost capital

(b) Discuss two (2) problems with the CIV approach.

Solutions

(i) It uses average industry ROA as a basis for computing excess returns, which may be distorted by the extreme values.

(ii) The choice of discount rate to apply to the excess returns to value the intangible asset needs to be made with care. To ensure comparability between companies and industries, some sort of average cost of capital should perhaps be applied. Those again has potential to problems of distortion

SOLUTION FIVE

(a) Analyse how economies of scale can improve NutriGrain's cost efficiency in the context of the scenario.

The management at NutriGrain's Food Ltd has responded by scaling up production volumes. The increased production volumes will eventually lower the average cost per unit enabling the company to spread the costs and ultimately lowering the selling prices of the products. (5 marks)

(b) The impact of managing supply costs on the firm's ability to maintain competitive pricing will be achieved by forming long-term supply partnerships with farmer cooperatives. This strategy will help NutriGrain's Food Ltd to have control of the supply side of inputs there by ensuring continuous production and getting inputs at a lower cost as a result of long-term supply partnerships with farmer cooperatives.

(c) By automating key production processes, the design processes and packaging stages, NutriGrain's Food Ltd will achieve operational cost efficiency by reducing on the time it takes to produce finished products also by cutting down on labor costs as few employees will be required in the production department. Automation also results in effectiveness in the sense that the quality of the products is consistent throughout the production process.

(d) By investing in structured workforce development programs (Training and development programs), the workforce will acquire requisite skills and capabilities that enhance long-term cost efficiency. Other benefits of structured workforce development programs will include; improving the quality of workforce, enhance employee growth and employees are kept up to date to prevent obsolescence.

END OF SOLUTIONS

CA ZAMBIA PROGRAMME EXAMINATIONS

CA ADVISORY PROFESSIONAL IN ACCOUNTANCY

CA 3.1: ADVANCED FINANCIAL REPORTING

MONDAY 7 SEPTEMBER 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: FOUR (4) Optional scenario questions. Attempt any THREE (3) 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. Present Value and Annuity tables are attached at the end of this paper.

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

SECTION A

This question is compulsory and must be attempted.

QUESTION ONE – COMPULSORY

The following are the draft statements of financial position as at 30 June 2025 of Savanah, Havanah and Havilah, all listed companies at the Lusaka Securities Exchange (LuSE):

	Savanah	Havanah	Havilah
Non-current Assets	K'million	K'million	K'million
Property, plant & equipment	3,100	1,700	1,400
Investments:			
Havanah	4,900		
Havilah	3,600		
Other financial assets	1,100	800	620
	12,700	2,500	2,020
Current assets	2,200	2,100	1,900
Total Assets	14,900	4,600	3,920
Equity and Liabilities			
Equity shares of K0.25 each	4,000	1,000	1,000
Other components of equity	2,600	400	310
Retained earnings	3,900	1,600	1,200
	10,500	3,000	2,510
Non-current liabilities	2,000	1,000	900
Current liabilities	2,400	600	510
	4,400	1,600	1,410
Total Equity & Liabilities	14,900	4,600	3,920

The following additional information is relevant:

(1) On 1 July 2022, Savanah acquired 80% of the issued equity shares of Havanah paying cash amounting to K3,600 million. As at that date, other components of equity and retained earnings of Havanah amounted to K280 million and K800 million respectively. The fair value of the identifiable net assets of Havanah amounted to K2,800 million as at 1 July 2022. The excess in fair value of identifiable assets is due to an item of plant whose remaining useful life was five (5) years as at the date of acquisitions. Straight-line depreciation is charged on all plant.

It is group policy to measure non-controlling interest in Havanah at fair value. As at 1 July 2022, the fair value of non-controlling interest in Havanah amounted to K600 million.

The fair value adjustments are regarded as temporary differences, for the purposes of computing deferred tax, in the consolidated financial statements.

The investment in Havanah has been classified as fair value through other comprehensive income (FVTOCI) in Savanah's separate entity financial statements. The amount indicated in the above statement of financial position is the fair value at 30 June 2025.

(2) On 1 October 2019, Savanah acquired 25% of the issued equity shares of Havilah paying cash amounting to K1,000 million. As at that date, other comprehensive income and retained earnings of Havilah amounted to K100 million and K300 million respectively. The fair value of the identifiable net assets at that date amounted to K1,500. This investment was classified and accounted for as an associate in accordance with IAS 28.

On 1 July 2023, Savanah acquired additional 45% of the issued equity shares of Havilah at a cash consideration of K2,400 million. As at that date, other comprehensive income and retained earnings amounted to K200 million and K850 million respectively. The fair value of the identifiable net assets of Havilah amounted to K2,100 million. The excess in fair value of identifiable net assets is due to a non-depreciable property.

On 1 July 2023, the carrying amount of the 25% investment in Havilah amounted to K1,200 million, in Savanah's financial statements, which was calculated in accordance with IAS 28 – Accounting for Associates. However, the fair value of the 25% investment amounted to K1,500 million as at 1 July 2023. The fair value increase has not been recorded in Savanah's financial statements.

It is group policy to measure non-controlling interest in Havilah at fair value. The fair value of non-controlling interest amounted to K700 million as at 1 July 2023.

The fair value adjustments are regarded as temporary differences, for the purposes of computing deferred tax, in the consolidated financial statements.

(3) Impairment test conducted on 30 June 2025 revealed that goodwill in Havanah had suffered impairment of 15% of the carrying amount of the goodwill. However, Havilah's fair value of net assets were assessed to have a recoverable amount of K2,800 million as at 30 June 2025.

(4) Savanah, Havanah and Havilah all pay income tax at a rate of 30%, and this rate should be used where appropriate.

(5) On 1 July 2024, Savanah issued 5 million K100 bonds at their par value. The bonds carry a coupon rate of 8% per annum. The bonds are redeemable in four (4) years' time or convertible into equity shares upon maturity. Similar bonds without conversion rights had a market interest rate of 11% per annum on 1 July 2024. Savanah recoded these bonds at their par value and has accounted for the interest paid as finance costs for the year ended 30 June 2025.

(6) Savanah owns 50% of Aqua, a manufacturing company. Acqua has been correctly classified as a joint operation in accordance with IFRS 11 – Joint Arrangements. Acqua commenced its operations on 1 July 2024.

During the year ended 30 June 2025, Acqua made revenue amounting to K2,000 million and incurred production expenses of K800 million. Other operating expenses incurred by Acqua for the year ended 31 June 2025 amounted to K420 million. Acqua's property, plant and equipment had a carrying amount of K780 million as at 30 June 2025. No entry has been made in Savanah's financial statements in respect of Acqua's transactions.

(7) On 1 July 2024, Savanah granted 10,000 share appreciation rights (SARs) to each one of its ten (10) directors on condition that they remain employed at Savanah for the next three (3) years to 30 June 2027. The Directors would be paid cash equivalent to the fair value of the share appreciation rights (SARs) as at 30 June 2027. During the year, one (1) Director left and it is anticipated that two (2) more Directors would leave before 30 June 2027. This transaction had not been recorded in Savanah's statement of financial position as at 30 June 2025. The fair value of each share appreciation right (SAR) was as follows:

Date	Fair value
1 July 2024	K100
30 June 2025	K120
30 June 2026 (Forecast)	K135
30 June 2027 (Forecast)	K150

Required:

Prepare the consolidated statement of financial position of the Savanah group as at 30 June 2025.

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

ZamFruits is a Zambian farming company listed on the Lusaka Securities Exchange. The company is finalizing its financial statements for the year ended 30 September 2025. The directors of ZamFruits are seeking advice on the appropriate accounting treatment of the following transactions in the financial statements for the year ended 30 September 2025:

Transaction one

On 30 September 2025, ZamFruits sold one of its farming equipment to CopperBank Plc for K21 million. The carrying amount of the equipment in ZamFruits' financial statements was K12.6 million. The farming equipment had a remaining useful life of ten (10) years as of 30 September 2025.

Immediately after the sale, ZamFruits entered into a contract with CopperBank Plc to lease the farming equipment for a period of five (5) years, paying annual lease rentals of K2.6 million, payable at the end of each year. The interest rate implicit in the lease is 8% per annum.

The fair value of the farming equipment at the date of sale was K18.9 million. The transaction qualifies as a sale under IFRS 15 – Revenue from Contracts with Customers.

The Finance Director of ZamFruits is proposing that the sale should be recognized and the proceeds of K21 million should be recognized as revenue in the statement of profit or loss, as this would boost the profit for the year to meet the target. The Director further indicated that the company applied for a loan whose approval depends on the amount of profits to be reported in the financial statements. The loan is essential for attaining the strategic expansion programme of the company.

Transaction two

ZamFruit has irrigation equipment which was acquired on 1 October 2023 for K6.0 million. This equipment is depreciated on the straight-line basis over its estimated economic useful life of five (5) years. On 31 March 2025, the equipment was partially damaged due to an accident when the farm tractor collided with it.

An impairment review was, therefore, conducted on 31 March 2025, which revealed that the fair value less costs to sell of the equipment was K3.0 million. There was no change in the remaining useful life of the asset. The present value of the cash flows to be generated by the equipment over its remaining useful life was determined to be K2.50 million.

ZamFruits has a cost of capital of 9% and this should be used where appropriate.

Required:

(a) Discuss the ethical and professional issues arising from the Finance Director's proposal on the accounting treatment of transaction one (1) above. (6 marks)

(b) Advise the Directors of ZamFruit on how Transaction one (1) should be accounted for in the financial statements for the year ended 30 September 2025 in accordance with relevant International Financial Reporting Standards (IFRSs). (7 marks)

(c) Advise the Directors of ZamFruits on how Transaction two (2) should be accounted for in the financial statements for the year ended 30 September 2025 in accordance with relevant International Financial Reporting Standards (IFRSs). (7 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Zambezi Holdings Plc is a Zambian company listed on the Lusaka Securities Exchange (LuSE). The company operates three (3) major divisions: Agriculture, Mining, and Retail. The Chief Operating Decision Maker (CODM) is the Group CEO, who regularly reviews performance reports prepared by the finance department.

The following information relates to the divisions of Zambezi Holdings for the year ended 31 December 2025:

	Agriculture division	Mining division	Retail division
	K'million	K'million	K'million
Revenue:			
External	120	300	40
Internal	40	Nil	10
Profit before tax	35	60	5
Assets	280	400	30
Liabilities	150	205	20

There are no intra-group balances in the divisions' assets and liabilities.

Required:

(i) Discuss the principles in IFRS 8 – Operating Segments for the determination of reportable segments in relation to Zambezi Holdings Plc. (5 marks)

(ii) Advise the directors of Zambezi on which segments should be classified as reportable segments to be submitted to the Chief Operating Decision Maker (CODM). (5 marks)

(b) Palmview is a Zambian resident company engaged in manufacturing. The company is listed on the Lusaka Securities Exchange (LuSE). On 1 April 2025, the company granted 1,000 share options to each of its 300 employees. The share options would vest on 31 March 2029 on condition that all the employees would remain employed by the company as at that date.

During the year ended 31 March 2026, 20 employees left, and the Directors now estimate that a total of 15% of the employees would leave during the vesting period.

All the vested shares would be exercised on 30 June 2029 at a price of K20 per share. The share options have been valued as follows:

Date	Fair value per share option
1 April 2025	K20
31 March 2026	K22.50

The intrinsic value was K4.50 per share as at 31 March 2026. The Directors of Palmview wish to know the accounting treatment of the above transaction in the financial statements for the year ended 31 March 2026.

Palmview pays income tax at the rate of 30% p.a.

Required:

Explain, with appropriate calculations, the accounting treatment of the above transaction in the financial statements of Palmview for the year ended 31 March 2026 in accordance with the relevant International Financial Reporting Standards (IFRSs). Your answer should include the deferred tax implications arising there on. (10 marks)

[Total: 20 Marks]

QUESTION FOUR

Mulonga, a Zambian company listed on the Lusaka Securities exchange (LuSE), entered into the following transactions:

Transaction one

Mulonga acquired 800,000 K100 loan notes at par on 1 October 2024, incurring transaction costs amounting to K2 million. The coupon rate on the loan notes is 8% per annum and is payable annually in arears. The loan notes would mature on 1 April 2028 and would be redeemed at a value of K86.48 million. The effective interest rate is 9% per annum.

It is company's business model to hold the loan notes until maturity in order to collect contractual cash flows from it.

The interest due was received on 30 September 2025. The credit rating agency engaged by the Directors of Mulonga determined that the credit risk of the borrower increased significantly, and as a result it is expected that all the cashflows receivable on the loan would be delayed by three (3) months.

The Directors wish to know the accounting treatment of the loan notes in the financial statements of Mulonga. (10 marks)

Transaction two

Mulonga acquired 80% of the issued equity shares of AGriTech a Zambian resident company engaged in farming. AGriTech manages a herd of dairy cattle and sugarcane plantations. The following information relates to AGriTech for the year ended 30 September 2025:

	Dairy cattle	Sugarcane plantations
	K	K
Fair value less costs to sell at 30 September 2024	2,000,000	1,200,000
Fair value at 30 September 2025	3,400,000	2,100,000
Estimated costs to sell at 30 September 2025	200,000	300,000

On 30 September 2025, AGriTech had two (2) tonnes of harvested sugarcanes whose fair value was determined to be K500,000 with estimated selling costs amounting to K30,000. On the same date, the company had 5,000 litres of harvested milk with a fair value of K100,000 and estimated costs to sell amounting to K10,000. The sugarcanes and milk had a fair value of K400,000 and K120,000 respectively on the date of harvest.

The Directors of Mulonga wish to know how the above should be accounted for in the consolidated financial statements for the year ended 30 September 2025. (10 marks)

Required:

Advise the Directors of Mulonga, with appropriate computations, on the accounting treatment of each of the above transactions in the consolidated financial statements for the year ended 30 September 2025 in accordance with the relevant International Financial Reporting Standards (IFRSs).

[Total: 20 Marks]

QUESTION FIVE

RiverPro, a Zambian resident company, is listed on the Lusaka Securities Exchange (LuSE). The Board of Directors has approved the company's proposal to expand through the acquisition of an existing manufacturing company. For this reason, Explo, a LuSE listed manufacturing company has been identified.

RiverPro uses the following ratios to assess the financial performance and position of its target companies:

- Operating profit margin
- Return on capital employed
- Asset turnover ratio
- Gearing ratio
- Earnings per share (EPS)
- Price earnings ratio
- Earnings yield
- Interest cover

The following information has been extracted from the books of Explo for the years ended 31 March 2026 and 31 March 2025:

Extracts of the statements of profit or loss for the year ended 31 March

	2026	2025
	K'million	K'million
Profit before interest and tax	800	640
Finance (interest) costs	(100)	(80)
Profit before tax	700	560
Income tax expense	(210)	(168)
Profit for the year	490	392

Extracts of the statements of financial position as at 31 March:

	2026	2025
Equity and Liabilities	**K'million**	**K'million**
Equity shares of K0.25 each	2,000	2,000
Share premium	800	800
Retained earnings	2,600	2,400
	5,400	5,200
Non-current Liabilities		
Loan notes	2,800	2,500
	8,200	7,700

The following additional information is available:

(1) Explo paid dividends amounting to K290 million during the year ended 31 March 2026. Dividends paid during the year ended 31 March 2025 amounted to K180 million.

(2) The current market price at 31 March 2026 and 31 March 2025 amounted to K6.20 per share and K5.90 per share, respectively.

(3) No additional shares were issued during the year ended 31 March 2026.

(4) The revenue for the year ended 31 March 2026 and 31 March 2025 amounted to K3,000 million and K2,700 million, respectively.

Required:

Write a report to the Board of Directors of Riverpro analyzing the financial performance, market performance, and financial position of Explo for the year ended 31 March 2026. You should include a recommendation on whether or not Explo should be acquired by RiverPro.

(20 marks)

[Total: 20 Marks]

END OF PAPER

Formulae

Modigliani and Miller Proposition 2 (with tax)

$$k_e = k_e^i + (1 - T)(k_e^i - k_d)\frac{V_d}{V_e}$$

Two asset portfolio

$$s_p = \sqrt{w_a^2 s_a^2 + w_b^2 s_b^2 + 2 w_a w_b r_{ab} s_a s_b}$$

The Capital Asset Pricing Model

$$E(r_i) = R_f + \beta_i (E(r_m) - R_f)$$

The asset beta formula

$$\beta_a = \left[\frac{V_e}{(V_e + V_d(1 - T))}\beta_e\right] + \left[\frac{V_d(1 - T)}{(V_e + V_d(1 - T))}\beta_d\right]$$

The Growth Model

$$P_o = \frac{D_o(1 + g)}{(r_e - g)}$$

Gordon's growth approximation

$$g = br_e$$

The weighted average cost of capital

$$WACC = \left[\frac{V_e}{V_e + V_d}\right]k_e + \left[\frac{V_d}{V_e + V_d}\right]k_d(1 - T)$$

The Fisher formula

$$(1 + i) = (1 + r)(1 + h)$$

Purchasing power parity and interest rate parity

$$S_1 = S_0 x \frac{(1 + h_c)}{(1 + h_b)} \qquad F_0 = S_0 x \frac{(1 + i_c)}{(1 + i_b)}$$

Modified Internal Rate of Return

$$MIRR = \left[\frac{PV_R}{PV_I}\right]^{\frac{1}{n}}\left(1 + r_e\right) - 1$$

The Black-Scholes option pricing model

$$c = P_a N(d_1) - P_e N(d_2) e^{-rt}$$

Where:

$$d_1 = \frac{\ln(P_a / P_e) + (r + 0.5s^2)t}{s\sqrt{t}}$$

$$d_2 = d_1 - s\sqrt{t}$$

The Put Call Parity relationship

$$p = c - P_a + P_e e^{-rt}$$

Present Value Table

Present value of 1 i.e. $(1 + r)^{-n}$

Where r = discount rate
n = number of periods until payment

Discount rate (r)

Periods (n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0·990	0·980	0·971	0·962	0·952	0·943	0·935	0·926	0·917	0·909	1
2	0·980	0·961	0·943	0·925	0·907	0·890	0·873	0·857	0·842	0·826	2
3	0·971	0·942	0·915	0·889	0·864	0·840	0·816	0·794	0·772	0·751	3
4	0·961	0·924	0·888	0·855	0·823	0·792	0·763	0·735	0·708	0·683	4
5	0·951	0·906	0·863	0·822	0·784	0·747	0·713	0·681	0·650	0·621	5
6	0·942	0·888	0·837	0·790	0·746	0·705	0·666	0·630	0·596	0·564	6
7	0·933	0·871	0·813	0·760	0·711	0·665	0·623	0·583	0·547	0·513	7
8	0·923	0·853	0·789	0·731	0·677	0·627	0·582	0·540	0·502	0·467	8
9	0·941	0·837	0·766	0·703	0·645	0·592	0·544	0·500	0·460	0·424	9
10	0·905	0·820	0·744	0·676	0·614	0·558	0·508	0·463	0·422	0·386	10
11	0·896	0·804	0·722	0·650	0·585	0·527	0·475	0·429	0·388	0·305	11
12	0·887	0·788	0·701	0·625	0·557	0·497	0·444	0·397	0·356	0·319	12
13	0·879	0·773	0·681	0·601	0·530	0·469	0·415	0·368	0·326	0·290	13
14	0·870	0·758	0·661	0·577	0·505	0·442	0·388	0·340	0·299	0·263	14
15	0·861	0·743	0·642	0·555	0·481	0·417	0·362	0·315	0·275	0·239	15

(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0·901	0·893	0·885	0·877	0·870	0·862	0·855	0·847	0·840	0·833	1
2	0·812	0·797	0·783	0·769	0·756	0·743	0·731	0·718	0·706	0·694	2
3	0·731	0·712	0·693	0·675	0·658	0·641	0·624	0·609	0·593	0·579	3
4	0·659	0·636	0·613	0·592	0·572	0·552	0·534	0·516	0·499	0·482	4
5	0·593	0·567	0·543	0·519	0·497	0·476	0·456	0·437	0·419	0·402	5
6	0·535	0·507	0·480	0·456	0·432	0·410	0·390	0·370	0·352	0·335	6
7	0·482	0·452	0·425	0·400	0·376	0·354	0·333	0·314	0·296	0·279	7
8	0·434	0·404	0·376	0·351	0·327	0·305	0·285	0·266	0·249	0·233	8
9	0·391	0·361	0·333	0·308	0·284	0·263	0·243	0·225	0·209	0·194	9
10	0·352	0·322	0·295	0·270	0·247	0·227	0·208	0·191	0·176	0·162	10
11	0·317	0·287	0·261	0·237	0·215	0·195	0·178	0·162	0·148	0·135	11
12	0·286	0·257	0·231	0·208	0·187	0·168	0·152	0·137	0·124	0·112	12
13	0·258	0·229	0·204	0·182	0·163	0·145	0·130	0·116	0·104	0·093	13
14	0·232	0·205	0·181	0·160	0·141	0·125	0·111	0·099	0·088	0·078	14
15	0·209	0·183	0·160	0·140	0·123	0·108	0·095	0·084	0·074	0·065	15

Annuity Table

Present value of an annuity of 1 i.e. $\frac{1-(1+r)^{-n}}{r}$

Where r = discount rate
n = number of periods

Discount rate (r)

Periods (n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0·990	0·980	0·971	0·962	0·952	0·943	0·935	0·926	0·917	0·909	1
2	1·970	1·942	1·913	1·886	1·859	1·833	1·808	1·783	1·759	1·736	2
3	2·941	2·884	2·829	2·775	2·723	2·673	2·624	2·577	2·531	2·487	3
4	3·902	3·808	3·717	3·630	3·546	3·465	3·387	3·312	3·240	3·170	4
5	4·853	4·713	4·580	4·452	4·329	4·212	4·100	3·993	3·890	3·791	5
6	5·795	5·601	5·417	5·242	5·076	4·917	4·767	4·623	4·486	4·355	6
7	6·728	6·472	6·230	6·002	5·786	5·582	5·389	5·206	5·033	4·868	7
8	7·652	7·325	7·020	6·733	6·463	6·210	5·971	5·747	5·535	5·335	8
9	8·566	8·162	7·786	7·435	7·108	6·802	6·515	6·247	5·995	5·759	9
10	9·471	8·983	8·530	8·111	7·722	7·360	7·024	6·710	6·418	6·145	10
11	10·37	9·787	9·253	8·760	8·306	7·887	7·499	7·139	6·805	6·495	11
12	11·26	10·58	9·954	9·385	8·863	8·384	7·943	7·536	7·161	6·814	12
13	12·13	11·35	10·63	9·986	9·394	8·853	8·358	7·904	7·487	7·103	13
14	13·00	12·11	11·30	10·56	9·899	9·295	8·745	8·244	7·786	7·367	14
15	13·87	12·85	11·94	11·12	10·38	9·712	9·108	8·559	8·061	7·606	15

(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0·901	0·893	0·885	0·877	0·870	0·862	0·855	0·847	0·840	0·833	1
2	1·713	1·690	1·668	1·647	1·626	1·605	1·585	1·566	1·547	1·528	2
3	2·444	2·402	2·361	2·322	2·283	2·246	2·210	2·174	2·140	2·106	3
4	3·102	3·037	2·974	2·914	2·855	2·798	2·743	2·690	2·639	2·589	4
5	3·696	3·605	3·517	3·433	3·352	3·274	3·199	3·127	3·058	2·991	5
6	4·231	4·111	3·998	3·889	3·784	3·685	3·589	3·498	3·410	3·326	6
7	4·712	4·564	4·423	4·288	4·160	4·039	3·922	3·812	3·706	3·605	7
8	5·146	4·968	4·799	4·639	4·487	4·344	4·207	4·078	3·954	3·837	8
9	5·537	5·328	5·132	4·946	4·772	4·607	4·451	4·303	4·163	4·031	9
10	5·889	5·650	5·426	5·216	5·019	4·833	4·659	4·494	4·339	4·192	10
11	6·207	5·938	5·687	5·453	5·234	5·029	4·836	4·656	4·486	4·327	11
12	6·492	6·194	5·918	5·660	5·421	5·197	4·988	4·793	4·611	4·439	12
13	6·750	6·424	6·122	5·842	5·583	5·342	5·118	4·910	4·715	4·533	13
14	6·982	6·628	6·302	6·002	5·724	5·468	5·229	5·008	4·802	4·611	14
15	7·191	6·811	6·462	6·142	5·847	5·575	5·324	5·092	4·876	4·675	15

Standard normal distribution table

	0·00	0·01	0·02	0·03	0·04	0·05	0·06	0·07	0·08	0·09
0·0	0·0000	0·0040	0·0080	0·0120	0·0160	0·0199	0·0239	0·0279	0·0319	0·0359
0·1	0·0398	0·0438	0·0478	0·0517	0·0557	0·0596	0·0636	0·0675	0·0714	0·0753
0·2	0·0793	0·0832	0·0871	0·0910	0·0948	0·0987	0·1026	0·1064	0·1103	0·1141
0·3	0·1179	0·1217	0·1255	0·1293	0·1331	0·1368	0·1406	0·1443	0·1480	0·1517
0·4	0·1554	0·1591	0·1628	0·1664	0·1700	0·1736	0·1772	0·1808	0·1844	0·1879
0·5	0·1915	0·1950	0·1985	0·2019	0·2054	0·2088	0·2123	0·2157	0·2190	0·2224
0·6	0·2257	0·2291	0·2324	0·2357	0·2389	0·2422	0·2454	0·2486	0·2517	0·2549
0·7	0·2580	0·2611	0·2642	0·2673	0·2704	0·2734	0·2764	0·2794	0·2823	0·2852
0·8	0·2881	0·2910	0·2939	0·2967	0·2995	0·3023	0·3051	0·3078	0·3106	0·3133
0·9	0·3159	0·3186	0·3212	0·3238	0·3264	0·3289	0·3315	0·3340	0·3365	0·3389
1·0	0·3413	0·3438	0·3461	0·3485	0·3508	0·3531	0·3554	0·3577	0·3599	0·3621
1·1	0·3643	0·3665	0·3686	0·3708	0·3729	0·3749	0·3770	0·3790	0·3810	0·3830
1·2	0·3849	0·3869	0·3888	0·3907	0·3925	0·3944	0·3962	0·3980	0·3997	0·4015
1·3	0·4032	0·4049	0·4066	0·4082	0·4099	0·4115	0·4131	0·4147	0·4162	0·4177
1·4	0·4192	0·4207	0·4222	0·4236	0·4251	0·4265	0·4279	0·4292	0·4306	0·4319
1·5	0·4332	0·4345	0·4357	0·4370	0·4382	0·4394	0·4406	0·4418	0·4429	0·4441
1·6	0·4452	0·4463	0·4474	0·4484	0·4495	0·4505	0·4515	0·4525	0·4535	0·4545
1·7	0·4554	0·4564	0·4573	0·4582	0·4591	0·4599	0·4608	0·4616	0·4625	0·4633
1·8	0·4641	0·4649	0·4656	0·4664	0·4671	0·4678	0·4686	0·4693	0·4699	0·4706
1·9	0·4713	0·4719	0·4726	0·4732	0·4738	0·4744	0·4750	0·4756	0·4761	0·4767
2·0	0·4772	0·4778	0·4783	0·4788	0·4793	0·4798	0·4803	0·4808	0·4812	0·4817
2·1	0·4821	0·4826	0·4830	0·4834	0·4838	0·4842	0·4846	0·4850	0·4854	0·4857
2·2	0·4861	0·4864	0·4868	0·4871	0·4875	0·4878	0·4881	0·4884	0·4887	0·4890
2·3	0·4893	0·4896	0·4898	0·4901	0·4904	0·4906	0·4909	0·4911	0·4913	0·4916
2·4	0·4918	0·4920	0·4922	0·4925	0·4927	0·4929	0·4931	0·4932	0·4934	0·4936
2·5	0·4938	0·4940	0·4941	0·4943	0·4945	0·4946	0·4948	0·4949	0·4951	0·4952
2·6	0·4953	0·4955	0·4956	0·4957	0·4959	0·4960	0·4961	0·4962	0·4963	0·4964
2·7	0·4965	0·4966	0·4967	0·4968	0·4969	0·4970	0·4971	0·4972	0·4973	0·4974
2·8	0·4974	0·4975	0·4976	0·4977	0·4977	0·4978	0·4979	0·4979	0·4980	0·4981
2·9	0·4981	0·4982	0·4982	0·4983	0·4984	0·4984	0·4985	0·4985	0·4986	0·4986
3·0	0·4987	0·4987	0·4987	0·4988	0·4988	0·4989	0·4989	0·4989	0·4990	0·4990

This table can be used to calculate $N(d)$, the cumulative normal distribution functions needed for the Black-Scholes model of option pricing. If $d_i > 0$, add 0·5 to the relevant number above. If $d_i < 0$, subtract the relevant number above from 0·5.

CA 3.1 ADVANCED FINANCIAL REPORTING

SUGGESTED SOLUTIONS

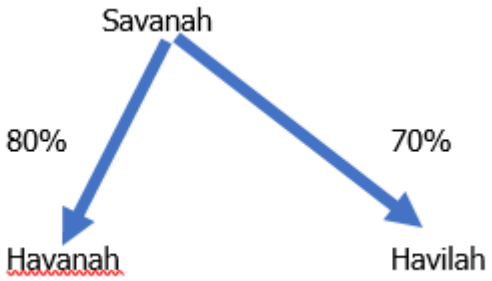
SOLUTION ONE

Savanah Group
Consolidated statement of financial position as at 30 June 2025

Non-current Assets	K'million
PPE (3,100 + 1,700 + 1,400 + 720 + 50(W2) + 390(W6) – 432)	6,928
Goodwill (1,373.60 + 255) (W3)	1,628.60
Other financial assets (1,100 + 800 + 620)	2,520
	11,076.60
Current assets (2,200 + 2,100 + 1,900)	6,200
Total Assets	17,276.60
Equity and Liabilities	
Equity shares of K0.25 each	4,000
Other components of equity (W9)	1,519.42
Retained earnings (W10)	3,444.47
Shareholders' funds attributable to the owners of the parent	8,963.89
Non-controlling interest (W8)	835.04
	9,798.93
Non-current liabilities	
(2,000 + 1,000 + 900 + 463.47 (W5)+ 2.80 (W7)+ 86.40 + 15 – 500)	3,967.67
Current liabilities (2,400 + 600 + 510)	3,510
Total Equity and Liabilities	17,276.60

Workings

(1) Group structure



(2) Fair value of net assets – Havanah

	At acquisition date (1/07/22)	At reporting date (30/06/25)
	K'million	K'million
Equity shares	1,000	1,000
Other components of equity	280	400
Retained earnings	800	1,600
Fair value adjustments – plant (2,800-1,000-280-800)	720	720
Depreciation on FV (720/5 x 3 years)		(432)
Deferred tax (720 x 30%)/(720 – 432) x 30%	(216)	(86.40)
	2,584	3,201.60

Post acquisition retained earnings: [(3,201.60 – 2,584) – (400 – 280)] = 497.60

Fair value of net assets - Havilah

	At acquisition date (1/07/23)	At reporting date (30/06/25)
	K'million	K'million
Equity shares	1,000	1,000
Other comprehensive income	200	310
Retained earnings	850	1,200
Fair value adjustment (2,100-1,000-200-850)	50	50
Deferred tax	(15)	(15)
	2,085	2,545

Post-acquisition retained earnings: [(2,545 – 2,085) – (310 – 200)] = 350

(3) Goodwill

	Havanah	Havilah
	K'million	K'million
Purchase consideration (2,400+1,500)	3,600	3,900
NCI value	600	700
	4,200	4,600
Fair value of net assets at acquisition (W2)	(2,584)	(2,085)
Goodwill at acquisition date	1,616	2,515
Impairment loss (1,616 x 15%)/(W4)	(242.40)	(2,260)
Goodwill at reporting period	1,373.60	255

(4) Impairment review – Havilah

	K'million
Fair value of net assets at 30 June 2025	2,545
Goodwill at acquisition date	2,515

	5,060
Recoverable amount	(2,800)
Impairment loss	2,260

(5) Issue of bonds

These bonds are convertible; therefore, they should be classified as compound financial instruments. This means that at inception, these bonds should have been split into financial liability and equity instrument. The financial liability at inception is:

	CF K'million	DF@11%	DCF K'million
1 – 4: Interest (5 x 100 x 8%)	40	3.102	124.08
4: Redemption value (5 x 100)	500	0.659	329.50
Financial liability at 1 July 2024			453.58

Equity instrument is: K46.42 million. (i.e K500 million – K453.58 million). This amount should be included in other components of equity in the statement of financial position.

The financial liability at 30 June 2025 will be calculated as follows:

Year ended	Balance b/f	Effective interest @11%	Interest payments	Balance c/f
	K'million	K'million	K'million	K'million
30 June 2025	453.58	49.89	(40)	463.47

Savanah should recognise the excess amount of K9.89 million (K49.89 million – K40 million) as a finance cost in the statement of profit or loss, since the interest paid of K40 million had already been recognised as a finance cost.

(6) Profit from a joint operation

	K'million
Revenue (2,000 x 50%)	1,000
Production expenses (800 x 50%)	(400)
Other operating expenses (420 x 50%)	(210)
Net profit for the year	390

Share of assets: K780 million x 50% = K390 million

(7) Share appreciation rights (SARs)

The SARs should be accounted for in accordance with IFRS 2 – Share-Based Payment Transactions. Savanah should account for these in its financial statements as an expense and a corresponding liability measured at fair value of SARs expected to vest at each reporting period. The amounts to be recognised in the financial statements for the year ended 30 June 2025 are:

10,000 x (10 – 1 – 2) x K120 x 1/3 = K2.80 million.

The K2.80 million should be debited to group retained earnings and credited to non-current liabilities.

(8) Non-controlling interest

	K'million
Fair value at acquisition	
Havanah	600
Havilah	700
Share of post-acquisition total comprehensive income	
Havanah (3,201.60 – 2,584) (W2) x 20%	123.52
Havilah (2,545 – 2,085) (W2) x 30%	138
Impairment loss:	
Havanah (242.40 x 20%)	(48.48)
Havilah (2,260 x 30%)	(678)
	835.04

(9) Group other components of equity

	K'million
Savanah	2,600
Share of post-acquisition other components of equity:	
Havanah (400 – 280) x 80%	96
Havilah (310 – 200) x 70%	77
Equity instrument on convertible bonds (W5)	46.42
Gain on fair value of investment in Havanah (4,900 – 3,600)	(1,300)
	1,519.42

(10) Group retained earnings

	K'million
Savanah	3,900
Share of post-acquisition retained earnings of:	
Havanah (497.60 x 80%)	398.08
Havilah (350 x 70%)	245
Gain on the 25% investment previously held in Havilah	
(1,500 – 1,200)	300
Share of profits from a joint operation (W6)	390
Share of impairment loss:	
Havanah (242.40 x 80%)	(193.92)
Havilah (2,260 x 70%)	(1,582)
Excess interest on bonds (W5)	(9.89)
Remuneration expenses (W7)	(2.80)
	3,444.47

SOLUTION TWO

(a) Ethical issues

IAS 1 – Presentation of Financial Statements requires that an entity must 'present fairly' its financial position, financial performance, and cash flows. This means that when preparing financial statements, these statements should represent for the reporting period faithfully the effects of transactions, which is achieved by adhering to International Financial Reporting Standards (IFRSs).

Directors may wish to present the entity's financial statements in a favorable way in order to meet the targets, hence employ creative accounting techniques in order to manipulate the financial position, financial performance, and cash flows of the entity.

In the case of ZamFruits, the company applied for a loan whose approval depends on the amount of profits to be reported in the statement of profit or loss. This might be the motive for the manipulation of the company's profits through techniques such as window dressing, which is exactly what the Finance Director is proposing.

The Finance Director's proposal to recognise the sale proceeds in revenue is wrong, and against the requirements of IFRS 16 – Leases, the gain on disposal should be recognised as other income.

The principle of integrity imposes an obligation on the accountant to have commitment not to mislead or deceive. This means that an accountant should not knowingly be associated with financial reports, communications, or other information where the accountant believes that the information contains materially false or misleading statements or computations.

The principle of professional competence and due care also requires an accountant to maintain professional knowledge and skills and be able to prepare financial statements in accordance with applicable technical and professional standards (IFRSs).

The disposal proceeds of K21 million from the sale of the equipment is not revenue, in accordance with IFRS 16, therefore, including it in the statement of profit or loss would overstate the profits for the year, which would be in breach of the requirements of IAS 1 and the principle of integrity as outlined by the International Ethical Standards Board for Accountants (IESBA).

Since the equipment was leased back, only the profit on disposal relating to the rights transferred should be recognised in the statement of profit or loss.

There is a danger that the accountant is being pressured to follow the Finance Director's incorrect accounting treatment of the disposal proceeds from the sale and leaseback

transaction. This gives rise to an intimidation threat as the accountant is being pressured to act in the interest of the Director.

The accountant should try to persuade the Finance Director not to proceed with the proposed accounting treatment, as this would be against the requirements of IFRS 16 and IAS 1. If the director still insists on this accounting treatment, the accountant should report this to the entity's independent auditors and to ZamFruits' internal ethics committee.

(b) This Transaction one (1) is a sale and leaseback, and therefore should be accounted for in accordance with IFRS 16 – Leases. IFRS 16 states that when a sale in a sale and leaseback transaction meets the criteria under IFRS 15, the seller/lessee should recognise the sale, derecognise the asset.

In this case, the criteria of the sale have been met in accordance with IFRS 15. FarmFruits should therefore derecognise the asset and recognise the sale. This means that a profit or loss on disposal should be recognised, although it should be restricted to the rights transferred.

The company should recognise a lease liability, which is calculated as the present value of the minimum lease payments discounted at an interest rate implicit in the lease. The initial amount of the lease is: K2.6 million x 3.993 = K10.38 million.

Therefore, the amount of lease liability to be included in the financial statements as a liability is K10.38 million, split as follows: Non-current liability K8.61 million (K10.38 million – K1.77 million) and current liability K1.77 million [K2.6 million – (K10.38 million x 8%)]

The company should also recognise a right of use asset (ROUA) on the rights retained, which is calculated as the carrying amount of the asset x lease liability/fair value of the asset. The ROUA would be: K6.92 million (K10.38 million/K18.9 million) x K12.6 million.

The ROUA should be depreciated over the lease term of five (5) years. There would be no depreciation in the financial statements for the year ended 30 September 2025 in respect of the ROUA.

FarmFruits should restrict the disposal proceeds to the fair value of the asset. Where the sale proceeds are more than the fair value of the asset, the excess amount should be recognised as a loan. Therefore, the amount to be recognised as a financing liability (loan) is: K21 million – K18.9 million = K2.1 million.

The total profit on disposal therefore, would be: K6.3 million. K18.9 million – K12.6 million. The amount to be recognised in the statement of profit or loss for the year ended 30 September 2025 should be restricted to the rights transferred. The profit to be recognised is: K6.3 million – [K6.3 million x K10.38 million/K18.9 million] = K2.84 million.

The journal entries to be made on 30 September 2025

	Debit	Credit
Cash	K21 million	
Lease liability		K10.38 million
ROUA	K6.92 million	
PPE		K12.6 million
Gain on disposal		K2.84 million
Financial liability (excess of fair value)		K2.1 million

(c) This transaction should be accounted for in accordance with IAS 36 – Impairment of Assets. IAS 36 defines impairment as a reduction in the recoverable amount of the asset or a cash generating unit below its carrying amount.
IAS 36 guides that an impairment review in respect of assets, other than goodwill arising on a business combination and intangible assets that are not amortised, should be conducted when and only when there is an indication that an asset might have suffered impairment.

The irrigation equipment was partially damaged due to an accident when the farm tractor collided with it. This is an indication that the equipment might have suffered impairment. Impairment is calculated as the difference between carrying amount of the asset or cash generating unit and its recoverable amount, where the carrying amount is more than recoverable amount.

As at 31 March 2025, the irrigation equipment had a carrying amount of K4.20 million [K6.0 million – (K6.0 million/5 years x 1.5 years).

The recoverable amount is whichever is higher between fair value less costs to sell of the equipment, and its value in use. Therefore, the recoverable amount is K3.0 million which is the higher of value in use.

(1) Fair value less costs to sale is K3.0 million.

(2) Value in use is: K2.5 million.

The irrigation equipment has therefore suffered impairment, and the impairment loss is K1.20 million (K4.20 million – K3.0 million). The impairment loss should be recognised as expense in the statement of profit or loss to the same heading as the related depreciation.

As at 31 March 2025, the irrigation equipment should be restated to its impaired value of K3.0 million and depreciated over its remaining useful life of 3.5 years. This means that the equipment would be depreciated by K0.43 million (K3.0 million/3.5 years x 6/12) in the last six (6) months of the year.

The total depreciation expense to be recognised would be: K1.03 million [(K6.0 million/5 years x 6/12) + K0.43 million). The asset would be stated at its carrying amount of K2.57 million (K3.0 million – K0.43 million) in the statement of financial position as at 30 September 2025.

SOLUTION THREE

(a) Segmental reports

(i) IFRS 8 – Operating Segments defines an operating segment as a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenue and expenses relating to transactions with other components of the same entity), and whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to segments and assess its performance, and for which discrete financial information is available.

IFRS 8 states that an operating segment should be reported on separately in the financial statements if any of the following criteria are met:

(1) Its revenue (internal and external) is 10% or more of total revenue;
(2) Its reported profit or loss is 10% or more of all segments in profit (or all segments in loss if greater); or
(3) Its assets are 10% or more of the total assets.

Segments should be reported until at least 75% of the entity's external revenue has been disclosed.

Where all segments satisfying the 10% criteria have been disclosed, and they do not amount to 75% of total external revenue, additional operating segments should be disclosed, even if they do not meet the above criteria.

Operating segments that do not meet any of the quantitative thresholds may be reported separately if management believes that information about the segment would be useful to users of the financial statements.

(ii) The agriculture division meets the quantitative criteria to be classified as a reportable segment, as the revenue, profit, and assets are all more than 10%. Agriculture segment – revenue (160/510 x 100) = 31.37%, profit (35/100 x 100) = 35%; and assets (280/710 x 100) = 39.44%.

The mining division also meets the quantitative criteria to be classified as a reportable segment, as the revenue, profit, and assets are all above the 10% threshold. Mining division: revenue (300/510 x 100) = 58.83%; profit (60/100 x 100) = 60%; and assets (400/710 x 100) = 56.34%.

The retail division does not meet the 10% threshold and is therefore not a reportable segment. It would be reported in the other segment category. Retail division: revenue (50/510 x 100) = 9.80%; profit (5/100 x 100) = 5%; and assets (30/710 x 100) = 4.22%.

Reporting the agriculture division and the mining division account for 91.30% of the external revenue being reported; therefore, the requirement to report at least 75% of the external revenue has been satisfied.

However, the retail division can still be reported as a separate operating segment if management of Zambezi Holdings Plc believes that information about the segment would be useful to the users of financial statements.

Workings

	Agriculture division K'million	Mining division K'million	Retail division K'million	Total K'million
Revenue:				
External	120	300	40	460
Internal	40	Nil	10	50
Total revenue	160	300	50	510
Profit for the year	35	60	5	100
Assets	280	400	30	710
Liabilities	150	205	20	375

(b) This transaction is a share-based payment transaction, and therefore should be accounted for in accordance with IFRS 2 – Share-Based Payment Transactions. The transaction is an equity-settled share-based payment transaction as it will be settled by issuing equity shares to the employees.

IFRS 2 states that if the counterparty is an employee, then the fair value of shares, share options, or other equity instruments granted should be used to measure the transaction in the financial statements. An equity-settled share-based payment transaction is measured at the fair value of the instruments granted at the grant date.

This transaction should be recognized in the financial statements of Palmview over the vesting period based on the amount that is expected to vest.

As at 31 March 2026, the number of options expected to vest is: (300 x 85%) x 1,000 x K20 x ¼ = K1,275,000.

This amount should be recognized as an expense in the statement of profit or loss for the year ended 31 March 2026, and as an equity reserve in the statement of financial position as at 31 March 2026.

The journal entries:

Dr. Employee expenses	K1,275,000
Cr. Equity	K1,275,000

The deferred tax implications are that share-based payment expenses are only deductible when the share options are exercised by the employees. According to IAS 12, this creates a deductible temporary difference, and therefore, a deferred tax asset should be recognized.

The amount deductible for tax purposes is the intrinsic value, which is the difference between the fair value of the shares and the exercise price. In this case, the intrinsic value is K4.50 per share.

The deferred tax asset is therefore: (300 x 85%) x 1,000 x K4.50 x ¼ x 30% = K86,063.

This amount should be recognised as tax income (reduce the income tax expense) in the statement of profit or loss for the year ended 31 March 2026, and as a deferred tax asset under non-current assets in the statement of financial position as at 31 March 2026.

The journal entries:

Dr. Deferred tax asset	K86,063
Cr. Profit or loss	K86,063

SOLUTION FOUR

Transaction one

This is an investment in the debt securities; therefore, it should be classified as a financial asset in the financial statements of Mulonga and accounted for in accordance with IFRS 9 – Financial Instruments.

The financial asset is a debt instrument, and it is within the business model of Mulonga to hold the loan asset until maturity in order to collect contractual cash flows; therefore, it should be classified as at amortised cost in accordance with IFRS 9.

IFRS 9 states that a financial asset classified as at amortised cost should initially be measured at fair value. i.e, actual cost paid plus transaction costs. This means that the financial asset (loan asset) should initially be measured at K82 million [(800,000 x K100) + K2,000,000].

Subsequently, the loan asset should be measured at amortised cost with interest calculated at an effective interest rate recognised in profit or loss. The carrying amount at 30 September 2025 is as follows:

Year ended	Balance b/f	Effective interest@9%	Interest received	Balance c/f
	K'million	K'million	K'million	K'million
30 Sept 2025	82	7.38	(6.40)	82.98

The financial assets classified as at amortised cost are subjected to an impairment review. IFRS 9 provides the general approach, which is the expected credit losses (ECL). The IFRS standard requires the entity to recognise any expected credit losses on initial recognition. Any increase in the credit risks of the borrower results in the recognition of the lifetime credit losses.

The credit losses are calculated as the difference between the carrying amount of the financial asset and the present value of expected cash flows of the financial asset discounted at an effective interest rate.

The credit risks of the borrower increased as determined by the credit rating agency, and therefore, the lifetime credit losses should be recognised. The expected credit losses would be calculated as follows:

Year	Cash follows K'million	DF@9%	Balance c/f K'million
1 – interest (80 x 8%)	6.40	(1 + 0.09)^-1.25	5.75
2	6.40	(1 + 0.09)^-2.25	5.27
3 (86.48 + 6.40)	92.88	(1 + 0.09)^-3.25	70.19
			81.21

Expected credit loss = K82.98million – K81.21 million = K1.77 million.

As at 30 September 2025, the loan asset will be measured at the net amount of K81.21 million in the statement of financial position. The effective interest of K7.38 million would be recognised as investment income in the statement of profit or loss.

The credit loss of K1.77 million should be recognised as an expense in the statement of profit or loss for the year ended 30 September 2025.

Transaction two

This transaction should be accounted for in accordance with IAS 41 – Agriculture. IAS 41 provides guidance on the measurement of biological assets and agricultural produce (inventory) at the point of harvest.

IAS 41 states that Biological assets are measured both on initial recognition and subsequently (at the end of each reporting period) at fair value less costs to sell. This means that the dairy cattle and sugarcane plantation should be measured at fair value less costs to sell.

Therefore, AGriTech's biological assets should be included at the following amounts in the consolidated financial statements:

	K
Dairy cattle (3,400,000 – 200,000)	3,200,000
Sugarcane plantation (2,100,000 – 300,000)	1,800,000
Total value of biological assets	5,000,000

The gain compared to the initial cost should be recognized in profit or loss for the year. This means that a total gain on fair value of biological assets amounting to K1,800,000 [K5,000,000 – (K2,000,000 + K1,200,000)] should be reported in the statement of profit or loss.

Agricultural produce at the point of harvest is also measured at fair value less costs to sell. After harvest, agricultural produce should be measured at the lower of cost and net realizable value (NRV) in accordance with IAS 2 – Inventories.

The fair value less costs to sell of agricultural produce harvested becomes its cost under IAS 2. Changes in fair value less costs to sell are recognized in profit or loss.

Harvested sugar cane will be measured at its fair value as at the date of harvest, which is fair value and K400,000, as it is the lower of fair value and the net realisable value at 30 September 2025. The net realisable value is K470,000 (K500,000 – K30,000).

The milk would be measured at the net realisable value of K90,000 (K100,000 – K10,000), which is the lower of the net realisation value and fair value of K120,000 at the date of harvest.

Therefore, the amounts to be included in the consolidated financial statements in respect of inventories (agricultural produce) as at 30 September 2025 will be:

	K
Harvested sugarcanes	400,000
Milk	90,000
	490,000

Loss in the value of milk of K30,000 (K120,000 – K90,000) should be recognized in the statement of profit or loss as an expense.

SOLUTION FIVE

To: Board of Directors of RiverPro
From: Financial Analyst
Date: Date of the Exam

Subject: FINANCIAL PERFORMANCE MARKET PERFORMANCE AND POSITION OF EXPLO FOR THE YEAR ENDED 31 MARCH 2026

Introduction

This report evaluates Explo's financial performance, market performance and position for the year ended 31 March 2026 compared to the year ended 31 March 2025. The analysis is based on the key financial ratios used by RiverPro, as attached in the appendix.

Financial performance

Generally, there was an improvement in the financial performance of the company in the year ended 31 March 2026. The operating profit margin rose to 26.67% in the year 2026 from 23.70% for the year 2025, representing an increase of 12.53%. The increase could be due to effective management of expenses and an increase in revenue. Revenue increased to K3,000 million for the year 2026 from K2,700 million for the year 2025, representing an improvement of 11.11%.

The return on capital employed also increased to 9.76% for the year 2026 from 8.31% for the year 2025. This shows an improvement of 17.45% in returns on the invested capital.

The asset turnover ratio has slightly increased to 0.37 times in 2026 from 0.35 times in 2025, representing a 5.71% increase and indicating improved asset utilization for revenue generation.

The earnings per share (EPS) ratio of the company has also increased from K0.049 per share for the year 2025 to K0.0612 per share for the year 2026, representing an increase of 24.90%. This could be as a result of improved profitability during the year ended 31 March 2026. This, therefore, indicates enhanced shareholder wealth.

Market performance

There is an improvement in the performance of the company on the securities market as revealed by the ratios calculated in the appendix. The share prices increased from K5.90 for the year 2025 to K6.10 for the year 2026, which represents an increase of 3.39%.

The price-earnings ratio declined from 120.41 for the year 2025 to 101.31 for the year 2026, representing a decrease of 15.86%. Despite the increase in share prices and earnings improving, the market is valuing the company realistically.

The earnings yield increased from 0.83% for the year 2025 to 0.99% for the year 2026, representing a rise of 19.28%, although still low compared to alternative investments. This may limit the attractiveness of the company's shares to income-focused investors.

There was an increase in dividends paid to K290 million for the year 2026 from K180 million for the year 2025. The market sentiments still remain positive, with rising share prices and sustainable valuation levels.

Financial position

The gearing ratio has increased from 32.47% for the year 2025 to 34.15% for the year 2026, representing an increase of 5.17%. This is as a result of additional loan notes issued by the company, amounting to K300 million. Although the gearing ratio has increased, the level is not worrying as it is still below 50%.

The interest cover ratio has remained constant at 8 times despite an increase in the level of interest-bearing debt, and eventually the interest cost charged in the statement of profit or loss. This could be as a result of an increase in profits before interest and tax during the year ended 31 March 2026.

Conclusion

Explo is a financially sound target company with improving performance and balanced capital structure. The acquisition would strengthen RiverPro's market position, diversify operations, and attain sustainable growth.

Recommendation

RiverPro should proceed with the acquisition of Explo as it demonstrates consistent profitability, financial stability, and market confidence. This acquisition offers RiverPro long-term value creation for shareholders.

For further clarification, do not hesitate to contact me.

Yours Analyst

Appendix

		2026	2025
(1)	Operating profit margin		
	Profit before interest & tax x 100	800 x 100	640 x 100
	Revenue	3,000	2,700
		= 26.67%	= 23.70%
(2)	Return on capital employed		
	Profit before interest & tax x 100	800 x 100	640 x 100
	Equity + long-term debt	8,200	7,700
		= 9.76%	= 8.31%
(3)	Asset turnover ratio		
	Revenue	3,000	2,700
	Equity + Long-term debt	8,200	7,700
		= 0.37 times	= 0.35 times
(4)	Gearing ratio		
	Long-term debt x 100	2,800 x 100	2,500 x 100
	Equity + Long-term debt	8,200	7,700
		= 34.15%	= 32.47%
(5)	Earnings per share		
	Profit after tax & pref dividends	490	392
	No. equity shares outstanding	(2,000/0.25)	(2,000/0.25)
		= 6.12 Ngwee	= 4.90 Ngwee
(6)	Price earnings ratio		
	Market price per share	K6.20	K5.90
	Earnings per share	K0.0612	K0.049 x 100
		= 101.31	= 120.41
(7)	Earnings yield		
	Earnings per share x 100	K0.0612 x 100	K0.049 x 100
	Market price per share	K6.20	K5.90
		= 0.99%	= 0.83%
(8)	Interest cover		
	Profit before interest & tax	800	640
	Finance (interest) cost	100	80
		= 8 times	= 8 times

END OF SOLUTIONS

CA ZAMBIA PROGRAMME EXAMINATIONS

CA ADVISORY PROFESSIONAL IN ACCOUNTANCY

CA3.2 ADVANCED AUDIT AND ASSURANCE

THURSDAY 10 SEPTEMBER 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: FOUR (4) Optional scenario questions. Attempt any THREE (3) 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

This question is compulsory and must be attempted.

QUESTION ONE – (COMPULSORY)

You are Audit Manager in Fidelity & Associates, a firm of Chartered Accountants. You recently joined Fidelity & Associates and you will be undertaking the first audit assignment. The firm was recently appointed auditor of Gonde Ranching & Cropping Co, a listed company. As part of your familiarization of the client, you reviewed the permanent working paper file and the previous year current audit papers. You established the following from your review:

(1) There is no evidence of your firm seeking professional clearance from the previous auditors. When you inquired as to why this was not done, you were informed that the client urgently needed auditors because of the sudden resignation of the previous auditors.

(2) You established that Tim, the Finance Director, recently joined Gonde Ranching & Cropping Co from Fidelity & Associates having been the Partner responsible for taxation services to Gonde Ranching & Cropping Co prior to it becoming an audit client. The official communication to the firm on the appointment indicates that the firm will continue offering tax services in addition to the assurance service.

(3) There is no evidence on the audit working papers suggesting that management acknowledged its responsibilities for the preparation of the financial statements.

In the pre-audit meeting with the Audit Committee of Gonde Cropping & Ranching Co, the following matters were discussed:

(1) The previous auditors suddenly resigned on account of a disagreement with management regarding valuation of the biological assets. Management refused to provide the auditors with the requested written representations relating to the disputed amounts.

(2) Gonde Ranching and Cropping Co offers to sell two (2) steers to members of staff once in three (3) years at 50% discount. This year the company will be making this offer and it has been extended to the audit team members that will be assigned to this audit. The normal selling price of a steer currently stands at K14, 000.00

(3) The Audit Committee confirmed its willingness to be audited by Fidelity & Associates despite the fact that the firm is also auditor of Batoka Ranch which is in the same industry as Gonde Ranching & Cropping Co. The firm accepted appointment without consulting Batoka Ranch.

(4) Gonde Ranching & Cropping Co uses Agri Consulting, an independent firm to value its inventory at the period end. It was agreed that the auditors should consider relying on the valuation conducted by Agri Consulting.

(5) Inventory count of all raw materials and finished goods will take place on 6 January 2026 because management wanted business to continue at the year end because this is the time when sales are significantly high.

The following figures were extracted from the draft financial statements of Gonde Ranching & Cropping Co:

	2025 Draft K'm	**2024 Audited K'm**
Inventory	17,300	10,400
Note		
Livestock (Animals)	11,200	5,900
Fruit trees	3,500	2,700
Processed fruits ready for market	2,600	1,800
Totals	17,300	10,400

During the year under review there were significant changes in management. A new Chief Executive Director was appointed and a new Board of Directors was put in place. The new Board of Directors resolved to engage your firm to conduct a separate audit of the risk and internal control systems of the company. A separate report will be required for the audit of the internal control systems.

Required:

(a) Describe four (4) ethical matters in the audit of Gonde Ranching & Cropping Co and for each issue suggest a suitable safeguard. (8 marks)
(You are required to use a columnar format in answering this question.)

(b) Explain two (2) matters that must be considered in assembling the audit team for the audit of the financial statements of Gonde Ranching & Cropping Co. (2 marks)

(c) (i) Discuss two (2) justifications necessitating the need to change the engagement letter with Gonde Ranching & Cropping Co. (4 marks)

(ii) Discuss the appointment of Fidelity & Associates as auditors of Gonde Ranching & Cropping Co considering the ethical guidance on professional appointments. (6 marks)

(d) (i) Discuss three (3) audit risks in the audit of biological assets in the audit of the

financial statements of Gonde Ranching & Cropping Co and suggest suitable responses. (6 marks)
(You are required to use the columnar format in answering this part of the question)

(ii) Discuss the request that the audit team should rely on the work of Agri Consulting in obtaining evidence regarding inventory valuation. (4 marks)

(iii) Describe five (5) substantive audit procedures in the audit of the inventory figures in the note to the draft financial statements of Gonde Ranching & Cropping Co. (10 marks)

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

(a) Your firm of Chartered Accountants, Thrive & Associates is auditor of Keembe Ltd a company in the meat industry and involved in processing and selling of beef and other beef products. The audited financial statements of Keembe Ltd for the year ended 31 December 2023 showed a profit of K12.5 million and an unmodified opinion was issued.

Last year, based on the audited financial statements of Keembe Ltd for the year 2023 Nyama Plc showed interest in acquiring Keembe Ltd. Negotiations for the acquisition commenced and were progressing very well. Nyama Plc was skeptical about the actual performance of Keembe Ltd and called a meeting with the Chief Executive Officer and the Finance Director. Chanda who was Engagement Partner on the audit of the financial statements for the year to December 2023 was invited to the meeting and he attended the meeting.

When discussing the audited financial statements for the year 2023, Chanda stated that as far as the firm was concerned the opinion given stands and the financial statements showed a true and fair view. Immediately the negotiations were concluded and Keembe Ltd was acquired at the agreed price. Soon after acquiring Keembe Ltd it was observed that the valuation of biological assets namely the living animals of Keembe Ltd was incorrectly done. A breed of heifers was overvalued by K9.5 million suggesting that the reported profit of K12.5 million should have been a profit of only K3.0 million.

During the current year, the media reported on a financial scandal at Keembe Ltd involving an overstatement of the profit by the company. Nyama Plc took interest and carried out its own investigations which revealed that there was incorrect valuation of inventory. The company sought legal advice and has commenced legal action against Thrive & Associates for professional negligence arguing that the auditors should have detected the mistake. On learning of the legal action against the auditors, Lima bank which gave a ten (10) year loan to Keembe Ltd on the security of the animals plans to take legal action against the auditors because the security for the loan is not sufficient in the event of enforcing the security.

Required:

Discuss the possible implications of the legal action and intended legal action by:

(i) Nyama Plc. (4 marks)

(ii) Lima Bank. (4 marks)

(b) You are a Partner in Moore & Co a firm of Chartered Accountants. You recently joined Moore & Co and you are responsible for client acceptance and continuance. You are considering accepting nomination as auditors of two (2) prospective audit clients and evaluating to continue offering services to a non-audit client of your firm. You are also reviewing the audit working papers for the audit of the financial statements of Luangwa Ltd.

The following information relates to the prospective clients and the existing assurance clients.

Steel Hardware Ltd:
Following your response to the advertisement to offer audit services to Steel Hardware Ltd your firm has been nominated auditor of Steel Hardware Ltd. Your firm does not know the directors of Steel Hardware Ltd and you are required to indicate your acceptance as auditors within one (1) week.

Steel Hardware Ltd was previously audited by Grant & Associates who resigned as auditors on account of a disagreement with management.

Machipisa Textiles Ltd:
This will be the first time that your firm will be auditing financial statements of a company in the textile industry. At the time of bidding for the offer of audit services, your firm was of the view that it could conduct quality audits in this industry because one (1) of the Audit Managers, Chris, has many years of experience auditing companies in this industry. Chris has since left employment and the firm is still looking for a replacement.

Mwala Quarries Ltd:
Your firm has provided assurance audit services to Mwala Quarries Ltd for the past four (4) years. The assurance services relate to performing the audit of the environmental, social and sustainability reports issued annually by the company.

You are evaluating whether the firm should continue offering the assurance service on the on the environmental, social and sustainability reports. It is your firm's policy to conduct annual evaluations on continuance in order to meet the requirements of quality control for assurance not relating to historical financial statements.

Luangwa Ltd

A review of the audit working papers of Luangwa Ltd have revealed that the audit team did not obtain sufficient evidence relating to closing inventory. Inventory count records for a line of inventory were missing and there was no other evidence to confirm the value of that inventory. The valuation of this inventory on the balance per book records. The tests of control of Luangwa Ltd showed that the internal controls were poor and ineffective.

Required:

(i) Evaluate the matters that should be considered prior to accepting appointment as auditors of Steel Hardware Ltd and Machipisa Textiles Ltd and suggest suitable responses. (6 marks)
(You are required to use the columnar format in answering this part of the question)

(ii) Suggest suitable action that should be taken in view of the limitation of scope in the audit of Luangwa Ltd. (2 marks)

(iii) Explain two (2) matters that you will consider in evaluating the continuance to offer assurance services on the environmental, social and sustainability report of Mwala Quarries Ltd. (4 marks)

[Total: 20 Marks]

QUESTION THREE

You are an Audit Senior in Heinz & Associates and you have been assigned to the audit of the financial statements of Lima Equipment Ltd for the year ended 31 December 2025. You are planning the audit and specifically gaining an understanding of Lima Equipment Ltd to enable you identify and assess the business and audit risks that exist.

This will be the first time that your firm will be conducting an audit of the financial statements of an equipment manufacturing company. Your firm's partners accepted appointment on account that Dickson who was Finance Manager of Lima Equipment joined your firm as one (1) of the partners and he will be of great use in the audit of Lima Equipment Ltd.

Lima Equipment Ltd was established seven (7) years ago and has grown and is one (1) of the major suppliers of small scale agricultural equipment in the country. It imports most of the components from various suppliers in the Far East. The major customers of Lima Equipment Ltd are leading hardware and agro business companies to whom it sells equipment on thirty (30) days credit. The company also sells to individual customers with whom it enters in an agreement for three (3) year maintenance agreement on payment of a discounted amount determined on the date of purchase. The company gives a two (2) year warranty on all its equipment bought from its dealers. Despite an increase in repairs arising from warranty claims, the provision for warrant has remained constant in the financial statements. The Finance Director explained that the increase in repair costs is attributed to a change in the supplier of a key component. The

component requires replacement frequently and the company has taken this matter up with the supplier.

The management letter for the previous financial statements contains a significant number of internal control weaknesses. Most of the observations have been reported previously and there is evidence of management override over controls. The company does not have an Internal Audit function.

In the current year, the company spent K4.6 million on research in developing an easy and cheap ripper which is aimed at improving the production capacity of small scale farmers. There is no indication that the ripper will be available for sale in the next three (3) years. The total amount of K4.6 million has been recognized as an intangible asset in the current financial statements. The receivables age analysis shows an increase in the receivables balance that is overdue. When questioned as to why this is the case the Finance Director explained that a major customer who buys 40% of the company products wrote the company informing it of the liquidity challenges it is facing. This company sells to customers on credit requiring the customer to pay for the equipment in twelve (12) equal installments. A majority of these customers are four (4) months in arrears.

Required:

(a) Describe the three (3) elements of audit risk in the audit of the financial statements of Lima Equipment Ltd and how they will impact the audit plan. (6 marks)

(b) Describe four (4) business risks in the audit of Lima Equipment Ltd. (4 marks)

(c) Describe five (5) audit risks in the audit of the financial statements of Lima Equipment Ltd and suggest a suitable response for each risk. (10 marks)
(You are required to use the columnar format in answering this question.)

[Total: 20 Marks]

QUESTION FOUR

(a) You are Audit Senior on the audit of the financial statements of Mitanda Ltd and the audit of the financial statements for the year ended 31 March 2026 is in progress. This is the first time that your firm is auditing the financial statements of Mitanda Ltd.

The Audit Assistant assigned to perform substantive audit procedures has brought the following matters to your attention:

Matter one (1)
An amount of K5.4 million classified as held for sale is appearing in the draft statement of financial position. This amount was first recognized as held for sale four (4) years ago and has been classified this way for the past three (3) years. The total assets in the draft financial statements of Mitanda Ltd amount to K24.6 million.

The asset involved is a production line of one (1) of the company's products. The Audit Assistant was unable to obtain any evidence to justify the classification of the asset as held for sale. The Finance Director explained that the classification was made by his predecessor and there is no record of the justification and no buyer has come up to express interest to buy the asset.

The Finance Director informed the audit team that the previous auditors had no problem with the classification of this asset as held for sale. The Audit Assistant is concerned as this may lead to a misstatement of the financial statements unless the asset is reclassified.

Matter two (2)
The draft financial statements contain an amount of K9.5 million classified as a revaluation surplus.

During the year under review a revaluation loss of K3.4 million on a property that was revalued for the second time was debited in full to the revaluation account. The revaluation account was credited with a revaluation surplus of K1.0 million when the asset was first revalued. The forecast profit for the current year based on the draft financial statements is K2.1 million.

The Audit Assistant is not sure on the appropriateness of the accounting for the current year revaluation loss and he wants your guidance.

Required:

Evaluate the accounting for each of the following clearly explaining the impact on the audit opinion if they remain unresolved:

(i) Assets held for sale. (4 marks)

(ii) Revaluation loss arising on the revaluation of properties. (4 marks)

(b) You are an Audit Senior on the audit of two (2) of your firm's audit clients. Both audits are nearing completion and the following information relates to the two (2) audit clients:

Kalungwishi Ltd:

The year-end of Kalungwishi Ltd is 31 March 2026. No audit work has been performed regarding subsequent events and the Audit Manager has indicated that he would wish that the audit report is signed by 14 April 2026.

You have assigned one (1) of the Audit Assistants to perform procedures on subsequent events to the date of the audit report. He is not sure of the work that should be done and he has requested you to provide him with an audit plan of the work he should do. You

provided him with the audit plan and no matters requiring adjustments were discovered and the audit report was signed on 10 April 2026.

On 26 April 2026 a day before the financial statements were issued, an error in the valuation of inventory was discovered by the Finance Director. He quickly informed you and the financial statements have not been issued. When you discussed the matter with the Finance Director, you agreed that an amendment to the financial statements should be made.

Lunsefwa Ltd:

The tangible non-current assets of Lunsefwa Ltd contain an asset described as held for sale. You concluded that the asset qualifies to be described as held for sale and has been separately disclosed in line with the relevant accounting standard. The Audit Assistant who was performing audit procedures on depreciation of the other assets discovered that depreciation for the asset held for sale has been included.

The amount involved is material and you brought this matter to the attention the Financial Controller and requested him to remove the depreciation related to the assets held for sale. He declined to make the correction and you are concerned because you wish to finalize the audit.

Required:

(i) Describe four (4) audit procedures which will have been performed by the Audit Assistant in order to identify any material subsequent events requiring adjustments. (4 marks)

(ii) Describe the action that should be taken assuming the financial statements of Kalungwishi Ltd have been amended after signing the audit report but before the financial statements are issued. (4 marks)

(iii) Discuss the action that should be taken by the audit team if the matter related to the depreciation of assets held for sale remains not resolved. (4 marks)

[Total: 20 Marks]

QUESTION FIVE

You are Audit Manager on the audit of the financial statements of Nile Ltd for the year ended 31 December 2025. Nile Ltd is a subsidiary of Limpopo South Africa who are the major suppliers of the raw materials to Nile Ltd.

You are reviewing the audit working papers with a view to suggesting a suitable opinion based on the available evidence.

The following information relates to the audit and requires your attention.

(1) The disclosure checklist completed by the Audit Senior indicates that there are no matters in the financial statements that should have been disclosed that have not been disclosed.
(2) James, one (1) of the Directors of Nile Ltd obtained a loan amounting to K230 million from the company. The outstanding amount of this loan is the last installment of K50 000 which is included within receivables and prepayments. No other disclosures related to this matter have been made in the financial statements.

Management of Nile Ltd conducted a review of the ability of the company to continue operating in the foreseeable future of more than twelve (12) months. A review of the audit working papers on going concern indicate that there exists material uncertainty with regards the ability of the company as a going concern. Management of Nile Ltd agrees with the fact that there exists material uncertainty arising on account of serious liquidity problems the company is facing and the failure to service a loan which is nearing repayment. The Finance Director explained that management is not willing to make any disclosure in the financial statements concerning the material uncertainty because the company is currently discussing with the bank for additional funding. There is a fear that if the bank learns of the existence of a material uncertainty, the talks may fail which may lead to a worse situation of the company going into liquidation.

The financial statements of Nile Ltd have been prepared on the going concern basis which is considered appropriate. The Audit Senior recommended that an unmodified opinion should be issued and the existence of the material uncertainty should be included in the Material Uncertainty Related to Going Concern paragraph.

Required:

(a) Describe the matters that require disclosure in the financial statements of Nile Ltd and explain the impact of non-disclosure on the auditors' opinion. (4 marks)

(b) Discuss the recommendation by the Audit Senior that an unmodified opinion should be issued considering the existence of material uncertainty and assuming that items (1) and (2) in the scenario have been addressed by management and make any suggestions necessary. (8 marks)

(c) Draft suitable extracts of the audit report using appropriate headings and wording based on the opinion suggested in (b) above. (8 marks)

[Total: 20 Marks]

END OF PAPER

CA 3.2 ADVANCED AUDIT AND ASSURANCE

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) **Ethical matters in the audit of Gonde Ranching & Cropping Co:**

	Ethical matter	Safeguard
1	First time audit assignment for the Audit Manager – this suggests that the Audit Manager may not poses the skills and competences necessary to undertake an audit. This could be in breach of the ethical principle of professional competence and due care.	The firm may consider replacing the Audit Manager with someone with auditing experience. If this is not possible the work done should be closely supervised and subject to an independent review by someone more experienced who is not on the audit team.
2	The firm accepted appointment without getting professional clearance of the previous auditors as required. This is contrary to professional requirements for client acceptance.	The firm could seek the client authority and communicate with the previous auditors. If there are any issues that may come out, the firm could decide on how to deal with them with an option to resign of the matters are serious. The firm should put in place policies and measures to ensure that professional clearance is sought before accepting to offer audit services.
3	The fact that Tim the Finance Director of Gonde Ranching & Cropping Co recently joined the company from Fidelity & Associates creates a familiarity and intimidation threat. He is familiar with the firm's staff and in view of the senior position he held the audit team members may feel intimidated when conducting the audit which will impact the objectivity of the audit team members.	The firm should assign more experienced audit team members to conduct the audit. Further, the audit team should consider introducing unpredictability in the work that will be done.
4	The offer to the audit team members to buy steers costing K14 000 at half the normal price creates a self-interest threat on the part of the audit team members. This will impact the objectivity of the audit team members and prevent them from asking pertinent questions and could	The offer to buy the steers at half the price should be rejected. Audit team members who may wish to buy steers should do so at the same price like for any other customer.

	result in less use of professional skepticism by the audit team members.	
5	The fact that Fidelity & Associates is currently auditor of Batoka Ranch in the same industry as Gonde Ranching & Cropping creates a conflict of interest. The firm should have sought the clearance of both companies for it to be their auditor.	The firm should ensure that in future when faced with a similar situation, both clients should be informed and only accept to be auditor of both clients if their consent is obtained. Fidelity & Associates may consider informing Batoka Ranch of this matter and if they are not comfortable the firm may require to resign from offering them audit services.

(b) **Matters to consider in assembling the audit team for the audit of the financial statements of Gonde Ranching & Cropping Co**.

(1) The nature of the client in the agriculture industry may require specialist skills and the fact that the audit may be complex. This should be considered in assigning staff to the audit so that more experienced staff are assigned to a high risk audit client.

(2) The fact that the Finance Director of Gonde Ranching & Cropping is a former partner in Fidelity & Associates should be considered in assigning the audit team. Staff who are more experienced should be assigned as they may not be intimidated.

(3) Due to the nature of industry the client is involved in, consideration of the use of the work of an expert should be made. The firm may not have staff with the necessary skills and competences to conduct the audit of some figures in the financial statements.

(c) (i) **Justifications for changing the terms of the engagement with Gonde Ranching & Cropping Co.**

(1) The change in senior management of Gonde Ranching & Cropping justifies a change and issue of a new engagement letter. This will avoid the possible disagreements that could arise pertaining to the engagement.

(2) A new Board of Directors has been put in place and possibly a new Audit Committee will be put in place. The Board of Directors will require to know that the scope of the work has changed which should be explained in the engagement letter.

(3) The requirement for the firm to conduct a separate evaluation of the risk and internal controls systems of the company changes the scope of the engagement. This should be incorporated in the agreement and necessitates a revision of the engagement letter.

(4) The fact that management has declined to provide the requested representations may be an indication of nonunderstanding the responsibilities of management. A revised engagement letter may be used to remind management of its responsibility to provide the auditors with the information they require in the conduct of the audit.

(ii) **Appointment of Fidelity & Associates as auditors of Gonde Ranching & Cropping Co:**

There are professional requirements that should be met in accepting professional appointments. The following observations are made regarding the appointment of Fidelity & Associates as auditors of Gonde Ranching & Cropping:

(1) The firm should have considered the availability of skills and competences that are required for an audit of a company in the agriculture industry. The fact that the Audit Manager that has been assigned will be conducting his first audit suggests that this may not have been considered as expected. Lack of the necessary skills increases the detection risk of the audit.

(2) The fact that Fidelity & Associates accepted appointment without communicating with the previous audits is not in line with professional requirements that professional clearance should be sought. The firm should have obtained the permission of Gonde Ranching & Cropping to communicate with the previous auditors. There is no information to suggest that this was done. The firm should put in place policies to ensure that professional clearance is sought before accepting new appointments.

(3) Fidelity & Associates are currently auditors of Batoka Ranch a company in direct competition with Gonde Ranching & Cropping. There is a conflict of interest between these two companies. Professional guidance requires that the firm should seek agreement of both these companies before accepting appointment. In this case this was not done and the firm did not comply with the professional requirement.

(4) Considering the previous auditors were removed from office on account of a disagreement in the accounting treatment of items in the financial statements. This brings into doubt the integrity of management and there is no information to suggest that the firm knew the directors or did seek reference if they were not personally known by the firm.

(5) The fact that there is no evidence on file where management acknowledged its responsibilities for the preparation of the financial statements suggests that there is no acknowledgement as required by relevant auditing standards. Where management does not acknowledge its responsibilities, the auditors should not accept appointment.

(d) (i) **Audit risks in the audit of biological assets in the audit of the financial statements of Gonde Ranching & Cropping Co:**

	Audit risk	**Response**
1	Being the first time that Fidelity & Associates will be auditing a company in the agriculture industry is a detection risk. The auditors may not	The audit work should be closely supervised and use of an External Quality Reviewer considered to be done by someone who will not have been part

	be able to detect material misstatements due to lack of the necessary skills to undertake the audit.	of the audit of Gonde Ranching & Cropping. Possible use of an auditor expert should be considered in areas the auditors do not poses the required skills.
2	Accounting for agriculture is complex and guided by IAS 41 *Agriculture*. The standard gives guidance on how biological assets and bearer plants should be accounted for. There is a risk of incorrect accounting for the agriculture products of Gonde Ranching & Cropping.	The audit team should comprise staff with knowledge of the provisions of IAS 41 and the audit should be closely supervised. Quality control reviews will be necessary by an independent reviewer who was not involved in the audit.
3	The accounting standards, IAS 41 Agriculture require amounts to be determined at fair value. There is an inherent risk in determining fair values as there is a significant amount of judgment used. Misstatements in fair values could result in a material misstatement of the financial statements.	Inquire of management how fair values were determined and review any assumptions made for reasonableness. Consideration of engaging an auditor's expert should be made.

(ii) **Relying on the work of Agri Consulting in obtaining evidence regarding inventory valuation**.

Auditors are required to obtain sufficient appropriate evidence to enable them form an appropriate opinion. There are situations when auditors may not possess the necessary skills to obtain the required evidence. In this case the auditors may rely on the work of experts.

Agri Consulting are management experts engaged by management of Gonde Ranching & Cropping to help determine specific figures to be included in the financial statements.

The external auditors, could as suggested, use the work of Agri Consulting in gathering evidence. They will only do so if they conclude that the Agri Consultant is objective considering their independence and whether they possess the necessary skills and competences.

If after an evaluation of Agri Consulting the Fidelity & Associates concludes that Agri Consulting are not objective and lacks necessary skills, the firm may engagement their own expert to gather the necessary evidence.

(iii) **Substantive audit procedures in the audit of the inventory for Gonde Ranching & Cropping Co.**

Livestock:

(1) The audit team will attend the inventory count that will be conducted at the period end and perform test counts.
(2) Review the valuation of the animals conducted by management and assess the assumptions made for reasonableness.
(3) In view of the specialist skills required to value the animals, the audit team will engage an auditor expert.
(4) Review the adjustments for fair values in the financial statements and confirm they have been correctly done.
(5) If there is a market for the animals compare the fair values used by management with the values in the market.

Fruit trees:

(1) Ensure that the fruit trees which are bearer plants are accounted for in accordance with the provisions of IAS 16 *Property, plant and equipment*.
(2) Inspect the orchard for existence of the fruit trees.
(3) Confirm that the agricultural produce being the fruits growing on the bearer plants are accounted for under IAS 41.

Processed fruits ready for market:

(1) Confirm with management that the harvested and processed fruits are accounted for according to the provisions of IAS 2 *Inventories.*
(2) Attend year-end inventory count considering that inventory of processed fruits is likely to be a material figure.
(3) Review a sample of inventory valuation workings and ensure inventory valued at the lower of cost and net realizable value.
(4) For any obsolete inventory confirm that it has been written off to ensure that inventory is not overstated.

SOLUTION TWO

(a) (i) **Legal action by Nyama Plc:**

Nyama Plc is considered third parties in the assurance engagement that the auditors have with Keembe Ltd. Ordinarily they are subject to the Caparo decision that the auditors do not owe a duty of care to investors who buy shares based on the audited financial statements.

In the case at hand, the Engagement Partner who was in charge of the audit of the financial statements in question was present in a negotiation meeting between the buyer and the seller. By stating that the firm stood by the opinion that was issued changes the position and this creates a duty of care by the auditors to Nyama Plc. The position is therefore as follows:

(1) The courts will assume a duty of care by the auditors to Nyama Plc exists so there is no need to prove this.

(2) Nyama Plc will have to prove to the court that the auditors were in breach of their duty of care and

(3) Nyama Plc should prove to the court that it suffered loss as a result of the breach of the duty of care by the auditors.

(ii) **Intended legal action by Lima Bank:**

The bank is free to take legal action against the auditors for professional negligence. The bank will require to prove to the court that:

(1) The auditors owe a duty of care to the bank. With regards this factor, the courts will consider whether the auditors did put a disclaimer in the audit report or not. In this case it would appear this was not done. This means therefore, that the courts will take into consideration the fact that no disclaimer was issued and therefore the auditors should have known that banks generally require audited financial statements to be submitted to banks annually. The court will assume that the auditors owed a duty of care to Lima Bank.

(2) Lima Bank will be required to prove that the auditors were in breach of the duty of care and that

(3) The bank has suffered loss as a result of the breach of the duty of care. This appears not to be the case because the bank is considering the likelihood of not being repaid the loan which may not necessarily be the case.

(b) (i) **Matters that should be considered prior to accepting appointment:**

	Matter to consider	**Suitable response**
Steel Hardware	The fact that none of the firm's staff know the directors of Steel Hardware in person is a matter that should be considered at the acceptance stage of the offer for audit services. Auditors	The firm should obtain references of the directors from those that may know them. If the auditor does not manage to get the references,

	do not wish to enter into an engagement whose directors are not known and may lack integrity.	they should decline appointment as auditors.
Machipisa Textiles Ltd:	There is a risk that the firm may not have the skills and competences required to undertake an audit of a client in the clothing industry. This is in view of the fact that Chris who was the only one that had experience in this industry has left employment. This increases detection risk that the auditors may fail to detect material misstatements. Further, the firm may require the services to perform some work that requires specialist skills such as determining the value of work in progress in this industry.	The firm may consider employing staff with the necessary skills between now and the time that the audit will commence. If this is not possible the firm should decline appointment unless an auditor expert can be engaged.

(ii) **Action if there is a limitation of scope:**

If there is a limitation of scope the auditors will consider modifying the audit opinion. The form of modification of the opinion will depend on the materiality and perverseness of the limitation of scope as follows:

If the matter is considered material which it is but the effect on the financial statements is not pervasive to the financial statements, a qualified opinion shall be issued.

If on the other hand the matter is considered material and pervasive, the auditors will issue a disclaimer of opinion.

(iii) **Matters to consider in the continuance decision with Mwala Quarries Ltd:**

(1) That there are no ethical matters of concern that will prevent the firm continuing with the offer of assurance on the Environmental, Social and Sustainability reports of Mwala Quarries Ltd.

(2) The firm should evaluate and conclude that it has the required skills and competences to be able to conduct a quality audit.

(3) The basis of the engagement has been agreed with management of Mwala Quarries ltd in that:

(i) The preconditions for an audit exist and
(ii) There is a common understanding between Mwala Quarries Ltd and the firm regarding the reporting responsibilities.

SOLUTION THREE

(a) **Elements of audit risk in the audit of Lima Equipment Ltd and impact on audit plan:**

	Risk category	**Impact on audit plan**
1	**Inherent risk** – this is the risk that applies to specific items that may be misstated because of their nature and the methods of determining the amounts. In the case of the audit of Lima Equipment Ltd there are accounting estimates that require to be made by management. The determination of the warranty provision on an annual basis requires management judgment and because of the lack of a precise method of determining the provision there is a greater risk of misstatement.	The audit of accounting estimates should be considered to have a significant risk and special attention should be put in the audit of accounting estimates.
2	**Control risk-** This is the risk that the controls will not help prevent and detect fraud and error which could result in the misstatement of the figures in the financial statements. In the case at hand, the internal controls were assessed as poor in the previous year and there are cases of management override of controls. This suggests a poor control environment which could lead to the misstatement of figures contained in the financial statements.	The audit team on this audit should not place any reliance on the internal controls in determining the nature and extent of further audit procedures to be undertaken. The audit team should follow a substantive audit approach and perform a significant amount of testing.
3	**Detection risk** – Is the risk that the auditors will not detect material misstatements in the financial statements despite conducting the audit in accordance with applicable auditing standards. In the case at hand, it appears detection risk is high considering that this will be the first time that the firm will be	Experience of audit team members should be a factor in assigning staff to this audit. More experienced auditors should be assigned and the audit should be closely supervised being the first one in this industry. The possibility of using an Engagement Quality Reviewer must be considered.

	auditing a client in the manufacturing industry. Furthermore, Dick who recently joined the firm and who the firm wishes to rely on in the audit of this client has no auditing experience. Despite the fact that he previously worked for Lima Equipment, he does not possess the skills to conduct or help in an audit such as that of Lima Equipment Ltd.	

(b) **Business risks in the audit of Lima Equipment Ltd.**

1. Disruptions in the supply of components from the Far East could result in production stoppages which will negatively impact the liquidity and going concern ability of Lima Equipment Ltd.
2. The use of a component that frequently breaks down resulting in repairs or replacement under warranty arrangements could result in customers changing suppliers. This could result in a reduction in sales and in the long run could lead to going concern issues.
3. The fact that Lima Equipment Ltd does not have an internal audit function could result in losses of components and equipment. This is compounded by poor internal controls and management's override of controls.
4. The frequent instances of management override of controls are an indication of a poor internal control environment. This is a fraud risk factor which will result in staff misappropriating company assets considering the poor internal control environment.
5. The increase in overdue receivables and the challenges being faced by a major customer could negatively impact the liquidity position of the company which could result in Lima Equipment Ltd failing to meet its objectives.

(c) **Audit risks in the audit of the financial statements of Lima Equipment Ltd:**

	Audit risks	**Response**
1	This is the first time that the firm will be auditing financial statements of a company manufacturing agricultural equipment. This will give rise to increased detection risk.	Great care should be taken in assigning staff to this audit. More experienced audit team members should be signed and there should be close supervision of the work carried out. The audit team may need to consider engaging an auditor expert for areas requiring specialist skills such as the valuation of work in progress.

2	There is a risk that the amounts paid in advance for maintenance may all be accounted for as revenue in the year the amount is received. The amounts related to future periods should be deferred to future periods. There is a risk that revenue may be overstated on account of incorrect recognition of the advance payments for maintenance.	Review procedures in place at the period end to prevent early recognition of revenue but treated as deferred income.
3	The determination of the warranty provision is subjective and involves the use of judgment. There is an audit risk that provisions may be understated in the financial statements.	Review the determination of the warranty provision by management and assess the reasonableness of the assumptions used. Look out for any possible management bias in determining provisions.
4	The fact that the bulk of the goods of Lima Equipment Ltd is sold to leading hardware companies on 30 days credit could result in irrecoverable debts. The receivables balances could be overstated and therefore profit overstated on accounts of low allowances for receivable.	Review the receivables age analysis and the appropriateness of the allowances for receivables recognized in the financial statements. Consider seeking third party confirmation of a sample of receivables balances.
5	The internal control deficiencies observed in the previous audit suggest poor internal control environment. This means that the existing controls will not help detect and prevent errors and fraud. Such errors and fraud may result in the misstatement of the financial statements.	The audit team should not follow a combined approach to the audit but use a substantive audit approach where no reliance is placed on internal controls in determining the extent of audit procedures.
6	Expenditure spent on research and development may incorrectly be capitalized whilst not meeting the criteria for capitalization of development costs. There is a risk that some of capitalized amount of K4.6 million could be related to the development of the new reaper which may not go into commercial	Review the expenditure capitalized and confirm that it relates to development costs that will support commercial production of the related items on which development costs have been capitalized.

	production in the near future. Intangible assets may be overstated and expenses understated resulting in the overstatement of the profit figure.	

SOLUTION FOUR

(a) **Evaluation of the accounting for:**

(i) **Assets held for sale:**

The amount related to the assets held for sale is 22.4% of the total assets of Mitanda Ltd and therefore is considered material. Any misstatement of this figure will result in the misstatement of the financial statements.

For an asset to be classified as held for sale it is required to meet the criteria in IFRS 5 *Non-current assets held for sale and discontinued operations*

Clearly the classifications of the said assets as held for sale do not meet the criteria in the accounting standard in the following manner:

(1) No buyer has been found or is there any effort to find a buyer of the equipment.

(2) For an asset to qualify to be classified as held for sale it should be expected that the assets will be sold within one year from time of first classification as such. Four years has elapsed from the time this asset has been classified as held for sale.

The auditors should request management to correctly reclassify the assets because they do not qualify to be treated as assets held for sale.

Impact on the opinion if matter not resolved:

If management of Mitanda Ltd declines to reclassify the asset the auditors will require to modify the opinion. In this case the matter is material and it has a direct impact on profitability and hence considered pervasive to the financial statements. An adverse opinion will be issued and the basis for modification will be explained in the basis for adverse opinion paragraph.

(ii) **Revaluation loss on properties:**

The only amount included in the revaluation surplus of K9.484 million related to the asset revalued in the current year is K1.0 million The revaluation surplus should only be debited to the extent of the credit to this account. Of the revaluation loss of K3.4 million only K1.0million should have been debited to the revaluation surplus account. The difference of K2.4 million should have been debited to the profit or loss account. The treatment by management results in the understatement of expenses and overstatement of profit of K2.4 million.

Management should be requested to pass correcting entries in the financial statements.

Impact on opinion if matter not resolved:

If the management of Mitanda Ltd declines to make the necessary amendments to the financial statements, the auditors should consider modifying the opinion. A qualified or adverse opinion will be appropriate depending on the materiality and pervasiveness of the matter.

(b) (i) **Audit procedures for identifying material subsequent events:**

(1) Inquire of management of the following:
- The procedures in place for identifying of subsequent events.
- Events that may cast doubt on the going concern ability of the company.
- Review any unusual adjustments that may have been made subsequent to the period end.
- Review and consider management's procedures for identifying subsequent events and read minutes of general board and committee meetings.

(2) Review status of accounting estimates made at the period to determine current position and whether could require adjustments to the financial statements.

(3) Obtain written representations from management confirming that subsequent events that require adjustment or disclosure have been adjusted and disclosed.

(ii) **Action to take arising from error in valuing inventory after signing of the audit report:**

Generally, the auditors do not have any responsibilities for subsequent events once the audit report has been signed. However, if a matter that would have caused them issue a different opinion comes to their attention they have a responsibility to deal with the matter. ISA 560 Subsequent events gives guidance in this area.

The situation in the scenario is that the matter has been brought to the attention of the auditors during the passive period when they have no responsibilities for subsequent events.

In view of the fact that the financial statements have been emended, the following will have to be done by the auditors:

(1) Perform audit procedures on the amendments that have been made to the financial statements.

(2) The auditors will have to extend the audit procedures of identifying subsequent adjusting events to the date of a new audit report that should be issued. This will be from 11 April 2026 to the date of the new audit report that will be signed.

(3) A new audit report should be issued after the audit work on the amendments to the financial statements and the further work on identifying subsequent events.

(iii) **Action to take if the matter remains unresolved:**

IFRS 5 *Non-current assets held for sale* gives guidance on the accounting for such assets. One of the requirements of the standard is that the assets should not be

depreciated from the date of being classified as held for sale. In this case the assets have correctly been disclosed separately as required but there is the issue of depreciation being included.
The inclusion of depreciation is contrary to the provisions of the accounting standard. The audit team may take any of the following actions:

(1) The Audit Senior should bring the matter to the attention of the Finance Director if there is one who should assist in ensuring that the provisions of the accounting standard are followed.
(2) In the event that there is no Finance Director or he does not help resolve the matter, the auditors may bring the matter to the attention of the Audit Committee who may help resolve the matter.
(3) If the Audit Committee does not help resolve the matter, the audit team should consider the impact of the matter on the audit report. If the matter is considered material to the financial statements, it may lead to the modification of the opinion.
(4) If the matter may result in the modification of the opinion, there will be need to inform the management of the intention to modify the opinion.

SOLUTION FIVE

(a) **Matters requiring disclosure and impact of non-disclosure:**

(1) Nile Ltd and Limpopo SA, the major suppliers of raw materials to Nile Ltd ,are related parties. International Accounting Standard (IAS) 24, related parties require that related party relationships and dealings should be disclosed in the financial statements.

In this case, no disclosure has been made in the financial statements of Nile Ltd contrary to the requirements of the relevant accounting standard.

Impact on non-disclosure of related parties:

Disclosures form part of the assertions made by management in the information contained in the financial statements. Financial statements will be misstated if the required disclosures have not been made and this may lead to the modification of the audit opinion. The fact that there is no disclosure of related party relationship and dealings in the financial statements of Nile Ltd may lead to the modification of the auditor's opinion. By their nature non-disclosure are considered material and will result in the modification of the opinion.

(2) Dealings of directors with a company are by nature considered material and should be disclosed in the financial statements. James has dealings with Nile Ltd in that he obtained a loan of K230 million from the company and an amount of K50 000 is outstanding at the end of the accounting period. The financial statements of Nile Ltd require to disclose the amount owing by James regardless of the amount involved. Including the outstanding amount in receivables and prepayments figure does not amount to adequate disclose regarding this matter. Management should be requested to separately disclose the indebtedness of Dick a director in the financial statements.

Impact of non-disclosure on the audit opinion:

Non-disclosure of the outstanding loan due from James will be considered material by nature. If management of Nile Ltd declines to make the necessary disclosures, the auditors will consider modifying the audit opinion. The form of modification will depend on the materiality and pervasiveness of the non-disclosure.

(3) The existence of material uncertainty regarding going concern should be disclosed in the notes to the financial statements as prepared by management. Refusal to make the necessary disclosures could result in the financial statements being misstated and will impact the opinion of the auditor.

Impact on non-disclosure of the existence of material uncertainty:

The auditors will modify the opinion and explain the reason for the modification of the opinion in the basis for opinion paragraph.

(b) **Evaluation of Audit Senior's recommendation for an unmodified opinion:**

Assuming that items (1) and (2) in the scenario have been satisfactorily dealt with the audit report, the only item remaining that would impact the audit opinion is the existence of material uncertainty.

The impact of the existence of material uncertainty with regards going concern in the audit opinion depends on disclosure by management. If there is adequate disclosure by management in the notes to the financial statements, the auditors will issue an unmodified opinion as suggested by the Audit Senior and the auditors will report the existence of material misstatement is a separate paragraph the Material Uncertainty Related to Going Concern.

In this case, there is no dispute between the auditors and management on the fact that there exists a material uncertainty. The problem is that management has not made any disclosure in the financial statements related to this. In this case, the auditors will be required to modify the opinion. Either a qualified or adverse opinion will be issued depending on the materiality and the pervasiveness of the non-disclosure.

Conclusion:

The recommendation by the Auditor that an unmodified opinion is appropriate is not correct. The fact that there are discussions for more funding with the bank does is not sufficient justification for not disclosing the existence of material uncertainty. The appropriate opinion will be a modified opinion.

(c) **Extracts of the audit report:**

In view of the fact that the financial statements have been prepared correctly on the going concern basis, the lack of disclosures of the existence of material misstatement will result in a modified opinion either a qualified or adverse opinion.

Qualified opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects the financial position of the company and its financial performance.

Basis for qualified opinion

There exists material uncertainty with regards the ability of the company as a going concern. This has not been adequately disclosed in the financial statements by management contrary to guidance. Accordingly, we have concluded that a qualified opinion is appropriate under the circumstance.

END OF SOLUTIONS

CA ZAMBIA PROGRAMME EXAMINATIONS

CA ADVISORY PROFESSIONAL IN ACCOUNTANCY

CA 3.4: ADVANCED TAXATION

THURSDAY 10 SEPTEMBER 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: FOUR (4) Optional questions. Attempt any THREE (3) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

10. A Taxation table is provided from page 2 to page 6 of the question paper.

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

Taxation Table

Income Tax

Standard personal income tax rates

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

Income from farming for individuals

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

Company Income Tax rates

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

Mineral Royalty

Mineral Royalty on Copper

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

Mineral Royalty on other minerals

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

Capital allowances

Implements, plant and machinery and commercial vehicles:

Wear and tear allowance –	Standard wear and tear allowance	25%

	Wear and tear allowance if used in manufacturing and leasing	50%
	Wear and tear allowance if used in farming and agro-processing	100%
	Wear and tear allowance if used in Mining and Mineral processing	20%
Non-commercial vehicles		
Wear and tear allowance		20%
Industrial buildings:		
Wear and tear allowance		5%
Initial allowance		10%
Investment allowance		10%
Low cost housing	**(Cost up to K100,000)**	
Wear and tear allowance		10%
Initial allowance		10%
Commercial buildings:		
Wear and tear allowance		2%
Farming allowances		
Development allowance		10%
Farm works allowance		100%
Farm improvement allowance		100%

Presumptive Taxes

Turnover Tax

Annual turnover	
First 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

This question is compulsory and must be attempted.

QUESTION ONE – COMPULSORY

Background

You are employed in a tax practice, and you are dealing with the tax affairs of Zytex Zambia Plc, a Zambian resident company engaged in manufacturing. Zytex Zambia Plc listed its shares on the Lusaka Securities Exchange five years ago and is registered for Value Added Tax.

Zytex Zambia owns 55% of the ordinary shares of Jyoti Inc a company that is resident in a foreign country known as Zepotamia. Zytex Zambia plc also owns 40% of the ordinary shares of Dytan Global a company resident in a foreign country known as Escovia.

The Chief Executive Officer

The CEO of Zytex Zambia Plc is Kondwani Chirwa who is resident and ordinarily resident in Zambia. Kondwani is entitled to an all-inclusive annual salary of K1,686,000. He joined Zytex Zambia plc three (3) years ago. Chirwa was granted 80,000 options over the K1 equity shares of Zytex Zambia plc immediately he joined the company on 1 January 2023 at an exercise price of K8.25 per share, being the market value of each share on that day. The grant of the options was conditional on him working for the company for at least three (3) years before exercising the options. The share option scheme operated by Zytex Zambia plc is not approved for taxation purposes.

Chirwa exercised the 80,000 options on 1 January 2026, when the market value of each share was K9.15. On 31 December 2026, he received his first dividends on the shares amounting to K46,000 representing the actual amount he received.

Chirwa also holds ordinary shares in Joyti Inc, the company resident in the foreign country. On 31 December 2026, he received dividends amounting to K44,200 from Joyti Inc net of withholding at the rate of 35% deducted in Zepotamia.

The only other income received by Chirwa in the tax year 2026 from Zambian sources was GRZ bond interest of K54,400 (net).

Financial Results of Zytex Zambia Plc

You have been presented with the following statement of profit or loss for Zytex Zambia plc for the year ended 31 December 2026:

	Note	K
Revenue		255,472,156
Cost of sales		(150,571,102)
Gross profit		104,901,054
Operating expenses	(1)	(52,762,973)

Profit before Interest and Tax		52,138,081
Finance cost	(2)	(43,757,179)
Profit before tax		8,380,902

Additional information

Note 1: Operating expenses

Operating expenses include depreciation charges of K30,082,000. The remaining operating expenses are all allowable for tax purposes.

Note 2: Finance cost

The figure for finance cost of K43,757,179 shown in the statement of profit or loss above, represents interest paid by the company during the year on loans from financial institutions not related to Zytex.

Note 3: Jyoti Inc Loan notes

On 1 January 2026, Zytex Zambia plc acquired loan notes of its subsidiary Jyoti Inc, for K65,121,000. The effective rate of interest on the loan notes is 15% per annum, which represents the open market interest rate for this type of debt instrument. Zytex Zambia plc received all the interest due from its subsidiary, on 31 December 2026. Interest is subjected to withholding tax at the rate of 20% in Zepotamia. The interest has not been accounted for in arriving at the profit before tax figure in the statement of profit or loss shown above.

Note 4: Dividends from Jyoti Inc.

On 31 December 2026, Jyoti Inc paid dividends to Zytex Zambia plc amounting to K1,950,000 net of withholding tax at the rate of 35% deducted in Zepotamia. The dividends received by Zytex Zambia plc have not been included in the statement of profit or loss shown above.

Note 5: Technical Advisory Services from Dytan Global

On 31 December 2026 Zytex Zambia Plc paid Dytan Global an amount of K21,646,000 for technical advisory services provided by Dytan Global to Zytex Zambia Plc. The open market fair value for such services Dytan Global charges to other unconnected parties is K11,136,000. Dytan Global does not have a tax paying agent in Zambia. This transaction was not taken into account in arriving at the profit before tax figure in the statement of profit or loss given above.

Note 6: Double Taxation Relief Arrangements

There is no double taxation agreement between Zambia and both Zepotamia and Escovia. A credit is available for any tax suffered in either one of the foreign countries when computing the Zambian tax on the foreign income.

Note 7: Capital expenditure:

All of the assets qualifying for capital allowances were written down to zero (0) as at 1 January 2026. However, during the year ended 31 December 2026 Zytex entered into the following transactions which have not been recorded in the financial statements:

Transaction 1

On 12 January 2026, the company purchased new manufacturing equipment at a total cost of K7,560,000 (VAT inclusive) from a Zambian resident supplier. The equipment was acquired under a finance lease agreement under which Zytex Zambia Plc was required to make annual lease payments of K2,205,000 payable in advance. The lease term is five (5) years at the end of which title to the equipment will be transferred to Zytex Zambia Plc. The company has established that the interest on the lease obligations for the year ended 31 December 2026 was K578,283 at the company's incremental rate of borrowing of 15% per annum. The equipment was brought into use immediately.

Transaction 2

On 1 July 2026, the company purchased a second-hand building at a cost of K7,517,537 from a vendor who is not registered for VAT. The total cost comprised land with a cost of K619,037, a production factory with a cost of K5,796,000 and general offices with a cost of K1,102,500. The purchase of the building was financed by a bank loan of K7,875,000 carrying an interest rate of 25% per annum. Loan processing fees of K357,463 were charged by the bank. In addition to the loan processing fees, interest on the bank loan amounted to K984,375 for the year ended 31 December 2026. The building has since been brought into use.

Required:

(a) Advise Chirwa of the taxation implications of the exercise of 80,000 share options on 1 January 2026. (2 marks)

(b) Compute the income tax payable by Chirwa for the tax year 2026. (9 marks)

(c) Advise the Directors of Zytex plc, with appropriate supporting computations, of the taxation implications of the technical advisory services received from Dytan Global.

(4 marks)

(d) Advise the directors of Zytex plc, using appropriate supporting computations, of the taxation implications arising from transaction (1) and transaction (2) referred to in note (7) above. (10 marks)

(e) Compute the final taxable profit and the amount of company income tax payable by Zytex Zambia plc for the tax year 2026. (15 marks)

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

For the purposes of this question assume that today's date is 10 December 2025.

You are employed in a firm of Chartered Accountants and your supervisor has asked you to deal with the tax issues of your client Tobwa Ltd for the year ended 31 December 2026. Tobwa Ltd was incorporated in Zambia in the year 2020 by Tobias and Wankumbu who holds 55% and 45% of the issued equity shares of the company respectively. Tobias and Wankumbu run and manage the business as the only full-time working directors of the company. The company is registered for income tax.

Directors' emoluments are currently at K380,000 per annum for Tobias and K365,000 per annum for Wankumbu. They use their privately owned motor vehicles partly for business purposes. Tobias' motor vehicle is a Toyota Prado car with a cylinder capacity of 2900 cc which he acquired in the year 2024 at a cost of K400,000. Wankumbu's motor vehicle is a Mitsubishi Pajero car with a cylinder capacity of 2800 cc which he acquired in January 2025 at a cost of K360,000.

The company deducts employees' NAPSA contributions at the rate of 5% of the gross employment earnings and employees' National Health Insurance Management Authority (NHIMA) contributions at the rate of 1% of the basic salary from each individual's salary.

The company additionally contributes on behalf of each individual, employer's NAPSA contributions at the rate of 5% of the gross employment earnings and employer's NHIMA contributions at the rate of 1% of the basic salary.

The company wishes to introduce a transportation policy for directors and is seeking tax advice on the income tax, NAPSA and NHIMA implications arising from each option under consideration. The following are the proposals under consideration:

Proposal one

The company will provide transport to Tobias and Wankumbu by paying them transport allowance amounting to K52,000 per annum and K48,000 per annum respectively. Under this proposal, directors will continue using their privately owned motor vehicles.

Proposal two

The company will provide each individual with a personal-to-holder motor vehicle with effect from 1 January 2026. The two (2) motor vehicles will be Nissan Murano car with a cylinder capacity of 2900 cc and Chevrolet Blazer car with a cylinder capacity of 2800 cc which the company acquired in January 2025 at a cost of K400,000 and K360,000 respectively. The motor vehicles are currently being used as pool cars.

Additional information

The earnings ceiling for the purposes of NAPSA contributions is K446,832 for the year ending 31 December 2026.

Required:

(a) Advise Tobias and Wankumbu of the income tax implications, NAPSA and NHIMA implications for them as individuals if the company:

(i) Pays transport allowance to each individual; and (6 marks)

(ii) Provides personal-to-holder motor vehicles to each individual. (2 marks)

Your answer should include computations of any additional amount of income tax arising, employees' NAPSA contributions and employees' National Health Insurance contributions payable for the tax year 2026.

(b) Advise Tobias and Wankumbu of the income tax, NAPSA and NHIMA implications for the company if:

(i) Each individual is paid a transport allowance; and (6 marks)

(ii) Each individual is provided with personal-to-holder cars. (6 marks)

Your answer should include computations of any additional amount of income tax arising or saved, employer's NAPSA and employer's NHIMA contributions for the tax year 2026.

[Total: 20 Marks]

QUESTION THREE

You are employed in a firm of chartered accountants. You are dealing with the tax affairs of High Bank Plc, a client of the firm. The Managing Director of High Bank Plc has served the bank for more than 20 years and is due to retire next year. During his years of service for the bank, he accumulated investments in financial instruments and real estate. He is considering gifting these investments to his four (4) children and setting up a trust to manage the gifted property on behalf of his children.

High Bank Plc made a profit before taxation of K17,200,450 for the year ended 31 December 2026. The profit figure was arrived at after taking into account the following:

(1) Interest expense of K11,000,000 which includes the following:

	K'000
Interest on customer deposits	2,300
Interest on savings accounts	1,200
Interest on subordinate debt	1,400
Interest on loans from other banks	6,100
	11,000

(2) Provision for loan losses of K5,510,000 comprising of the following:

	K'000
Loan losses written off	3,500
Increase in general provision for loan losses	3,690
Loan losses previously written off now recovered	(1,680)
	5,510

(3) Non- interest expenses of K56,980,000. This includes the following:

	K000
Employer's pension contributions	9,650
Depreciation charges	12,500
Customer entertainment and refreshments	1,670
Employee salaries and allowances	23,000
Entertaining directors	7,800
Finance Director's salary	1,000
Share option expenses	1,360
	56,980

Share option expenses were incurred in respect of equity settled share-based payments transaction in which the directors were granted share options. The amount shown of K1,360,000 represent the value of services accrued during the year ended 31 December 2026 in accordance with IFRS 2 – share based payment transactions. The share options will be exercised on 30 November 2027.

(4) Fee and commission income of K57,780,000 comprising of the following:

	K'000
Card based commissions	3,800
Foreign currency service fees	11,200
Letters of credit commissions	7,100
Fess on over the counter withdrawals	2,500
Point of sale commissions	8,600
Commission on electronic cash transfers	21,500
Profit from disposal of shares	1,500
Dividends from shares in Zambian companies (net)	900
Consultancy fees (net)	680
	57,780

Additional Information:

(1) Provisional income tax paid during the year ended 31 December 2026 amounted to K4,689,000. The company paid withholding tax on interest income amounting to K2,872,605.

(2) Buildings, implements, plant and machinery qualifying for capital allowances held by the company at 1 January 2026 were as follows:

Date	Description	Cost K000
1 January 2023	Office buildings	25,000
20 February 2023	Automated Teller Machines	12,500
1 August 2024	Pool cars	2,900
1 September 2024	Nissan Xtrail 2800cc	350

The private use of the pool cars was 10%. The Nissan Xtrail was used by the Director of Finance on personal to holder basis.

(3) The Finance Director is accommodated in a company owned house for which he does not pay rent.

Required:

(a) Discuss the following types of trusts which the managing director of High Bank Plc may set up to manage the gifted property on behalf of his four (4) children.

(i) Interest in possession trust. (3 marks)

(ii) Discretionary trust. (2 marks)

(iii) Accumulation and maintenance trust (2 marks)

(b) Calculate the company income tax payable by High Bank Plc for the tax year 2026. (13 marks)

[Total: 20 Marks]

QUESTION FOUR

Minetech Mining Corporation is a Zambian resident subsidiary of a foreign based mining company. The company is engaged in mining of copper in Zambia. The group financial statements are prepared in United States dollars. An extract of the company's statement of profit or loss for the year ended 31 December 2026 is provided below:

MINETECH MINING CORPORATION
STATEMENT OF PROFIT OR LOSS EXTRACT FOR THE YEAR ENDED 31 DECEMBER 2026

	Note	K
Gross profit		1,118,786,000
Operating expenses	(1)	(367,266,000)
Other income	(2)	1,330,000
Profit before interest and tax		752,850,000
Finance costs		(67,500,000)
Profit before tax		685,350,000

Note 1: Operating expenses

Included within operating expenses are depreciation charges of K26,250,000, drilling expenses of K16,897,000, mineral exploration expenses of K16,845,000, fines for non- compliance with health and safety regulations of K5,500,000. The remaining balance is made up of revenue operating expenses which are allowable for tax purposes.

Note 2: Other income

Other income comprises net foreign exchange gains of K1,330,000 arising from the following transactions which were accounted for in accordance with relevant International Financial Reporting Standards:

(1) Re-translation into Zambian Kwacha on 31 December 2026, of amounts owed to a foreign supplier for purchase of mine excavation equipment at a cost of US$13,750,000 on 1 June 2026, on eighteen (18) months credit. The whole amount was still outstanding at 31 December 2026.

(2) Re-translation into Zambian Kwacha of an investment in ordinary shares purchased on 1 June 2026 at a cost of US$800,000 in an entity which is resident in a foreign country. The shares are held for short-term speculation purposes and are carried at fair value through profit or loss for financial reporting purposes. The fair value of the shares on 31 December 2026 was US$810,000.

(3) Settlement of amounts owed by foreign customers for the sale of copper that took place on 1 November 2026 at an open market value of US$28,000,000. The whole amount was settled on 31 December 2026.

Note 3: Exchange rates

The Zambian Kwacha per US dollar exchange rates were as follows on the following dates:

Date	Exchange rate	ZMW/ US$
31 December 2025		K26.00
1 June 2026		K27.00
1 November 2026		K27.50
31 December 2026		K28.00

Note 4: Mineral Royalty Tax

The Mineral royalty tax paid by the company has not been accounted for in the statement of profit or loss extract shown above. For the year ended 31 December 2026, the company extracted and sold 50,000 tonnes of copper. The norm price of copper at the London Metal Exchange (LME) averaged US$7,500 per tonne throughout the year. The relevant average mid-year exchange rate per US Dollar approved by the Commissioner General should be taken to be K28.00/US$1 for the year 2026.

Note 5: Implements, plant and Machinery.

At 1 January 2026, all implements, plant and equipment qualifying for capital allowances were written down to zero. The company entered into the following capital transactions during the year ended 31 December 2026:

(1) The company acquired a new mining equipment at a cost of K90,000,000. The mining equipment was brought into use on 1 April 2026. This expenditure was incurred in Zambia and paid for in Zambian Kwacha.

(2) The company acquired a mine excavation equipment on 1 June 2026 at a cost of US$13,750,000 (refer to note 2 (1) above).

Note 6: Capital expenditure in Mining township

The company incurred expenditure amounting to K15,500,000 on construction of a police post in the local mining township two (2) years ago, which was handed over to the appropriate authorities in that year.

Note 7: Mining loss brought forward

On 1 January 2026, the company had unrelieved mining loss brought forward amounting to K30,000,000. This loss is a balance of the loss suffered by the company three (3) years ago.

Note 8: Indexation Formula

The indexation formula for capital allowances and mining losses, where applicable, is given below:

$$1+\frac{(R_2 - R_1)}{R_1}$$

The Zambian Kwacha per US Dollar (ZMW/US$) average BOZ mid-exchange rates should be taken to be K26/US$1 for the year ended 31 December 2025 and K28/US$1 for the year ended 31 December 2026 where applicable**.**

Required:

(a) Advise the directors of the tax treatment of each of the foreign exchange difference arising on transactions referred to in note (2) above. (3 marks)

(b) Calculate the amount of taxable mining profits and company income tax payable for the tax year 2026. (17 marks)

[Total: 20 Marks]

QUESTION FIVE

Zambezi Ltd, is a manufacturing company based in Zambia which has been a client of your firm for two (2) years and your firm has been responsible for preparing tax returns for the company during this period. As part of the current year's assignment, you have been tasked with reviewing and advising on the company's tax compliance in readiness for a tax audit which will soon be performed by the ZRA on the tax affairs of the company. Your preliminary work on this assignment has just revealed a significant error in last year's tax returns prepared by your firm that may lead to additional tax liabilities for Zambezi Ltd. You are not sure of how to deal with this discovery.

Zambezi Ltd has experienced rapid growth in recent years and has set up a number of subsidiary companies in Zambia dealing with different areas of manufacturing. The company has further expanded its operations by setting up subsidiary companies in five (5) other countries in the Southern and Central African region and its tax affairs have hence become increasingly complex.

The Directors of Zambezi Ltd have indicated that they wish to offer your firm a lucrative, long-term contract to manage all their tax and accounting needs for all of the company's subsidiaries. However, the Chief Executive Officer, Kaswela Chitoshi has indicated that this offer depends on your ability to secure a substantial reduction in the company's tax liability during the current year's engagement using tax planning strategies your firm shall implement.

The directors are further seeking tax advice on transfer pricing arrangements for cross-border transactions between Zambezi Ltd and its international subsidiaries, including the preparation of country-by-country transfer pricing reports as provided for in the Income Tax Act. Although you

have experience in local Zambian tax compliance, your firm does not have specialised knowledge in international tax law and Zambian transfer pricing regulations. Despite this, the directors have expressed confidence in your firm's ability to perform work in this area and have insisted that your firm takes up the assignment.

Required:

(a) Describe three (3) audit procedures the tax auditors should carry out to uncover hidden income when performing a tax audit at Zambezi Ltd. (3 marks)

(b) Describe three (3) procedures tax auditors may perform to assess the true level of income in situations where the taxpayer has insufficient or incomplete financial records. (3 marks)

(c) Discuss how you should deal with the discovery of a significant error in the previous year's tax returns prepared by your firm for Zambezi Ltd. (4 marks)

(d) Evaluate other ethical and professional issues (apart from the discovery of the significant error) that will arise in the provision of tax services to Zambezi Ltd and recommend appropriate measures to deal with each issue. (10 marks)

[Total: 20 Marks]

END OF PAPER

CA3.4 ADVANCED TAXATION

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Tax implications of the exercise of the options

On the exercise of share options by an employee from a share option scheme that is not approved for tax purposes run by an employer, the price paid is compared with the open market value at that time, and if the price paid is less, the difference is charged to income tax.

In Chirwa's case on exercise, the difference between the market value of the shares and the price paid for the shares will be taxed as income on him, since the market price of the share of K9.15 on 1 January 2026, the date she exercised the options is higher than the exercise price of K8.25. The amount of income taxable on Chirwa on the exercise of the options will therefore be K72,000 [(K9.15 – K8.25) × 80,000]
(1 mark per valid point up to 2 marks)

(b) CHIRWA'S
PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2026

	K	K
Income from Zambian Sources		
Employment income		1,686,000
Income from share options		
(K9.15 – 8.25) x 80,000 shares		72,000
		1,758,000
Income from foreign sources		
Foreign dividends from Zepotamia		
(K44,200 x100/65)		68,000
Income chargeable to normal income tax		1,826,000
Income tax		
On the first K110,400		12,360
On the balance		
37% x (K1,826,000 – K110,400)		634,772
Zambian tax Liability		647,132
Less Double taxation relief on		
Dividends from Zepotamia		(23,628)
Income tax refundable		623,504

WORKINGS

(1) Double taxation relief on dividend from Zepotamia is the lower of:

(i) Foreign withholding tax paid

= K68,000 x 35%

= K23,800

(ii) Zambian income tax attributed to the foreign dividend

Gross amount of foreign income / Total Assessable income x Zambian Tax charge

K68,000 / K1,890,000(W2) x K656,732

K23,628

DTR is therefore K23,628 being the lower amount.

(2) Total Assessable Income

	K
Income chargeable to normal income tax	1,826,000
Gross GRZ Bond interest (K54,400 x 100/85)	64,000
Total assessable income	1,890,000

(3) Total amount of Zambian tax charge

	K
Zambian Tax Liability	647,132
WHT on GRZ Bond interest (15% x K64,000)	9,600
Total Zambian tax charge	656,732

(c) Tax implications of the imported

Zytex Zambia plc is liable to account for and pay reverse VAT on the Technical Advisory Services as the company engaged Dytan Global, a foreign based entity to provide the services and hence will be deemed to have imported technical services.

Reverse VAT is the transfer of liability to account for and pay VAT on imported services from the person making the supply to the person receiving the supply and arises where the non-resident supplier has not appointed a tax paying agent in Zambia to account for and pay the VAT.

Dytan Global has not appointed a tax paying agent in Zambia and therefore Zytex Zambia Plc will be required to account for reverse VAT to the ZRA on the fees paid to Dytan Global. Dytan Global Services will be required to issue an invoice to Zytex Zambia based on the open market value of the services of K11,136,000 and not the actual amount paid for the services of K21,646,000 in accordance with Zambian transfer pricing regulations.

The amount of reverse VAT payable which will not be recoverable by Zytex Zambia as input tax is K1,781,760 (K11,136,000 x 16%).

However, the VAT inclusive value of the services based on the open market value of K12,917,760 (K11,136,000 + K1,781,760), and not the actual amount paid for the services of K21,646,000, will be allowable when computing the taxable profits for Zytex Zambia Plc.

(d) PURCHASE OF NEW MANUFACTURING EQUIPMENT

The following will be taxation implications arising from the purchase of the manufacturing equipment using a finance lease agreement:

(1) Input VAT incurred on the purchase of manufacturing equipment will be recoverable. The amount of VAT is: K7,560,000 x 4/29 = K1,042,759.
(2) The interest component of the lease obligation amounting to K578,283 will be included within the interest expense and will be subjected to the 30% tax earnings before interest, tax, depreciation and amortization (EBITDA) test when determining how much of total the interest expense incurred by the company during the year will be allowable when computing the taxable business profit.
(3) The capital repayment component of the lease rental (K2,205,000 – K578,283 = K1,626,717) is not allowable when computing the taxable profits.
(4) Capital allowances are claimable at a rate of 50% on the VAT exclusive amount. Capital allowances claimable will be: K7,560,000 x 25/29 x 50% = K3,258,621

PURCHASE OF SECOND – HAND BUILDING

The following will be the taxation implications arising from the purchase of the building using a bank loan:

(1) There are no value added tax implications on Zytex since the building was acquired from a non-VAT registered vendor.

(2) The loan processing fees of K357,463 and the loan interest incurred amounting to K984,375 (K7,875,000 x 25% x 6/12) will both be included as part of the interest expense and will be subjected to the 30% tax earnings before interest, tax, depreciation and amortization (EBITDA) test when determining how much of total the interest expense incurred by the company during the year will be allowable when computing the taxable business profit.

(3) Capital allowances on the building are claimable at the appropriate rate of wear and tear. Initial and investment allowances will not be available because the structure is a second hand building.

The amount of capital allowances claimable on the building for the tax year 2026 will Be computed as shown below:

	K
Cost	7,517,537
Less cost of land	(619,037)
	6,898,500
10% Test (K6,898,500 x 10%)	689,850
The cost of the general offices of K1,102,500, exceeds this and will be classified as commercial buildings	
COMPUTATION OF CAPITAL ALLOWANCES	
Production factory	
Wear & tear: K5,796,000 x 5%	289,800
General offices	
Wear & tear: K1,102,500 x 2%	22,050
Total capital allowances	311,850

(e) ZYTEX

COMPUTATION OF TAXABLE PROFITS AND COMPANY INCOME TAX PAYABLE

	K	K
Profit before interest and tax		52,138,081
Add		
Depreciation charges		30,082,000
		82,220,081
Less		
Technical Advisory Services		
(K11,136,000 x 116%)	12,917,760	

Capital allowances on machinery	3,258,621	
Capital allowances on buildings	311,850	
		(16,488,231)
Taxable profit from Zambian operations		65,731,850
Add income from foreign sources:		
Interest income from Jyoti Inc.		
(K65,121,000 x 15%)	9,768,150	
Dividends from Jyoti Inc		
(K1,950,000 x100/65)	3,000,000	
		12,768,150
Taxable income before allowable interest		78,500,000
Less allowable interest (W3)		(32,574,600)
Final taxable profit		45,925,400
Company Income Tax		
(K45,925,400 x30%		13,777,620
Less DTR on		
Dividends from Jyoti Inc (W6)	900,000	
Interest Income from Jyoti Inc (W7)	1,953,630	
		(2,853,630)
Income tax payable		10,923,990

WORKINGS

(1) REVISED INTEREST EXPENSE

	K	K
Interest as per accounts		43,757,179
Add: Interest expense not charged to accounts		
Interest component of finance lease	578,283	
Loan processing fees	357,463	
Bank loan interest	984,375	
Interest expense not charged to accounts		1,920,121
Total interest expense		45,677,300

(2) COMPUTATION OF TAX EBITDA

	K
Taxable profit before allowable interest	78,500,000
Add	
Depreciation	30,082,000
Tax EBITDA	108,582,000

(3) COMPUTATION OF ALLOWABLE & DISALLOWED INTEREST

	K
Revised finance cost	45,677,300
Allowable interest (30% x K108,582,000)	(32,574,600)
Disallowed Interest	13,102,700

(4) ALTERNATIVE METHOD OF COMPUTING THE FINAL TAXABLE PROFITS FOR ZYTEX

The final taxable profit for Zytex Zambia plc can alternatively be computed as follows:

	K	K
Profit Before Tax as per question		8,380,902
Less interest expense not charged to accounts (W1)		(1,920,121)
Revised Profit Before Tax as per accounts		6,460,781
Add:		
Depreciation		30,082,000
		36,542,781
Less:		
Technical services (K11,136,000 x 116%)	12,917,760	
Capital allowances on Machinery	3,258,621	
Capital allowances on Buildings	311,850	
		(16,488,231)
Profit from Zambian operations		20,054,550
Add income from foreign sources		
Interest from Jyoti Inc (K65,121,000 x 15%)	9,768,150	
Dividends from Jyoti Inc (K1,950,000 x100/65)	3,000,000	
		12,768,150
Taxable income before disallowed interest adjustment		32,822,700
Add Disallowable Interest (W3)		13,102,700
Final taxable profit is in the first solution shown above		45,925,400

(5) ALTERNATIVE METHOD FOR COMPUTING TAX EBITDA

	K
Taxable income before disallowed interest adjustment	32,822,700
Add	
Revised finance cost (W1)	45,677,300
Depreciation	30,082,000
Tax EBITDA as in (W2) above	108,582,000

(6) Double taxation relief on dividends from Jyoti Inc is the lower of:

(i) Foreign withholding tax paid

= 35% x K3,000,000

= K1,050,000

(ii) Zambian company income tax on the dividend

= 30% x K3,000,000

= K900,000

DTR is therefore K900,000 being the lower amount.

(7) Double Taxation Relief on interest income from Jyoti Inc s the lower of:

(i) Foreign withholding tax paid

= K9,768,150 x 20%

=K1,953,630

(ii) Zambian income tax on the interest income

= K9,768,150 x 30%

= K2,930,445

DTR is therefore K1,953,630 being the lower amount.

SOLUTION TWO

(a) Advice to Tobias and Wankumbu of the income tax implications, NAPSA and National Health Insurance implications for themselves as individuals if the company:

(i) Pays transport allowance to each individual

(1) Transport allowance is taxable on the employees. Therefore, transport allowance of K52,000 and K48,000 for Tobias and Wankumbu respectively will be added to other taxable emoluments for each individual and deduct tax under pay as you earn.

(2) The transport allowances will be subjected to additional income tax at a rate of 37% since the current earnings for each individual are more than K110,400. Additional income tax will be:
Tobias: K52,000 x 37% = K19,240
Wankumbu: K48,000 x 37% = K17,760

(3) Additional NAPSA contributions will be deducted on the transport allowance as the current gross earnings of each individual is below the earnings ceiling of K446,832. The aggregated earnings for each individual still falls below the ceiling of K446,832, therefore NAPSA will be contributed by each individual on the whole amount of transport allowance.

(4) Additional employees' NAPSA contributions will therefore be:
Tobias: K52,000 x 5% = K2,600
Wankumbu: K48,000 x 5% = K2,400

(5) There will be no additional National Health Insurance contributions on the transport allowance that each individual will be paid. This is because National Health Insurance is calculated on the basic salary.

(6) Each individual will be able to claim capital allowances on their privately owned motor vehicles and deduct them from gross employment earning

(ii) Provides personal-to-holder motor vehicles

(1) There will be no additional income tax, employees' NAPSA contributions and employees' National Health Insurance contributions if each individual is provided with a personal-to-holder motor vehicle.

(2) They will not be able to claim capital allowances as they will no longer use their privately owned motor vehicles in the performance of duties of employment.

(b) Advice to Tobias and Wankumbu of the income tax, NAPSA and National Health Insurance implications for the company if:

(i) Each individual is paid transport allowance

(1) The transport allowance to be paid by the company to each individual will be an allowable deduction when computing the taxable business profits of the company. This will give rise to income tax saving amounting to: (K52,000 + K48,000) x 30% = K30,000.

(2) The company will be required to make additional employer's NAPSA contributions on the full transport allowance, since the aggregated earnings (including transport allowance) is below the NAPSA earnings ceiling of K446,832. This means that the company will contribute NAPSA on K52,000 for Tobias and K48,000 for Wankumbu.

(3) The additional employer's NAPSA contributions to be made by the company will be: (K52,000 + K48,000) x 5% = K5,000.

(4) Additional employer's NAPSA contributions will be allowable when computing taxable business profits of the company giving rise to income tax saving amounting to: K5,000 x 30% = K1,500

(5) The company will not be required to make additional employer's National Health Insurance contributions as it is contributed on the basic salary.

(6) The overall income tax saving of the company for the tax year 2025 is expected to be: K30,000 + K1,500 = K31,50

(ii) Each individual is provided with a personal-to-holder car

(1) There will be no additional employer's NAPSA contributions and employer's National Health Insurance contributions as personal-to-holder cars are benefits that cannot be converted into cash.

(2) The company will be disallowed a personal-to-holder car benefit for providing directors with personal-to-holder cars. The disallowable amount depends on the cylinder capacity, and in the case of Tobias' car the company will be disallowed K57,600 per annum and for Wankumbu's car the company will be disallowed an additional K57,600 per annum as the cylinder capacity of the motor vehicles is 2800 cc and above.

(3) The company will therefore, pay an additional amount of income tax of: (K57,600 + K57,600) x 30% = K34,560.

(4) The company will be able to claim capital allowances on the personal-to-holder cars. The capital allowances on each vehicle will amount to:

	K
Nissan Murano car (K400,000 x 20%)	80,000
Chevrolet Blazer car (K360,000 x 20%)	72,000

(5) The company will be deductible when computing taxable business profits for the company. This will give rise to income tax saving amounting to: (K80,000 + K72,000) x 30% = K45,600.
(6) The overall position of the company if it provides personal-to-holder motor vehicles to Tobias and Wankumbu; the company will save income tax amounting to: K45,600 – K34,560 = K11,040.

SOLUTION THREE

(a) **Types of Trusts**

(i) **Interest in possession trust**

With an interest in possession trust at least one of the beneficiaries of the trust have the immediate and automatic right to receive the income arising from the trust property as it arises, or have the use and enjoyment of it, such as by living in a property owned by the trustees. The trustee must pass all of the income received, less any trustees' expenses to the beneficiary.

A beneficiary who is entitled to the income of the trust for life, who will typically be the surviving spouse is known as the life tenant and in the managing directors case this will be his wife. The life tenant is granted by the settlor (i.e. the MD) the right to the income of the trust or a right to remain in the family home for the remainder of their life although the right to sell the trust assets themselves is usually restricted.

The interest in possession ends when the income beneficiary, in this case the MD's wife dies or remarries, at which point the beneficiary who then becomes entitled to the trust capital is known as the remainderman. In the case of the MD this will be his four (4) children.

(ii) **Discretionary trust**

A discretionary trust is a trust set up for the benefit of a beneficiary or beneficiaries, but for which the trustee is given full discretion. The trustee decides when and how much funds are distributed to the beneficiaries, who in the case of the MD will be his four children.

The beneficiaries will have no rights or any legal claims to the funds held in the trusts. The trustee has complete control and considered the legal owner, although they cannot benefit from the funds in any way. It is up to the trustee to decide if the MD's children should receive any distributions, how much and when.

Discretionary trusts are also usually set up with specific terms that instruct the trustee to distribute funds to beneficiaries on a set schedule. The terms also usually set on how much should be distributed. Such trusts are most useful when the settlor feels that it is in the best interest of the beneficiaries as in the case of the MD, since his children are still minors. This will enable the trustee who will be appointed by the MD to help protect the trust assets from misuse.

(iii) **Accumulation and maintenance trust**

An accumulation and maintenance trust is a particular type of a discretionary trust intended to make provisions for children and young adults up to the age of 25 years.

The key feature is that trustees are given discretion over how to use the income for the benefit of the child up to a specified age. The income generated from the trust is accumulated or used for their maintenance, education or benefit of such minors.

The beneficiaries must become absolutely entitled to the property or to an interest in possession in the property before they are 25 years of age. Also except where all of the beneficiaries have at least one common grandparent, the trust period cannot normally be more than 25 years. Property may be transferred into trust by a settlor while he is alive or via his will.

(b) COMPUTATION OF TAXABLE INCOME AND INCOME TAX PAYABLE

	K	K
Profit before tax		17,200,450
Add:		
Depreciation	12,500,000	
Share option expenses	1,360,000	
Increase in general provision for loan losses	3,690,000	
Finance Director: K1,000,000 x 37%	370,000	
Entertaining customers	1,670,000	
Add personal to holder car benefit	57,600	
		19,647,600
		36,848,050
Less:		
Dividends from shares in Zambian companies	900,000	
Consultancy fees	680,000	
Profit from disposal of shares	1,500,000	
Capital allowances:		
Office buildings K25,000,000 x 2%	500,000	
Purchase of ATM K12,500,000 X 25%	3,125,000	
Pool cars K2,900,000 x 20%	580,000	
Nissan Xtrail K350,000 x 20%	70,000	
		(7,355,000)
		29,493,050
Add: Consultancy fees K680,000 x 100/85		800,000
Taxable income		30,293,050
Company income tax: K30,293,050 x 30%		9,087,915
Less: Tax already paid		
WHT on consultancy fees: K800,000 x 15%	120,000	
WHT on interest income	2,872,605	
Provisional Income tax paid	4,689,000	
		(4,809,000)
Income tax payable		1,406,310

SOLUTION FOUR

(a) Tax treatment of exchange differences

Foreign exchange gains are only taxable to the extent that they are revenue rather than capital in nature, in the charge year in which such gains are realised. Likewise, foreign exchange losses are only deductible to the extent that they are revenue in nature in the charge year in which such losses are realised.

(1) Foreign payable

The foreign exchange loss of K13,750,000 ((K28 – K27) x US$13,750,000) arising on the retranslation of this monetary item at the year-end will be unrealised and therefore will be disallowed when computing the taxable business profits.

(2) Investment in Ordinary shares

The foreign exchange gain arising from the retranslation of the investment in shares at the year-end will be unrealised and capital in nature and therefore not taxable income. The amount of the forex gain will be deducted when computing the taxable business profit and will amount to K1,080,000 [(US$810,000 x K28) – (US$800,000 x K27)].

(3) Sale of copper

The gain arising on the settlement of the transaction of K14,000,000 ((K28 – K27.50) x US$28,000,000) will be realised and revenue in nature and therefore constitutes taxable income. No adjustment will therefore be required when computing the taxable profit.

(b) COMPUTATION OF TAXABLE PROFITS AND COMPANY INCOME TAX PAYABLE

	K	K
Profit before interest and tax		752,850,000
Add		
Depreciation	26,250,000	
Fines for non-compliance	5,500,000	
Forex loss on foreign payable		
(K28 – K27) x US$13,750,000	13,750,000	
		45,500,000
		798,350,000
Less		
Forex gain on shares	1,080,000	
Mineral royalty	623,084,000	

Capital allowances (W3)	95,350,000	
		(719,514,000)
Profit before allowable interest		78,836,000
Less allowable interest (W2)		(31,525,800)
Taxable mining profit before loss relief		47,310,200
Loss relief (W3)		(23,655,100)
Final taxable mining profits		23,655,100
Company income tax (K23,655,100 x 30%)		7,096,530

WORKINGS

(1) Forex gain on investment in shares

	K	
Value at 1 June 2026 ($800,000 x 27)	21,600,000	0.5
Retranslated at 31 December 2026 ($810,000 x K28)	22,680,000	0.5
Foreign exchange gain	1,080,000	

(2) MINERAL ROYALTY TAX

	K
On First ($3,999 x 50,000 tonnes x K28) x 4%	223,944,000
On Next ($1,000 x 50,000 tonnes x K28) x 6.5%	91,000,000
On Next ($2,000 x 50,000 tonnes x K28) x 8.5%	238,000,000
On Balance ($501 x 50,000 tonnes x K28) x 10%	70,140,000
	623,084,000

COMPUTATION OF CAPITAL ALLOWANCES

Mine Excavation Equipment	
Wear and tear allowance ($13,750,000 x K27=K371,250,000 x 20%)	74,250,000
Police post	
Wear and tear allowance (K15,500,000x 20%)	3,100,000
Mining equipment	
Wear and tear allowance (K90,000,000 x20%)	18,000,000
	95,350,000

(3) COMPUTATION OF TAX EBITDA

Profit before interest adjustment	78,836,000
Add: Depreciation	26,250,000
Tax EBITDA	105,086,000

(4) COMPUTATION OF ALLOWABLE AND DISALLOWED INTEREST

	K
Finance cost as per accounts	67,500,000
Allowable interest (30% x K105,086,000)	(31,525,800)
Disallowed interest	35,974,200

(5) LOSS RELIEF

	K
Indexed loss b/f	
(K30m x [1+(28 – 26/26)]	32,307,692
Profits available for loss relief (50% x K47,310,200)	(23,655,100)
Unrelieved loss c/f	8,652,592

(6) ALTERNATIVE METHOD OF COMPUTING THE TAXABLE PROFITS AND COMPANY INCOME TAX PAYABLE

	K	K
Profit before Tax		685,350,000
Add		
Depreciation	26,250,000	
Fines	5,500,000	
Forex loss on foreign payable		
(K28-K27) x US$2,750,000	13,750,000	
		45,500,000
		730,850,000
Less		
Forex gain on Shares	1,080,000	
Mineral royalty	623,084,000	
Capital allowances (W3)	95,350,000	
		(719,514,000)
Profit before disallowed interest adjustment		11,336,000
Disallowed interest (W5)		35,974,200
Taxable mining profit before loss relief		47,310,200
Loss relief (W6)		(23,655,100)
Final taxable profit		23,655,100
Company income Tax (30% x K23,655,100)		7,096,530

(7) ALTERNATIVE METHOD OF COMPUTING TAX EBITDA

	K	K
Profit interest adjustment		11,336,000
Add Interest expense		
Finance cost as per accounts		67,500,000
Revised Finance cost		105,086,000
Depreciation		26,250,000
Tax EBITDA as computed in (W4) above		105,086,000

SOLUTION FIVE

(a) The tax auditors should carry out the following audit procedures to uncover hidden income:

(1) The tax auditor should request for the taxpayer's statement of affairs setting out all of their assets and liabilities as on the specified date.
(2) The tax auditors should request third parties such as suppliers, and customers to be available for inspection any books and records or information and explanations in relation to a tax payer that may be relevant to the taxpayer's liability to tax.
(3) Tax auditors should request the financial institutions to make available details of accounts and financial transactions, which may be material in determining the taxpayer's liability.

(b) The following are the procedures tax auditors can perform to ascertain the true level of income in situations where the taxpayer has insufficient or incomplete financial records:

(1) The tax auditors can reconstruct the statement of financial position based on existing non-current assets and other balances such as inventories and cash.
(2) The tax auditor may use financial ratios to generate a statement of profit or loss and other statements to estimate the actual taxable income.
(3) The tax auditors can make an estimated assessment using for example, the life style of the tax payer or the level of similar businesses of the same size and industry.

(c) Dealing with the Discovery of a Significant Error

(1) Determine the magnitude and impact of the error on Zambezi Ltd's tax liability, financial statements, and regulatory compliance. Identify whether the error resulted from negligence, misinterpretation of tax laws, or fraudulent intent.
(2) Notify Zambezi Ltd's Management and avoid any actions that may compromise professional ethics, such as attempting to conceal the error or manipulate records. Inform the directors and relevant stakeholders about the error, including the potential tax implications and penalties.
(3) Provide a professional recommendation to rectify the issue. Advise Zambezi Ltd to voluntarily disclose the error to ZRA as this may mitigate potential penalties. Disclose and Correct the Error with the Zambia Revenue Authority (ZRA). Assist in submitting an amended tax return.
(4) Document all findings, communications, and actions taken regarding the error to demonstrate transparency.
(5) Conduct a thorough internal review of your firm's internal quality control processes to identify any systemic weaknesses that may have contributed to the error. Implement improved tax compliance procedures to prevent recurrence.

(d) **Self-Review Threat – Tax compliance review assignment**

Reviewing tax returns previously prepared by your firm creates a self-review threat, as errors in the earlier work done by your firm may impair your ability to provide an unbiased opinion arising from loss of objectivity.

Measures:

(1) Assign a different team, from the one that performed the work, or an independent reviewer within the firm to handle the compliance review.
(2) Strengthen your firm's internal quality control processes to minimize errors in any work done for the client
(3) Decline the compliance review assignment if the threat cannot be mitigated effectively.

Self-interest threat – lucrative, long-term contract

The offer of a lucrative, long-term contract act tied to securing tax savings creates a self-interest threat which may negatively impact on the objectivity and integrity of your firm. Your firm may be tempted to prioritize securing the long-term contract over maintaining professional independence and objectivity, creating pressure to engage in aggressive tax avoidance schemes, which may be unethical or non-compliant with tax laws.

Measures:

(1) Refuse performance-based arrangements or assignments tied to the amounts of tax savings your firm achieves on behalf your client which create conflicts of interest. Ensure assignments and fees are based on standard billing rates and agreed-upon terms unrelated to the tax savings achieved.
(2) Strengthen your internal quality control processes to ensure your firm applies legitimate and ethical tax planning strategies that comply with Zambian tax laws and international best practices.
(3) Maintain clear and adequate documentation of work performed to ensure transparency and to provide evidence that any tax planning strategies your firm will recommend will be in line with the relevant regulations.
(4) Communicate the risks of aggressive tax avoidance to the directors and obtain their commitment to lawful tax compliance.

Lack of expertise in International Taxation and Transfer Pricing

(1) Taking on work outside your area of expertise compromises the fundamental IFAC principle of professional competence and due care as you will not be able to perform the assignment with the appropriate level of skill and competence that is expected of your firm. exposing both your firm and client to risk.

(2) Providing advice without adequate knowledge of international tax law and Zambian transfer pricing regulations could result in non-compliance, by the client with the relevant transfer pricing rules and other relevant regulations resulting in financial penalties, and reputational damage for the client and for both parties.

Measures to be implemented:

(1) Collaborate with or engage experts to assist your firm deal with this aspect of the assignment or refer the engagement to a specialist in international taxation and transfer pricing regulations. Offer to remain involved in a supporting role while ensuring the lead advisor has sufficient expertise.
(2) Conduct training for staff to enhance their expertise in these areas.
(3) Inform the client about the limits of your expertise in international tax matters and transfer pricing regulations and decline the assignment if you are not able to engage experts to assist on the assignment

END OF SOLUTIONS

CA ZAMBIA PROGRAMME EXAMINATIONS

CA ADVISORY PROFESSIONAL IN ACCOUNTANCY

CA 3.5: ADVANCED MANAGEMENT ACCOUNTING

TUESDAY 8 SEPTEMBER 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: FOUR (4) Optional scenario questions. Attempt any THREE (3) 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. Present Value and Annuity Tables are attached at the end of the question paper.

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

SECTION A

This question is compulsory and MUST be attempted.

QUESTION ONE - COMPULSORY

Lima Bank Plc (LB Plc) is a registered bank operating in a country in Southern Africa. It has 150 retail branches. It classifies its business into retail and merchant banking. Each type of business currently accounts for about 50% of the bank's turnover.

Current bank operating and branch structure status

LB Plc's retail banking business provides banking facilities for retail customers and small businesses to which it does not lend in excess of K1,000,000 in any one year. It has built its retail banking model around proximity, flexibility, and deep community insight rather than scale and standardisation.

Merchant business qualifies for lending in excess of K1,000,000. Merchant lending is traditionally the most profitable business for the bank, contributing 80% of the profit before taxation. These operations comprise ten regional offices and a department at the head office in Johannesburg. The Johannesburg office is also responsible for international lending. There are 180 staff employed in merchant lending. On the other hand, the retail and small business customer number ranges from 500 to 7,500 per branch.

LB Plc has the following mission statement for its retail banking:

"*To deliver a high-quality service to customers based on our managers' personal knowledge of customers' affairs".*

The bank has a policy of cross subsidising its retail banking operations because this is a less profitable segment than merchant banking. It is hoped that this strategy will attract some retail customers to merchant banking. LB Plc has assigned its branch managers the responsibility of assisting in this process because of their financing expertise and deep knowledge of their customers.

Each branch of the bank operates as a cost centre. The managers of each branch need to record and compare committed expenditure and budgeted expenditure on a quarterly basis. The bank does not follow an accrual accounting system as regards branch expenditures for these quarterly reports. However, year-end adjustments reconcile committed, actual and budgeted expenditures. These accounting activities are performed by management accounting staff based at head office.

The Managers' responsibility is to operate within their expenditure budgets. Moreover, targets are set for the branch managers. These include number of new accounts opened, amount of household and medical insurance sold, level of non-performing loans, etc.

The Managers are not consulted about the size of their budgets or their targets. These are imposed by head office in Johannesburg.

Proposals for change

LB Plc is reviewing its merchant banking operating mode. This segment has shown a declining trend in profitability as a result of problems with international debt and movements in foreign exchange rates. The bank has also become concerned about the attitudes which it believes have become dominant in its retail banking business. Most of its managers have found their targets relatively easy to achieve. They have been criticised for a lack of entrepreneurial awareness and for not taking sufficient account of environmental forces. The managers have defended their behaviour by arguing that, as soon as a retail customer becomes a merchant banking customer, they lose their business. Therefore, there is no incentive for them to convert retail customers into merchant ones.

Due to these factors, LB Plc has decided upon the following changes:

- Retail banking must, in future, contribute 55% of the bank's profit before taxation.
- A programme of branch restructuring will be entered into in which 60% of the branches will be closed.
- A new type of branch, referred to as "Prestige branches", will be introduced. These will be at the centre of a network of six existing branches. The Prestige branch manager will make all major decisions for the network of branches. He will be assisted in this by two assistant managers who will probably be drawn from the existing managers in the network.
- Each Prestige branch will be designated an investment centre and must earn a return on capital employed of 12%. No target has been set for residual income, although LB Plc intends to set such targets after it has gained some experience of the Prestige branches' operations.
- An expenditure budget will be allocated to each Prestige branch. No extra funds have been allocated for the establishment of the Prestige branches. The manager of the Prestige branch has the power to decide where the branch will be located. This could be inside an existing branch or in new premises.
- The Prestige branch managers will be responsible for the design and operation of all of the network's information systems. They will be accountable to the head office. The head office will continue to draw up the statutory accounts.
- The Prestige branch manager will be responsible for deciding the number of employees working in the network. If there are to be any redundancies, head office will negotiate nationally to determine the terms for redundant staff the Prestige branch will need to bear the costs, if any, of redundancies in its network.

  The Chief Executive Officer of LB Ltd has described the new philosophy for retail banking thus: "The main driver of change in financial services is the accelerating digitization of almost all segments of the industry. This is particularly the case in our retail banking,

where Financial Service Providers are investing heavily in technology and newer, technology-based service providers are increasingly active. We are operating in a very competitive environment. In order to survive, we must change. We must never forget that earning profit is our ultimate objective. Retail banking has been subsidised for a long time and as a result, it has become inefficient. Our proposed steps will enable us to deliver an efficient, low-cost service. However, I am afraid the days of the bank manager being a personal friend and adviser are over".

Required:

(a) Evaluate the implications of the new philosophy for retail banking as described by the CEO on the following:

- Staff
- Shareholders
- Customers

You should contrast the new philosophy with the mission statement of LB Plc. (9 marks)

(b) Discuss the advantages and disadvantages of the proposal to make Managers of Prestige branches as investment centres managers. (8 marks)

(c) Suggest, and fully justify, three (3) qualitative performance indicators you consider would be of assistance to a Prestige Branch Manager. (6 marks)

(d) Short mission statements like the one in the scenario, namely, "*To deliver a high-quality service to customers based on our Managers personal knowledge of customers' affairs"* are generally criticised.

Required:

Evaluate three (3) disadvantages of a brief mission statement. (3 marks)

(e) Critical Success Factors are the few areas of LB Ltd in which it should do well in order to succeed.

Required:

Discuss three (3) critical success factors and their relevant Key Performance Indicators that a commercial bank like LB Ltd might adopt. (6 marks)

The Marketing Department of LB Ltd used a customer management software that was developed by the in house team using a software supplier called FoxPro

database. The accounts department maintained the accounts using SAP software while the stores department used software developed in house with oracle database. The Board of Directors of LB Ltd feels the data in each of these departments is being recorded and processed differently and is totally non-integrated.

Required:

(f) Discuss how integrated databases management system would help LB Ltd if the databases were unified across the entire organisation. (4 marks)

(g) Enterprise Resource Planning (ERP) developed out of Materials Resource Planning II (MRP ll).

Required:

Discuss how the installation of ERP would improve the performance of LB Ltd.
(4 marks)
[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions in this section.

QUESTION TWO

Zambian Gold Star Breweries (ZGSB) is a listed beverage company in Zambia, specializing in alcoholic and non-alcoholic drinks. It has its head office in Lusaka and two main production facilities. The production plant in Ndola focuses on traditional clear beer and soda whilst the Livingstone plant produces premium craft beers and export products. Despite dominating the domestic market, ZGSB's recent financial performance has been stagnant. The CEO, Ms. Nkandu, has engaged a consultancy team to assess whether their current financial performance measurement system is still adequate and to recommend improvements for monitoring divisional performance in the light of its current situation. The following information relates to ZGSB:

(1) ZGSB is organized into two (2) primary Strategic Business Units (SBUs);

(2) The Northern Division focuses on high-volume, low-margin products such as Mosi Lager, Chibuku Shake-Shake, popular sodas.

(3) The Southern Division focuses on low-volume, high-margin, premium and export products such as Zambezi Craft Pilsner, specialized export ciders.

(4) The current performance system relies almost exclusively on net profit margin and Return On Assets (ROA), These metrics are calculated quarterly.

The financial information for the year ended 30 June, 2025 for the divisions is provided below:

Metric	Northern Division	Southern Division
Revenue	K950,000	K150,000
Cost of Goods Sold	K600,000	K75,000
Operating Expenses	K250,000	K45,000
Net Profit	K100,000	K30,000
Total Assets	K400,000	K100,000
Net Profit Margin	10.50%	20%
Return on Assets	25%	30%

The following is an extract from the consultants' report on non-financial information and strategic goals during their review of ZGSB's current performance system:

Metric	**Northern Division**	**Southern Division**	**ZGSB Strategic Target**
Customer	65% domestic clear beer	10% regional premium export	Maintain market dominance and expand export
Customer complaint resolution time	7 days	2 days	Less than 3 days
Production Efficiency	92% (target 95%)	98%(target 95%)	Improve operational Efficiency
Waste and Spoilage rate	4.5%	1%	Less than 2%
Employee Turnover	18%	8%	Less than 10%
Staff Training days per year	2 days	8 days	More than 5 days
New Product ideas implemented	1	4	More than 2 per division

Required:

(a) Evaluate the current performance system of ZGSB and propose how a Balanced Scorecard (BSC) approach could be adopted by ZGSB. (12 marks)

(b) Using the BSC, evaluate suitable monitoring and control mechanisms for ZGSB's divisional performance, specifically addressing the differences between the two (2) divisions. (8 marks)

[Total: 20 Marks]

QUESTION THREE

CB Engineering Ltd (CB Ltd) was established 50 years ago and manufactures drip water irrigation kits of various kinds. Cost efficiency is a major factor in the success of the companies in this industry due to the intense competitive rivalry. For the past five (5) years, CBE Ltd's sales volumes have been increasing. However, profits have been reducing due to the declining margins. This is partly because imports of high quality drip water irrigation kits from China at lower prices are rapidly eroding its market share.

Some of the processes in CBE Ltd are computerized but most of the processes which involve communication with customers, material requisitioning, purchase requisitioning, processing purchase orders, inspecting materials, storing materials and paying suppliers are still paper based. This paper based processing is often slow and full of errors. This leads to complaints from both customers and CBE Ltd's staff. The chairperson of the Board feels helpless in the face of the competition from competitors and is frantically searching for a solution to the problem. He announced at the previous board meeting that the business processes needed to be redesigned using the Business Process Re-engineering (BPR) technique. If possible, the business processes of CBE Ltd should be benchmarked with the best manufacturers in the industry. He also read an article in the ZICA magazine about the Kaizen costing technique and how those companies that adopted it are improving their profits.

He emphasized that the intention of restructuring the business model was to increase profitability and competitiveness. However, whilst some CBE Ltd staff were excited about the BPR introduction, a number of them has expressed concern about it and its implications for them.

You are the Management Accountant of CBE Ltd.

Required:

Write a report to the Chairperson of CBE Ltd which:

(a) Explains Business Process Re-engineering (BPR). (2 marks)

(b) Discusses how the material handling process can be redesigned using the BPR programme. (3 marks)

(c) Discusses four (4) drawbacks of BPR. (4 marks)

(d) Explains two (2) reasons why the workers of CBE Ltd might be worried about BPR and its implications for them. (2 marks)

(e) Explains benchmarking and evaluates how it can improve business performance. (5 marks)

(f) Explains Kaizen costing and evaluates how it can be used to improve performance in CBE Ltd. (4 marks)

[**Total: 20 Marks]**

QUESTION FOUR

Copperbelt Dairy Producers (CDP) is a Zambian owned company headquartered in Kitwe. CDP specializes in the production of high-quality dairy products, primarily milk, yogurt and cheese. These products are supplied to major retail chain stores in Lusaka and the Copperbelt and local distributors.

CDP is structured into three (3) main divisions which are located on a large industrial complex:

(1) Division A manages the dairy herd, feed production, milking, and initial chilling. It produces the raw milk input.

(2) Division B receives raw milk from Division A and processes it into various final products.

(3) Division C handles logistics, warehousing, final delivery to customers and sales/marketing efforts.

The company is considering expanding its product line into fortified milk powder for the regional export market. The Managing Director (MD) has expressed concerns over divisional performance measurement and operational efficiency, especially regarding the pricing of the raw milk transfer between Division A and Division B.

Divisional Financial and Operational Data

Details	**Division A**	**Division B**
Output/input	Raw Milk (1,000,000 litres/year)	Raw Milk (Input) to Finished Products (Output)
Variable cost per litre	K3.50	K1.00
Fixed costs per year	K1,500,000	K3,000,000)
Total capacity (litres)	1,200,000 litres/year	1,100,000 litres/year
External market for raw milk	Division A can sell excess raw milk externally to smaller, independent local processors for K6.00 per litre. The external market is competitive and limited. Currently, they sell 200,000 litres externally	• Division B can purchase similar quality raw milk externally for K7.50 per litre from other farms. • However, supply is unreliable. Division B incurs a variable cost of K0.50 per litre. This variable cost is a handling cost..
External selling price for the final product	N/A	Finished milk products are sold to Division C for K12.00 per litre equivalent. Division C then sells to customers for K15.00.

Current transfer price	K5.00 per litre	K5.00 per litre.

The following observations and management concerns have been noted:

(1) The Division A Manager is demotivated. They argue that the K5.00 transfer price does not cover their opportunity cost. They believe that they could achieve better profitability by selling more externally at K6.00, but Division B is currently mandated to take the remaining 800,000 litres.

(2) The Division B Manager believes Division A is inefficient and that paying K5.00 is already too high, especially since Division B is required to generate a profit margin on the final product sold to Division C. They point out that Division A has unused capacity, i.e.1.2 million capacity compared to 1 million output.

(3) The current system fosters an adversarial relationship between the two key divisions, undermining overall corporate goal congruence. The MD is worried that this conflict will negatively impact the proposed new product line such as fortified milk powder.

Required:

(a) Calculate the transfer prices based on the following transfer pricing method:

(i) Full cost plus.
(ii) Market price.
(iii) Variable cost.
(iv) Negotiated price.

(10 marks)

(b) Recommend a single, optimal transfer pricing policy for CDP. Justify the recommendation by explaining how it addresses the current conflicts, ensures divisional performance measurement accuracy, and promotes corporate profitability. (6 marks)

(c) Advise CDP management on two suitable integrated information technology systems that would enable the business to operate effective operational performance management systems. (4 marks)

[Total: 20 Marks]

QUESTION FIVE

Kitchen Solutions (KS) manufacturers small kitchen utensils by assembling components. Some of these components are manufactured by KS itself and more than 60% (by value) of these components are bought from external suppliers. They are bought in economic batch sizes and after receipt are stored in the company's warehouse. Those components manufactured by the company itself are also produced in batches and stored until required. They are drawn from the stores for assembly according to orders received. KS costs are considered to be very high and it is suggested that this may be due to problems in the stores.

Required:

(a) Discuss the primary activities in the value chain and evaluate their strategic importance to Kitchen Solutions. (10 marks)

(b) Chipulukusu Construction Ltd (CC Ltd) is a construction company that has recently implemented a new computerized contract costing system. The Project Manager who started the contract costing system project gave a short notice and resigned leaving things in a mess. For example, she did not leave hand over notes regarding the project progress, resources required, etc. Consequently, Ms Nthandose Moyo has been requested to take over as project manager and complete the job of installing the new system.

Required:

(i) Discuss the major factors that Ms N Moyo would need to review in order to get familiar with the current status of the project. (5 marks)

(ii) Discuss the possible threats to the timely completion of the project and how those threats can be minimized. (5 marks)

[Total: 20 Marks]

END OF PAPER

Present Value Table

Present value of 1 i.e. $(1 + r)^{-n}$

Where r = discount rate
n = number of periods until payment

Discount rate (r)

Periods (n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0·990	0·980	0·971	0·962	0·952	0·943	0·935	0·926	0·917	0·909	1
2	0·980	0·961	0·943	0·925	0·907	0·890	0·873	0·857	0·842	0·826	2
3	0·971	0·942	0·915	0·889	0·864	0·840	0·816	0·794	0·772	0·751	3
4	0·961	0·924	0·888	0·855	0·823	0·792	0·763	0·735	0·708	0·683	4
5	0·951	0·906	0·863	0·822	0·784	0·747	0·713	0·681	0·650	0·621	5
6	0·942	0·888	0·837	0·790	0·746	0·705	0·666	0·630	0·596	0·564	6
7	0·933	0·871	0·813	0·760	0·711	0·665	0·623	0·583	0·547	0·513	7
8	0·923	0·853	0·789	0·731	0·677	0·627	0·582	0·540	0·502	0·467	8
9	0·941	0·837	0·766	0·703	0·645	0·592	0·544	0·500	0·460	0·424	9
10	0·905	0·820	0·744	0·676	0·614	0·558	0·508	0·463	0·422	0·386	10
11	0·896	0·804	0·722	0·650	0·585	0·527	0·475	0·429	0·388	0·305	11
12	0·887	0·788	0·701	0·625	0·557	0·497	0·444	0·397	0·356	0·319	12
13	0·879	0·773	0·681	0·601	0·530	0·469	0·415	0·368	0·326	0·290	13
14	0·870	0·758	0·661	0·577	0·505	0·442	0·388	0·340	0·299	0·263	14
15	0·861	0·743	0·642	0·555	0·481	0·417	0·362	0·315	0·275	0·239	15

(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0·901	0·893	0·885	0·877	0·870	0·862	0·855	0·847	0·840	0·833	1
2	0·812	0·797	0·783	0·769	0·756	0·743	0·731	0·718	0·706	0·694	2
3	0·731	0·712	0·693	0·675	0·658	0·641	0·624	0·609	0·593	0·579	3
4	0·659	0·636	0·613	0·592	0·572	0·552	0·534	0·516	0·499	0·482	4
5	0·593	0·567	0·543	0·519	0·497	0·476	0·456	0·437	0·419	0·402	5
6	0·535	0·507	0·480	0·456	0·432	0·410	0·390	0·370	0·352	0·335	6
7	0·482	0·452	0·425	0·400	0·376	0·354	0·333	0·314	0·296	0·279	7
8	0·434	0·404	0·376	0·351	0·327	0·305	0·285	0·266	0·249	0·233	8
9	0·391	0·361	0·333	0·308	0·284	0·263	0·243	0·225	0·209	0·194	9
10	0·352	0·322	0·295	0·270	0·247	0·227	0·208	0·191	0·176	0·162	10
11	0·317	0·287	0·261	0·237	0·215	0·195	0·178	0·162	0·148	0·135	11
12	0·286	0·257	0·231	0·208	0·187	0·168	0·152	0·137	0·124	0·112	12
13	0·258	0·229	0·204	0·182	0·163	0·145	0·130	0·116	0·104	0·093	13
14	0·232	0·205	0·181	0·160	0·141	0·125	0·111	0·099	0·088	0·078	14
15	0·209	0·183	0·160	0·140	0·123	0·108	0·095	0·084	0·074	0·065	15

Annuity Table

Present value of an annuity of 1 i.e. $\frac{1-(1+r)^{-n}}{r}$

Where r = discount rate
n = number of periods

Discount rate (r)

Periods (n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0·990	0·980	0·971	0·962	0·952	0·943	0·935	0·926	0·917	0·909	1
2	1·970	1·942	1·913	1·886	1·859	1·833	1·808	1·783	1·759	1·736	2
3	2·941	2·884	2·829	2·775	2·723	2·673	2·624	2·577	2·531	2·487	3
4	3·902	3·808	3·717	3·630	3·546	3·465	3·387	3·312	3·240	3·170	4
5	4·853	4·713	4·580	4·452	4·329	4·212	4·100	3·993	3·890	3·791	5
6	5·795	5·601	5·417	5·242	5·076	4·917	4·767	4·623	4·486	4·355	6
7	6·728	6·472	6·230	6·002	5·786	5·582	5·389	5·206	5·033	4·868	7
8	7·652	7·325	7·020	6·733	6·463	6·210	5·971	5·747	5·535	5·335	8
9	8·566	8·162	7·786	7·435	7·108	6·802	6·515	6·247	5·995	5·759	9
10	9·471	8·983	8·530	8·111	7·722	7·360	7·024	6·710	6·418	6·145	10
11	10·37	9·787	9·253	8·760	8·306	7·887	7·499	7·139	6·805	6·495	11
12	11·26	10·58	9·954	9·385	8·863	8·384	7·943	7·536	7·161	6·814	12
13	12·13	11·35	10·63	9·986	9·394	8·853	8·358	7·904	7·487	7·103	13
14	13·00	12·11	11·30	10·56	9·899	9·295	8·745	8·244	7·786	7·367	14
15	13·87	12·85	11·94	11·12	10·38	9·712	9·108	8·559	8·061	7·606	15

(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0·901	0·893	0·885	0·877	0·870	0·862	0·855	0·847	0·840	0·833	1
2	1·713	1·690	1·668	1·647	1·626	1·605	1·585	1·566	1·547	1·528	2
3	2·444	2·402	2·361	2·322	2·283	2·246	2·210	2·174	2·140	2·106	3
4	3·102	3·037	2·974	2·914	2·855	2·798	2·743	2·690	2·639	2·589	4
5	3·696	3·605	3·517	3·433	3·352	3·274	3·199	3·127	3·058	2·991	5
6	4·231	4·111	3·998	3·889	3·784	3·685	3·589	3·498	3·410	3·326	6
7	4·712	4·564	4·423	4·288	4·160	4·039	3·922	3·812	3·706	3·605	7
8	5·146	4·968	4·799	4·639	4·487	4·344	4·207	4·078	3·954	3·837	8
9	5·537	5·328	5·132	4·946	4·772	4·607	4·451	4·303	4·163	4·031	9
10	5·889	5·650	5·426	5·216	5·019	4·833	4·659	4·494	4·339	4·192	10
11	6·207	5·938	5·687	5·453	5·234	5·029	4·836	4·656	4·486	4·327	11
12	6·492	6·194	5·918	5·660	5·421	5·197	4·988	4·793	4·611	4·439	12
13	6·750	6·424	6·122	5·842	5·583	5·342	5·118	4·910	4·715	4·533	13
14	6·982	6·628	6·302	6·002	5·724	5·468	5·229	5·008	4·802	4·611	14
15	7·191	6·811	6·462	6·142	5·847	5·575	5·324	5·092	4·876	4·675	15

CA 3.5 ADVANCED MANAGEMENT ACCOUNTING

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) The mission of retail banking was to provide a high-quality service to customers, by developing a close relationship between the bank managers and their customers. The new philosophy of LB Plc emphasises **profitability** through rendering an efficient yet **low-cost service**. It is expected that the proposed change will bring in significant change in the operational system. This change in the philosophy of retail banking will have an impact on LB Plc's staff, customers and shareholders.

LB Plc Staff

As a result of the closure of around 900 retail branches, a large number of employees will become redundant. However, some additional managerial posts will be created in the Prestige branches.

New Prestige branches will be formed, and accordingly new employment opportunities will be created for existing managers. At the same time, however, about 60% of the existing branches will be closed. This will inevitably have an effect on employee morale within the whole organisation. This, in turn, might adversely affect the efficiency and motivation of the employees, in particular, during the transitional period.

Moreover, the creation of the Prestige branches will substantially change the job profile for many of the staff. Most of the jobs within the branches will not require professional skills. This may lead to decreased satisfaction and fewer opportunities for staff development.

The newly adopted policy of using profitability as a performance measure may also have an adverse impact on Managers' behaviour.

Customers

The new performance measurement system will assign less importance to aspects such as **customer satisfaction** or expansion through the opening of new accounts.

It appears that assigning importance to the profitability criterion and ignoring criteria such as satisfaction is overly focused on short-term gains. There are reasons for apprehension that the focus on short-termism may be at the expense of the bank's growth in the future.

It is clear that many customers depend on the managers' advice and assistance. Therefore, management should focus on the activities that promote a relationship of trust between the bank managers and the customers.

It is essential for LB Plc to reconsider its policy of not focusing on increasing the number of customers and not encouraging managers to advise customers about their businesses. In fact, the bank should assess the impact of its change in philosophy on its customers. Predicting customer reaction to the change is important because the loss of a large number of existing customers will be detrimental to the bank. Moreover, it is important that the sites of the Prestige branches are chosen carefully because if they are not conveniently located for most of their customers, customers might decide to move their accounts to another bank which is more conveniently located.

Basically, it is essential for LB Plc to estimate the effect of the changed philosophy on its customers. This may be particularly significant if the bank's competitors are still providing personalised service to its customers. In addition, the attitude of the customers to the "efficient yet low-cost service" must be predicted, as the loss of a large number of existing customers will be detrimental for the bank. It is possible that the Prestige branches will not be conveniently located for many of the customers, and they may decide to move their accounts to a bank that has a branch that is more convenient.

Effect on shareholders

The shareholders will be primarily interested in the enhanced profits generated by the changed policy. If costs are reduced and profitable customers can be retained, it is likely that the profits will increase. However, the additional cost of the Prestige branches may reduce the profits to some extent. Moreover, the cost impacts of the one-off payments to the employees who are made redundant need to be considered in the calculation of profitability.

(b) All branches are being treated as cost centres under the current set up. The decision to make the Prestige branches investment centres requires attention to be paid to both the profitability of, and capital employed in, each Prestige branch. This new approach to performance measurement indicates that the management of each unit will enjoy more autonomy to take decisions regarding the best utilisation of the resources available, since the performance of the unit will be evaluated in terms of profitability.

Moreover, Managers will have a **greater degree of freedom** and **authority** to undertake projects which are expected to meet the organisation's performance criteria. This will increase the managers' motivation and experience. In addition, it will enable senior management to compare the performance of each Prestige branch and accordingly this may encourage improved performance through generating inter-branch competition.

A possible disadvantage of using profitability as a performance measure is that it may lead to **short-termism** since the managers will take decisions that enhance current profit (even at the expense of the long-term growth and financial health of the company). An example of this problem is the reduction in public relations expenditure and promotional expenditure in order to improve the profit in a particular accounting period. This will affect the future organisational growth. Moreover, concentrating only on projects which do not require large amounts of capital may result in the avoidance of capital intensive projects, since these projects will not meet the short term profitability targets.

Another possible problem area is the bank managers' **lack of experience** of using profitability as a performance measure. Inappropriate targets may be set and this may affect the Managers' motivation and behaviour.

(c) The following non-financial measures will help LB Plc to monitor the performance of the branches:

There are a number of non-financial areas which should be monitored continuously by the managers of the Prestige branches. These include:

- Staffing levels.
- The number of new customer accounts opened.
- The quality of service offered to customers, especially in comparison with the service. provided by the bank's competitors.
- Customer satisfaction.

The **number of staff employed** per branch or Prestige branch will be a good basis for measuring the performance of the branch / Prestige branch. Moreover, employee cost is one of the major costs of all the branches. Accordingly, it is essential that this is monitored. However, **length of service**, **experience** and **training** are qualitative indicators that should be available to management in respect of individual staff members. In particular, the **level of staff competence in** Information Technology is an area which should be monitored, as the retail Bank's operations use computers extensively.

In order to monitor the bank's growth, details should be provided of the **number of new customers**. This information, if provided on a regular basis, will reflect the growth of the business. Details of the different types of customer will be an important aspect in monitoring the **success of the activities** in attracting new customers and also increasing the needs of the public.

As LB Plc aims to offer an "efficient yet low-cost service", it is essential that management is aware of customers' opinions regarding the **quality of service** offered to them. This information may be difficult to measure accurately, but some possible qualitative measures are **waiting times** in branches, the **number of mistakes** in customers' accounts and the **number of complaints** lodged by the public. In addition, surveys could be conducted regularly to measure the reactions of the bank's customers. A matter that should be of major concern to the management of the bank is the nature and **number of complaints** that are received from the public. This information should be recorded to indicate the areas which need to be improved. This type of indicator will be crucial in a period of cost-cutting to ensure that the customers are not dissatisfied with the changes.

Another area which should be considered by management of each Prestige branch is the **activities of competitors**. Within the bank it will be possible to compare the performance of each Prestige branch. This information will be relatively easy to obtain and will allow the performance of each Prestige branch to be compared. However, it will

be necessary to take into account differences between those branches in terms of the profile of the customers and the nature of their services. Although the performance of other banks is difficult to measure, appropriate measures should be devised in order to assess the relative performance of LB Plc relative to the other banks using benchmarking.

(d) Evaluation of **THREE** disadvantages of a brief mission statement.

Short mission statements, while memorable, often suffer from being too vague, generic, or overly ambitious, acting more as a PR slogan than a actionable guide. They frequently fail to define specific organizational purposes, leading to employee confusion, lack of direction, and disconnection from daily operations.
Key weaknesses of short mission statements include:

- **Vagueness and Lack of Direction:** Extremely concise statements often lack necessary, actionable, or specific details, making them difficult to implement.
- **Generic/interchangeable:** Short phrases often sound similar across companies, failing to create a unique identity.
- **Reduced employee motivation:** If too lofty or abstract, they fail to resonate with employees, failing to connect daily work to a higher purpose.
- **PR tool over substance:** They are often viewed as marketing slogans rather than meaningful, lived statements of intent.
- **Risk of misinterpretation:** Without sufficient context, short statements can be ambiguous, leaving employees unsure of the company's true direction.
- **Narrow focus:** They may fail to adequately capture the breadth of a company's activities, especially for diversified organizations.

For a mission statement to be effective, it should ideally be supported by more detailed goals and, if necessary, a supporting manifesto.

(e) Discussion of THREE critical success factors and their relevant Key Performance Indicators

- **CSF:** Maximizing earnings from core lending activities while diversifying revenue streams.
    - **KPI - Net Interest Margin (NIM):** Measures the spread between interest earned on loans and interest paid on deposits.
    - **KPI - Return on Equity (ROE) / Return on Assets (ROA):** Measures overall profitability relative to equity.

- **CSF:** Lowering the cost-to-serve through digitization and streamlined processes.
    - **KPI - Efficiency Ratio (Cost-to-Income):** Non-interest expenses as a percentage of net revenue.
    - **KPI - Operating Profit per Employee:** A measure of workforce productivity.
    - **KPI - Digital Channel Adoption Rate:** Tracks the percentage of customers using digital channels, which helps reduce transactional costs.

- **CSF:** Maintaining a healthy loan portfolio and managing exposure to defaults (risk management).
    - **KPI - Non-Performing Loan (NPL) Ratio:** The percentage of loans in default, with a healthy target below 0.50% to 1.5% depending on the portfolio.
    - **KPI - Provision Coverage Ratio (PCR):** Ensures adequate reserves for potential bad loans.

- **CSF:** Ensuring sufficient capital to withstand economic shocks and meet regulatory requirements.
    - **KPI - Capital Adequacy Ratio (CAR):** Measures capital against risk-weighted assets.
    - **KPI - Loan-to-Deposit Ratio (LDR):** Compares loans to deposits to measure liquidity.

- **CSF:** Building loyalty and reducing lost customers (churn) through personalized service, especially for SMEs.
    - **KPI - Net Promoter Score (NPS) / Customer Satisfaction (CSAT):** Measures customer loyalty and likelihood to recommend.
    - **KPI - Customer Retention/Churn Rate:** Tracks the percentage of customers retained over a period.

- **CSF:** Digital transformation
    - **KPI - Time-to-Market for New Products:** Measures the speed of launching new digital services.
    - **KPI - System Uptime/Availability Rate:** Ensures high availability of digital services.
- **CSF:** Regulatory compliance
    - **KPI – Number of compliance breaches**
    - **KPI – Regulatory capital adequacy breaches**

(f) Discussion of how databases would help LB Ltd if the databases were unified across the entire organisation.

Unified databases would help LB Ltd in the following ways:

- There will be no duplication of data entry i.e. recording of data. When a customer order is entered by the sales department, the same details can be used by stores for dispatch and by accounts for billing. Fields such as customer number, name, address, tax codes, etc. are common as the table structure of a unified database facilitates this.
- Companies could achieve sizable cost savings as it cuts down costs of buying, maintaining and upgrading different databases.
- It permits exchange of information between different functions of the business. This would boost efficiency.

- With the advent of Relational Database Management Systems (RDBMS) that support tabular form of data structure, many enterprise wide information systems have become useful for business planning, decision making and control. The tabular structure enables establishing relationships between different modules and the interface between them very easily.
- The processing of data for generating management information (MI) reports becomes convenient and less time consuming. The accuracy level is also guaranteed as compared to the situation where non-unified database systems are used.

(g) Discussion of how the installation of ERP would improve the performance of LB Ltd.

ERP performs similar functions to MRPII but on a wider basis, integrating and using databases from all parts of the organisation.

Enterprise Resource Planning (ERP) systems improve the business performance of LB Ltd by integrating departments—such as finance and HR—into a single platform, creating a centralized, real-time data source. This boosts efficiency through process automation, reduces operational costs, enhances data accuracy, and facilitates better decision-making with faster, actionable reporting. ERP system includes a number of integrated modules designed to support all of the key activities of an enterprise.

In a more detailed explanation, the key areas of improvement in a business organisation, including LB Ltd are:

- **Increased productivity:** Automating routine tasks (e.g., inventory tracking, order processing) allows employees to focus on higher-value tasks, reducing manual errors and labour costs.
- **Data-driven decision making:** Real-time visibility into operations across the entire company allows for faster, more accurate, informed decisions.
- **Supply chain optimization:** Enhanced, real-time visibility into inventory levels, sales trends, and supplier performance reduces overstocking and stockouts, lowering overall carrying costs.
- **Improved collaboration & compliance:** By promoting integration among departments, ERP fosters better communication between departments, ensuring consistent workflows and easier compliance tracking.
- **Financial management:** Integrated accounting allows for immediate tracking of cash flow, faster closing times, and better financial planning.

SOLUTION TWO

(a) Evaluation of Current Performance System and Adoption of Balanced Scorecard (BSC)

Current System Evaluation

The current system at ZGSB relies almost exclusively on Net Profit and Return on Assets (ROA). While these are important, they are insufficient for several reasons;

1. Historical Focus: Financial metrics are "lagging" indicators that reflect past performance rather than future potential.
2. Divisional Inequity: The system does not account for the different strategic roles of the divisions. The Northern Division is a high-volume, low-margin business, while Southern focuses on low-volume, high-margin premium products.
3. Neglect of Non-Financials: It ignores critical factors like customer satisfaction, production waste and employee development, which are vital for long-term sustainability.

Proposed Balanced Scorecard (BSC) Adoption

To improve performance monitoring, ZGSB should adopt the BSC framework

1. Financial Perspective: Continue tracking ROA but add Residual Income (RI) to better evaluate divisional investments relative to their specific risk profiles.
2. Customer Perspective: Monitor Customer Complaint Resolution Time and Market Share in both domestic and regional segments.
3. Internal Business Process Perspective: Focus on Production Efficiency and Waste/Spoilage Rates to meet strategic targets of less than 2% waste.
4. Learning and Growth Perspective: Track Staff Training Days and the Success of New Product Ideas implemented to drive innovation.

(b) BSC Evaluation of Monitoring and Control Mechanisms

ZGSB's current focus on Net Profit and ROA is insufficient because it treats the high-volume Northern Division and high-margin Southern Division identically. However, the Northern division should focus on efficiency to manage waste, spoilage and production efficiency metrics. The use Total Quality Management (TQM) to bring the waste rate from 4.5% down to the say less than 2% target.

1. On the Financial perspective, the Northern division focus should be on Cost per Hectoliter. Also, given its 10.5% margin, controlling operational costs is critical, while the Southern Division's focus should be on Operating Profit Margin. It currently sits at 20%, and maintaining this premium should be the priority.

2. Customer Resolution Time which is currently at 7 days must be reduced to less than 3 days to maintain market dominance while Regional Expansion should include monitoring export volume growth as a % of total revenue.
3. Internal Process Waste Rate which is currently at 4.5% needs aggressive control to reach the less than 2% target. This should include Innovation Cycle monitoring including the time it takes to move from a new idea to a premium product launch.
4. Learning and Growth Employee Turnover as indicated by the high rate of 18% needs to be halved to reach the less than 10% target. Therefore, skill development and maintaining a high staff training standard of about 8 days to support craft pilsner production should be implemented.

In conclusion the control mechanisms for the Northern Division should be tight budgetary control and variance analysis on production costs to protect thin margins. The Southern Division should have the strategic milestones linked to new product development and regional market entry. This is because financial profit alone doesn't capture "brand value" or "innovation".

SOLUTION THREE

REPORT

To: The Chairperson, CBE Ltd
From: Management Accountant
Date: 30 January, 2026 *(1 mark for report format)*

Ref: Modern Management Accounting Techniques

1.0 **Introduction**

This report discusses and evaluates the management accounting techniques of Business Process Re-engineering (BPR), Benchmarking (BM) and Kaizen Costing (KC).

2.0 **Business Process Re-engineering**

2.1 BPR explanation

BPR involves examining business processes and making substantial changes to how the organisation currently operates. It involves the re-design of how work is done through activities. A business process consists of a collection of activities that are linked together in a co-ordinated manner to achieve a specific objective. By radically re-designing the processes, companies like CBE Ltd would achieve quantum leaps in performance in such areas as cost reduction, improved quality, customer satisfaction and speed. BPR is all about major changes to how business processes operate.

2.2 Material handling process redesign

Currently, the material handling process in CBE Ltd is manually handled and the process generates a lot of paper work. Consequently, there are a lot of errors, slow processing, poor quality, breakdown in communication, late deliveries, etc. These activities (and those in the scenario) are non-value adding.

The material handling process can be re-engineered by sending the material requisitions directly to an approved supplier and entering into an agreement which entails delivering high quality material in accordance with the production requirements. This change in business process can result in cost reduction by the elimination of the administrative work involved in placing orders, the need for material inspection and storage. Thus, by CBE Ltd implementing BPR, it will reduce costs without compromising the quality of the products delivered to the customers. Customer complaints will be reduced or eliminated as well.

2.3 Drawbacks of BPR

1. Enthusiasm for BPR may encourage management to throw out much that is good within the organisation without achieving the potential gains of BPR.
2. It is often used as a pretext for staff reductions. BPR reduces staff from middle and line management and, as a result, increases the stress of the remaining staff.
3. It overlooks the enormous implications of a BPR exercise for the staff involved.
4. BPR increases productivity by cutting costs but does nothing to increase revenues or sales.
5. It ignores corporate culture and does not give appropriate feedback.
6. It focuses too much on improving the exiting business rather than developing new and better lines of business. Therefore, it focuses on business efficiency and not on business effectiveness.
7. BPR is seen as a fashionable cure-all where the advantages are widely written about but the explanations of how to do it is surrounded by management jargon.

2.4 Reasons why workers of CBE Ltd might be worried about BPR and its implications for them.

1. Fear of redundancies and job prospects
   Some CBE Ltd's workers may perceive the BPR programme as cost cutting exercise; hence their concern.

2. Uncertainty
   Even if the BPR programme does not lead to redundancy, the fact that it brings about fundamental changes can be a concern and stress for staff. E.g. it may lead to new patterns of work, shift working, change in people's roles or change in the composition of work groups. The social fabric could be altered.
   Their concern might lead to resistance to the BPR introduction.

3.0 Benchmarking (BM)

BM involves comparing key activities with world class best practices by identifying an activity that needs to be improved, finding a non-rival organisation that is considered to represent world –class best practice for the activity, and studying how it performs the activity. The objective is to establish how the activity can be improved and ensure that the improvements are implemented. The outcome should be reduced costs for

the activity or process or performing the activity more effectively, thus increasing customer satisfaction.

CBE Ltd sells irrigation equipment. It can investigate the possibility of benchmarking its order taking, delivery, inventory holding and similar procedures against those of a similar firm in a different geographical area. Alternatively, it could benchmark against a local firm which sells and repairs irrigation equipment. BM will impact on CBE Ltd's business processes by improving them. Improving performance will arise from learning best practice from other organisations.

BM comes with implementation costs, lack of a suitable comparator, employee resistance to change, use of back-ward looking data and inaccurate comparisons.

3.0 Kaizen Costing (KC)

KC is the reduction of costs of an item through continuous improvement. This improvement is achieved via small incremental amounts rather than through large innovations.

KC is applied during the manufacturing stages of a product's life cycle. It, therefore, focuses on achieving cost reductions through increased efficiency of the production process.

Improvements may be achieved by eliminating waste and idle time and finding more efficient ways of doing something.

KC empowers employees to participate in devising new methods and new ways of operating in order to reduce costs.

Thus, KC will improve business performance through improved efficiency, enhanced employee involvement, cost savings, higher quality outputs, agility and adaptability.

The down side of KC include employee burn out, dependence on employee participation, resistance to switch to KC, high implementation cost, measurement complexity of quantifying small improvements, slow speed of results from small targets and small reductions.

Signed: Management accountant

SOLUTION FOUR

(a) Calculation and Discussion of Transfer Pricing Methods

1. Full Cost Plus K3.50 + (K1,500,000/1,000,000units}) = K5.00 This basis is easy to calculate, ensures Division A covers all internal production costs. However, it provides no incentive for Division A to control costs as it passes on all costs and inefficiencies to Division B.
2. Market Price K6.00 which is the external selling price. This basis is objective and fair as it reflects the true opportunity cost for Division A. However, Division B may find it too expensive compared to the current transfer price of K5.00 thereby reducing their divisional profit.
3. Variable Cost of K3.50 covering the direct costs of feed, vet, labor encourages Division B to take as much milk as possible, maximizing corporate volume. However, Division A will report a significant loss as fixed costs of K1,500,000 are not covered.
4. Negotiated Price which would range between K5.00 and K6.00. This basis empowers managers and can lead to a "win-win" consensus. However, it is time-consuming and can lead to conflict if one manager is a better negotiator.

(b) Recommended Transfer Pricing Policy

A dual transfer pricing system or negotiated price say at mid-range of K5.50 would be acceptable. However, it is important to consider that Division A would be demotivated because K5.00 ignores their K6.00 opportunity cost. A price of K5.50 – K6.00 acknowledges Division A 's external market potential while staying below Division B's external purchase cost of K7.50. This ensures Division A is credited with a fair contribution to profit, while Division B still receives the milk cheaper than the "erratic and unreliable" external supply of K7.50. This promotes goal congruence and reduces divisional conflict. Further, by resolving the "adversarial relationship," the divisions can focus on the high-margin fortified milk powder expansion rather than internal bickering.

(c) Integrated IT Support Systems for Performance Management

To enable effective operational performance management, CDP should implement:

1. Enterprise Resource Planning (ERP) System with an integrated ERP such as SAP or Oracle which would link Division A's production data directly to Division B's inventory needs. Such a system automates transfer pricing calculations and provides a "single version of the truth," reducing disputes over "inefficiency".
2. Manufacturing Execution System (MES) as this would provide real-time monitoring of the processing plant (Division B), tracking "pasteurization, fermentation, and packaging"

efficiency in real time. Such a system allows management to see exactly where bottlenecks or waste occurs, addressing the MD's concerns about operational efficiency.

3. Materials Resource Planning (MRP): To integrate farm materials data with processing schedules, improving material utilization.

4. Supply Chain Management (SCM) Software to track logistics for the new fortified milk powder export line.

SOLUTION FIVE

(a) Discussion of primary activities in value chain **and** Evaluation of their **strategic** importance to Kitchen Solutions (KS).

The schematic representation of the value chain clearly shows its constituent parts. The primary activities, in the lower half of the value chain, shows in sequence the activities performed by the organisation in converting raw material inputs to finished products and the transfer of the product or service to the buyer and any aftersales service. These are grouped into five main areas.

(i) The value chain starts with the selection of suppliers for KS's components with regard to price, quality, delivery time and economic order quantities which may be insisted upon. Inbound logistics are the activities concerned with receiving, storing and handling raw material inputs, including inward transportation. KS sources more than 60 % of its supplies externally. Producing in batches also necessitates intermediate inventory. This is a lot investment in inventory, which leads to two **key strategic concerns**: (i) transportation and on-time delivery to avoid delays thereby providing customer satisfaction. This is *strategically* important for marketing and *strategically* important for production strategy if this leads to fire fighting and chaos in production later. (ii) From the point of view of financial strategy, this entails vast amounts of money being tied up in inventory and the cash leaving the company to pay suppliers. *(2 marks)*

(ii) Operations are concerned with the transformation of the raw material inputs into finished goods or services. The activities include assembly, testing, packing and equipment maintenance. For KS this includes batch manufacture of components as well as assembly of these pieces with those bought out. If inventory is ordered to suit purchasing and suppliers, this may create excessive work-in-progress. Production control will be required to track the progress of orders and the employing of progress chasers to avoid late delivery. The **strategic concern** should be to tailor production to suit customer requirements, not supplier requirements. This may well involve 'partnership' relations with suppliers, JIT purchasing and production, etc.

(iii) Outbound logistics are concerned with the final inspection, packing, storing, distributing and delivering the finished goods to the customers. KS may have its own fleet of vehicles or it may be sub-contracting delivery firms. It may wish to review whether the existence of its own fleet, if there is one, adds any value to its operations. A key **strategic issue** is whether KS should maintain its own delivery operation or subcontract externally.

(iv) Marketing and sales are responsible for communication with the customers, e.g, advertising, pricing and promotion. KS may have its own retail shops or direct

retail customers, or may sell through agents/wholesalers depending on its size, costs, and the economics of the industry. Similarly, KS may have its own marketing department or rely on indirect marketing via its agents. Much will depend on its strategy: if it is differentiated, it may need more control of these areas; if it is a cost leader, then probably not. Therefore, **strategically** KS may make decisions about whether to sell direct to customers or through wholesalers or agents and whether to use an in-house marketing function or an external agent.

(v) The last part of the value chain is service. Service covers all of the activities which occur after the point of sale, e.g. installation, repair and maintenance. This means warranties/guarantees with breakdown repair and maintenance, for possibly the first few months depending on industry practice. We are not told what arrangements KS makes with its customers for after-sales service but in many companies this is a vital **strategic area** with important effects on customer retention and satisfaction. In fact, in other organisations, service may be crucial to the entire strategy.

(b) (i) Major factors to review to get familiar with current status of project.

The following major factors should be considered in reviewing the current status of the project.

1. **Time.** The progress reports on the project should be reviewed to determine whether or not the project is currently on target for completion within the expected time. An assessment should be made as to whether the remaining tasks can be completed by the original deadline.
2. **Resources.** Ms N Moyo needs to identify the resources that have been allocated to the project. Resources include both human resources and computer equipment/time. Having established what resources have been made available, she should then make an assessment of how sufficient or effective these are for achieving the project goals.
3. **Cost.** She should look at the original budget for the project and review this in the context of the actual costs incurred to date. She should then try to make a sensible estimate of the further costs that will be incurred in completing the project.
4. **Quality** The project plan should be reviewed to find out whether or not any quality standards were agreed for the intermediary stages of the project. If they were, Ms Moyo needs to establish whether or not these standards are being met.

(ii) The following may be identified as major threats to the completion of the project on time.

Possible threat could be:	Minimise the threat by:
Poor management of time	• Discussing the stage and completion deadline with the project team • Stressing the importance of completion targets • Regular progress reports and progress meetings
Poor planning	Making use of planning tools.
Lack of control mechanisms	• Setting milestones • Ensuring progress Freporting throughout the project
Unrealistic deadlines	• Identifying critical activities and the critical path • Negotiating deadlines with stakeholders
Insufficient budget	• Focusing cost compromises on least critical areas • Negotiating injection of resources to complete on time

END OF SOLUTIONS

CA ZAMBIA PROGRAMME EXAMINATIONS

CA ADVISORY PROFESSIONAL IN ACCOUNTANCY

CA 3.6: ADVANCED FINANCIAL MANAGEMENT

FRIDAY 11 SEPTEMBER 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: FOUR (4) Optional scenario questions. Attempt any THREE (3) 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. Formulae, Present Value, Annuity and normal distribution tables are attached at the end of the question paper.

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

SECTION A

This question is compulsory and must be attempted.

QUESTION ONE (Compulsory)

GreenLink Logistics Ltd is a well-established Zambian logistics and transportation company. Its primary business is moving agricultural produce such as maize, soya, cotton and mining inputs and outputs across the COMESA region. The company is publicly listed on the Lusaka Stock Exchange (LuSE) and has a strong commitment to environmental, social, and governance (ESG) principles. The Zambian macroeconomic environment and fiscal space has been the subject of discussions in the media with currency volatility, monthly reviews of fuel prices, debt restructuring and social economic development hinging on political tone. Just recently, the Central Bank of Zambia announced a ban for quoting in foreign currency for most local transactions. This pronouncement has come into effect across all industry sectors with some exceptions to the mining sector.

The Investment Proposal

GreenLink is considering the "Eco-Fleet Initiative" (EFI) solution proposed by a foreign based company that will supply the fleet. This is a five-year project to purchase a fleet of 50 new, fuel-efficient, Euro 5-compliant heavy-duty trucks to replace the older and less efficient fleet. The foreign based supplier of the EFI fleet has agreed to a rate of K25 to USD1 for immediate payment of US$120,000 for each truck required. The primary goal of the EFI project is to:

(1) Reduce operational costs including fuel and maintenance;

(2) Enhance competitive advantage through increased reliability and compliance with stricter regional logistics standards; and

(3) Improve GreenLink's ESG rating by significantly reducing carbon emissions.

The following additional information on the EFI project based on the local market fundamentals is provided:

(1) Annual Operating Cash Flows in today's terms are K40 million while operating costs are 10% of operating cash flows in today's terms.

(2) Corporate tax rate is 30% payable one year in arears.

(3) Inflation rates are 9% per annum on operating cashflows and 10% on operating costs.

(4) Tax allowable depreciation is based on straight-line over five (5) years.

(5) Project will be financed by 70% equity and 30% debt.

(6) The risk free rate is 5.5% and equity risk premium is 6%.

(7) Asset beta of 0.9.

(8) The pre-tax cost of debt is 10%

As a Financial Analyst under the supervision of the Group Finance Director, you are required to prepare a detailed report including an investment appraisal of the project for the Board of Directors. The Group Finance Director in liaison with the GreenLink treasury department has provided the following Financial Strategy elements in support of GreenLink's primary financial objective of Shareholder wealth maximization.

(i) Capital structure policy of Debt to Equity ratio limit of 0.8:1

(ii) Dividend policy of stable payout ratio of 40% to 50% of net income.

(iii) Working Capital policy of minimum liquidity measured by a quick ratio of at least 1.0:1

(iv) Risk Appetite policy targeting to maintain a credit rating of B^+ or better.

Required:

(a) Explain GreenLink's primary financial objective in light of any two (2) constraints imposed by its financial strategy elements. (4 marks)

(b) Evaluate the financial viability of the EFI project using the Modified internal rate of return (MIRR). (21 marks)

(c) Discuss the role and impact of risk consideration for the GreenLink EFI project.

(5 marks)

(d) Explain GreenLink's treasury function role in the financing and risk management of the EFI project. (4 marks)

(e) Describe how current global financial market trends impact the financing of the EFI project. (6 marks)

[Total: 40 Marks]

SECTION B

There are FOUR questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

SteelZ Ltd, a privately owned steel manufacturing company in Zambia, is planning a major expansion to build a new production plant. The project requires significant financing, and multiple stakeholders are involved including shareholders, management, employees, creditors, suppliers, and customers. The company has a current work force of about 200,000 and the new production plant would require 100,000 new employees. However, management is considering cutting on the current workforce to accommodate the new employees who will bring new skills set. Some institutional shareholders were quoted in the media as being concerned over non-declaration of dividend owing to the impending new production plant.

The investment in the new production plant requires K500 million in capital expenditure and is expected to generate cash inflows over ten (10) years. Management uses Net Present Value (NPV) and Internal Rate of Return (IRR) as the main appraisal techniques. However, given uncertainties in demand, raw material costs and discount rates, they apply sensitivity analysis to test the robustness of the models, simulations and financial forecasts.

Recently, the Board of Directors of SteelZ Ltd had a meeting where it was resolved that management should explore how stakeholder interests may shape the financial strategy and to consider any ethical issues in relation to the investment in the new production plant, particularly around financial reporting, information confidentiality, labour and environmental issues.

Required

(a) Explain on any four (4) of the identified stakeholders' interests and their effect on financial strategy formulation and propose resolutions to stakeholder conflicts. (8 marks)

(b) Identify ethical problems in financial strategy and propose appropriate resolutions. (8 marks)

(c) Discuss the importance of undertaking sensitivity analysis of the new production plant investment by SteelZ Ltd. (4 marks)

[Total: 20 Marks]

QUESTION THREE

GlobalTech Agro Ltd, a Zambian agribusiness exporting processed maize and soy products, is planning to expand into Asian and European markets. The company must understand recent developments in international trade and finance to design a sustainable export strategy and secure financing for expansion. Key Developments in International Trade and Finance in the year 2025 included the following among others:

(1) Financialization of Trade with over 90% of trade relies on trade finance instruments such as letters of credit, derivatives and clearing platforms just to mention a few.
(2) Resilient but Fragmented Trade Growth in that despite tariff hikes and geopolitical tensions, trade grew approximately 4% in early 2025.
(3) Enduring Dollar Dominance with the US dollar remaining the primary trade settlement currency, despite calls for diversification.
(4) Digital Trade Platforms including the Organisation for Economic Co-operation and Development (OECD) highlighting digitalization and e-commerce as key drivers of trade expansion.
(5) Geopolitical and Regulatory Shifts with the United Kingdom (UK) and OECD reports emphasize long-term shifts to regional blocs, sustainability standards and carbon border taxes.

The management of GlobalTech Agro Ltd is considering whether to achieve planned expansion through acquiring an existing company or establish a new subsidiary company in Asia or Europe

Required:

(a) Evaluate how GlobalTech Agro Ltd should respond to these developments to expand successfully into Asia and Europe. (10 marks)

(b) Discuss how GlobalTech Agro Ltd can achieve revenue, cost and financial synergies through acquisition of a target company as part of growth strategy. (10 marks)

[Total: 20 Marks]

QUESTION FOUR

PlastZam Plc is a plastic packaging manufacturing company based in Zambia. The company has about 200 employees and annual revenue of K320 million. Over the years, the company has been recording a steady financial performance growth. However, the latest financial performance shows revenue growth slowed from 12% (2023) to 3% (2024). Over 40% of sales depend on one major client (a beverage company) and exports to South Africa and Europe about 20% (payment terms with customers are 90 days after shipment). The inventory turnover dropped from eight (8) times to five (5) times in the past year. Meanwhile, the raw material costs increased by 25% due to global oil price fluctuations and 60% of raw materials are imported in US$. The capital structure includes a K40 million Bank loan with 12% interest rate.

PlastZam Plc needs immediate cash to pay suppliers and cover logistics. Meanwhile, the company has K50 million in receivables due in 3 months. The company management considers using the money market to bridge short-term financing needs.

Required:

(a) Explain seven (7) financial risks exposure of PlastZam Plc and possible mitigation strategies. (14 marks)

(b) Explain three (3) roles of money markets relevant to PlastZam Plc. (6 marks)

[Total: 20 Marks]

QUESTION FIVE

SteelZamb Ltd, a private steel manufacturing company in Zambia, wish to borrow K10 million to finance its new plant for six (6) months starting on 1 January. SteelZamb Ltd can either acquire or construct the new plant. Today is 3 October, and interest rates are 8% per year. Management is concerned about rising interest rates, which could increase financing costs and reduce profitability. The Treasury Manager is of the view that the company can hedge the risk exposure using the interest rate future or swaps. According to the financial market, three (3) months January interest rate futures are available at 92.00. Most credible financial analysts strongly believe that on 1 January interest rates can change to 10% and the futures price to 90.00**.**

On the other hand, the Treasury Manager has identified through the bank another company called Speed Steels Ltd as a swap partner. SteelZamb Ltd and Speed Steels Ltd can borrow as follows:

Company	**Fixed**	**Floating**
SteelZamb Ltd	10%	SOFR + 1%
Speed Steels Ltd	11%	SOFR + 1.5%

Secured Overnight Financing Rate (SOFR) is currently 9%. SteelZamb Ltd's income fluctuates with interest rates, whereas Speed Steels Ltd's does not. They both wish to borrow the same amount.

Required:

(a) Show how interest rate futures may be used to hedge the risk, and calculate the outcome on 1 January. (9 marks)

(b) Illustrate how a swap can benefit both companies. (6 marks)

(c) Discuss the risks associated with expansion through acquisitions for SteelZamb Ltd. (5 marks)

[Total: 20 Marks]

END OF PAPER

Formulae

Modigliani and Miller Proposition 2 (with tax)

$$k_e = k_e^i + (1 - T)(k_e^i - k_d)\frac{V_d}{V_e}$$

Two asset portfolio

$$s_p = \sqrt{w_a^2 s_a^2 + w_b^2 s_b^2 + 2 w_a w_b r_{ab} s_a s_b}$$

The Capital Asset Pricing Model

$$E(r_i) = R_f + \beta_i (E(r_m) - R_f)$$

The asset beta formula

$$\beta_a = \left[\frac{V_e}{(V_e + V_d(1 - T))}\beta_e\right] + \left[\frac{V_d(1 - T)}{(V_e + V_d(1 - T))}\beta_d\right]$$

The Growth Model

$$P_o = \frac{D_o(1 + g)}{(r_e - g)}$$

Gordon's growth approximation

$$g = br_e$$

The weighted average cost of capital

$$WACC = \left[\frac{V_e}{V_e + V_d}\right]k_e + \left[\frac{V_d}{V_e + V_d}\right]k_d(1 - T)$$

The Fisher formula

$$(1 + i) = (1 + r)(1 + h)$$

Purchasing power parity and interest rate parity

$$S_1 = S_0 x \frac{(1 + h_c)}{(1 + h_b)} \qquad F_0 = S_0 x \frac{(1 + i_c)}{(1 + i_b)}$$

Modified Internal Rate of Return

$$MIRR = \left[\frac{PV_R}{PV_I}\right]^{\frac{1}{n}}\left(1 + r_e\right) - 1$$

The Black-Scholes option pricing model

$$c = P_a N(d_1) - P_e N(d_2) e^{-rt}$$

Where:

$$d_1 = \frac{\ln(P_a / P_e) + (r + 0.5s^2)t}{s\sqrt{t}}$$

$$d_2 = d_1 - s\sqrt{t}$$

The Put Call Parity relationship

$$p = c - P_a + P_e e^{-rt}$$

Present Value Table

Present value of 1 i.e. $(1 + r)^{-n}$

Where r = discount rate
n = number of periods until payment

Discount rate (r)

Periods (n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0·990	0·980	0·971	0·962	0·952	0·943	0·935	0·926	0·917	0·909	1
2	0·980	0·961	0·943	0·925	0·907	0·890	0·873	0·857	0·842	0·826	2
3	0·971	0·942	0·915	0·889	0·864	0·840	0·816	0·794	0·772	0·751	3
4	0·961	0·924	0·888	0·855	0·823	0·792	0·763	0·735	0·708	0·683	4
5	0·951	0·906	0·863	0·822	0·784	0·747	0·713	0·681	0·650	0·621	5
6	0·942	0·888	0·837	0·790	0·746	0·705	0·666	0·630	0·596	0·564	6
7	0·933	0·871	0·813	0·760	0·711	0·665	0·623	0·583	0·547	0·513	7
8	0·923	0·853	0·789	0·731	0·677	0·627	0·582	0·540	0·502	0·467	8
9	0·941	0·837	0·766	0·703	0·645	0·592	0·544	0·500	0·460	0·424	9
10	0·905	0·820	0·744	0·676	0·614	0·558	0·508	0·463	0·422	0·386	10
11	0·896	0·804	0·722	0·650	0·585	0·527	0·475	0·429	0·388	0·305	11
12	0·887	0·788	0·701	0·625	0·557	0·497	0·444	0·397	0·356	0·319	12
13	0·879	0·773	0·681	0·601	0·530	0·469	0·415	0·368	0·326	0·290	13
14	0·870	0·758	0·661	0·577	0·505	0·442	0·388	0·340	0·299	0·263	14
15	0·861	0·743	0·642	0·555	0·481	0·417	0·362	0·315	0·275	0·239	15

(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0·901	0·893	0·885	0·877	0·870	0·862	0·855	0·847	0·840	0·833	1
2	0·812	0·797	0·783	0·769	0·756	0·743	0·731	0·718	0·706	0·694	2
3	0·731	0·712	0·693	0·675	0·658	0·641	0·624	0·609	0·593	0·579	3
4	0·659	0·636	0·613	0·592	0·572	0·552	0·534	0·516	0·499	0·482	4
5	0·593	0·567	0·543	0·519	0·497	0·476	0·456	0·437	0·419	0·402	5
6	0·535	0·507	0·480	0·456	0·432	0·410	0·390	0·370	0·352	0·335	6
7	0·482	0·452	0·425	0·400	0·376	0·354	0·333	0·314	0·296	0·279	7
8	0·434	0·404	0·376	0·351	0·327	0·305	0·285	0·266	0·249	0·233	8
9	0·391	0·361	0·333	0·308	0·284	0·263	0·243	0·225	0·209	0·194	9
10	0·352	0·322	0·295	0·270	0·247	0·227	0·208	0·191	0·176	0·162	10
11	0·317	0·287	0·261	0·237	0·215	0·195	0·178	0·162	0·148	0·135	11
12	0·286	0·257	0·231	0·208	0·187	0·168	0·152	0·137	0·124	0·112	12
13	0·258	0·229	0·204	0·182	0·163	0·145	0·130	0·116	0·104	0·093	13
14	0·232	0·205	0·181	0·160	0·141	0·125	0·111	0·099	0·088	0·078	14
15	0·209	0·183	0·160	0·140	0·123	0·108	0·095	0·084	0·074	0·065	15

Annuity Table

Present value of an annuity of 1 i.e. $\frac{1-(1+r)^{-n}}{r}$

Where r = discount rate
n = number of periods

Discount rate (r)

Periods (n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0·990	0·980	0·971	0·962	0·952	0·943	0·935	0·926	0·917	0·909	1
2	1·970	1·942	1·913	1·886	1·859	1·833	1·808	1·783	1·759	1·736	2
3	2·941	2·884	2·829	2·775	2·723	2·673	2·624	2·577	2·531	2·487	3
4	3·902	3·808	3·717	3·630	3·546	3·465	3·387	3·312	3·240	3·170	4
5	4·853	4·713	4·580	4·452	4·329	4·212	4·100	3·993	3·890	3·791	5
6	5·795	5·601	5·417	5·242	5·076	4·917	4·767	4·623	4·486	4·355	6
7	6·728	6·472	6·230	6·002	5·786	5·582	5·389	5·206	5·033	4·868	7
8	7·652	7·325	7·020	6·733	6·463	6·210	5·971	5·747	5·535	5·335	8
9	8·566	8·162	7·786	7·435	7·108	6·802	6·515	6·247	5·995	5·759	9
10	9·471	8·983	8·530	8·111	7·722	7·360	7·024	6·710	6·418	6·145	10
11	10·37	9·787	9·253	8·760	8·306	7·887	7·499	7·139	6·805	6·495	11
12	11·26	10·58	9·954	9·385	8·863	8·384	7·943	7·536	7·161	6·814	12
13	12·13	11·35	10·63	9·986	9·394	8·853	8·358	7·904	7·487	7·103	13
14	13·00	12·11	11·30	10·56	9·899	9·295	8·745	8·244	7·786	7·367	14
15	13·87	12·85	11·94	11·12	10·38	9·712	9·108	8·559	8·061	7·606	15

(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0·901	0·893	0·885	0·877	0·870	0·862	0·855	0·847	0·840	0·833	1
2	1·713	1·690	1·668	1·647	1·626	1·605	1·585	1·566	1·547	1·528	2
3	2·444	2·402	2·361	2·322	2·283	2·246	2·210	2·174	2·140	2·106	3
4	3·102	3·037	2·974	2·914	2·855	2·798	2·743	2·690	2·639	2·589	4
5	3·696	3·605	3·517	3·433	3·352	3·274	3·199	3·127	3·058	2·991	5
6	4·231	4·111	3·998	3·889	3·784	3·685	3·589	3·498	3·410	3·326	6
7	4·712	4·564	4·423	4·288	4·160	4·039	3·922	3·812	3·706	3·605	7
8	5·146	4·968	4·799	4·639	4·487	4·344	4·207	4·078	3·954	3·837	8
9	5·537	5·328	5·132	4·946	4·772	4·607	4·451	4·303	4·163	4·031	9
10	5·889	5·650	5·426	5·216	5·019	4·833	4·659	4·494	4·339	4·192	10
11	6·207	5·938	5·687	5·453	5·234	5·029	4·836	4·656	4·486	4·327	11
12	6·492	6·194	5·918	5·660	5·421	5·197	4·988	4·793	4·611	4·439	12
13	6·750	6·424	6·122	5·842	5·583	5·342	5·118	4·910	4·715	4·533	13
14	6·982	6·628	6·302	6·002	5·724	5·468	5·229	5·008	4·802	4·611	14
15	7·191	6·811	6·462	6·142	5·847	5·575	5·324	5·092	4·876	4·675	15

Standard normal distribution table

	0·00	0·01	0·02	0·03	0·04	0·05	0·06	0·07	0·08	0·09
0·0	0·0000	0·0040	0·0080	0·0120	0·0160	0·0199	0·0239	0·0279	0·0319	0·0359
0·1	0·0398	0·0438	0·0478	0·0517	0·0557	0·0596	0·0636	0·0675	0·0714	0·0753
0·2	0·0793	0·0832	0·0871	0·0910	0·0948	0·0987	0·1026	0·1064	0·1103	0·1141
0·3	0·1179	0·1217	0·1255	0·1293	0·1331	0·1368	0·1406	0·1443	0·1480	0·1517
0·4	0·1554	0·1591	0·1628	0·1664	0·1700	0·1736	0·1772	0·1808	0·1844	0·1879
0·5	0·1915	0·1950	0·1985	0·2019	0·2054	0·2088	0·2123	0·2157	0·2190	0·2224
0·6	0·2257	0·2291	0·2324	0·2357	0·2389	0·2422	0·2454	0·2486	0·2517	0·2549
0·7	0·2580	0·2611	0·2642	0·2673	0·2704	0·2734	0·2764	0·2794	0·2823	0·2852
0·8	0·2881	0·2910	0·2939	0·2967	0·2995	0·3023	0·3051	0·3078	0·3106	0·3133
0·9	0·3159	0·3186	0·3212	0·3238	0·3264	0·3289	0·3315	0·3340	0·3365	0·3389
1·0	0·3413	0·3438	0·3461	0·3485	0·3508	0·3531	0·3554	0·3577	0·3599	0·3621
1·1	0·3643	0·3665	0·3686	0·3708	0·3729	0·3749	0·3770	0·3790	0·3810	0·3830
1·2	0·3849	0·3869	0·3888	0·3907	0·3925	0·3944	0·3962	0·3980	0·3997	0·4015
1·3	0·4032	0·4049	0·4066	0·4082	0·4099	0·4115	0·4131	0·4147	0·4162	0·4177
1·4	0·4192	0·4207	0·4222	0·4236	0·4251	0·4265	0·4279	0·4292	0·4306	0·4319
1·5	0·4332	0·4345	0·4357	0·4370	0·4382	0·4394	0·4406	0·4418	0·4429	0·4441
1·6	0·4452	0·4463	0·4474	0·4484	0·4495	0·4505	0·4515	0·4525	0·4535	0·4545
1·7	0·4554	0·4564	0·4573	0·4582	0·4591	0·4599	0·4608	0·4616	0·4625	0·4633
1·8	0·4641	0·4649	0·4656	0·4664	0·4671	0·4678	0·4686	0·4693	0·4699	0·4706
1·9	0·4713	0·4719	0·4726	0·4732	0·4738	0·4744	0·4750	0·4756	0·4761	0·4767
2·0	0·4772	0·4778	0·4783	0·4788	0·4793	0·4798	0·4803	0·4808	0·4812	0·4817
2·1	0·4821	0·4826	0·4830	0·4834	0·4838	0·4842	0·4846	0·4850	0·4854	0·4857
2·2	0·4861	0·4864	0·4868	0·4871	0·4875	0·4878	0·4881	0·4884	0·4887	0·4890
2·3	0·4893	0·4896	0·4898	0·4901	0·4904	0·4906	0·4909	0·4911	0·4913	0·4916
2·4	0·4918	0·4920	0·4922	0·4925	0·4927	0·4929	0·4931	0·4932	0·4934	0·4936
2·5	0·4938	0·4940	0·4941	0·4943	0·4945	0·4946	0·4948	0·4949	0·4951	0·4952
2·6	0·4953	0·4955	0·4956	0·4957	0·4959	0·4960	0·4961	0·4962	0·4963	0·4964
2·7	0·4965	0·4966	0·4967	0·4968	0·4969	0·4970	0·4971	0·4972	0·4973	0·4974
2·8	0·4974	0·4975	0·4976	0·4977	0·4977	0·4978	0·4979	0·4979	0·4980	0·4981
2·9	0·4981	0·4982	0·4982	0·4983	0·4984	0·4984	0·4985	0·4985	0·4986	0·4986
3·0	0·4987	0·4987	0·4987	0·4988	0·4988	0·4989	0·4989	0·4989	0·4990	0·4990

This table can be used to calculate $N(d)$, the cumulative normal distribution functions needed for the Black-Scholes model of option pricing. If $d_i > 0$, add 0·5 to the relevant number above. If $d_i < 0$, subtract the relevant number above from 0·5.

CA 3.6 ADVANCED FINANCIAL MANAGEMENT

SUGGESTED SOLUTIONS

SOLUTION ONE

Part (a) Explain GreenLink's primary financial objective in light of any two constraints imposed by its financial strategy elements.

The Primary Financial Objective is focused on Shareholder Wealth Maximisation. The overarching objective is to maximise the value of the firm's equity which could be measured by the share price on the LuSE and this can be achieved by undertaking projects with a positive Net Present Value (NPV), ensuring sustainable growth, and maintaining efficient operations, subject to the following financial strategy elements;

1. Capital Structure Policy measured by the Debt-to-Equity Ratio Limit. GreenLink's policy limits its Debt-to-Equity ratio to a maximum of 0.8:1 to maintain a strong credit rating and manage the risk associated with borrowing in a high-interest-rate environment like Zambia. Therefore the proposed financing mix for the EFI such as term loans, bond issue should not breach this limit. This directly constrains the amount of debt that can be used, potentially increasing the overall Cost of Capital (WACC).

2. The Dividend Policy of a Stable Payout Ratio. GreenLink aims for a stable and predictable dividend payout ratio of 40% to 50% of Net Income to satisfy existing shareholders. The project must generate sufficient post-tax profits beyond the required return to enable the company to fund the investment while maintaining the dividend policy. This constrains the retention of earnings as a financing source.

3. The Working Capital Policy of Minimum Liquidity as measured by the Quick Ratio. The policy requires a Quick Ratio or Acid-Test Ratio of at least 1.0:1 to ensure operational liquidity, especially given the delays often experienced in cross-border payments. The EFI project's required upfront investment and the cash flow timing must not cause a temporary severe drop in cash holdings that compromises the minimum liquidity threshold. This constrains the timing and magnitude of initial cash outlay.

4. The Risk Appetite Policy measured by the Target Credit Rating. The company seeks to maintain a B+ (or better) credit rating from a regional rating agency to ensure access to lower-cost domestic and international funding. Therefore the new debt and the project's risk profile will impact the company's financial risk metrics, ensuring the B+ rating is not jeopardised. This constrains the acceptable level of financial and business risk.

Part (b) Evaluate the appropriateness of the EFI project using the Suitability, Acceptability and Financial viability criterion.

Financial viability

Below is the detailed investment appraisal model of the project to determine the financial viability of the project.

EFI PROJECT
NPV COMPUTATION

Details	**Y0 K'000**	**Y1 K'000**	**Y2 K'000**	**Y3 K'000**	**Y4 K'000**	**Y5 K'000**	**Y6 K'000**	**NPV**
Operating Cash flow		43,600	47,524	51,801	56,463	61,545		
Operation costs		(4,400)	(4,840)	(5,324)	(5,856)	(6,442)		
Tax Depreciation		(30,000)	(30,000)	(30,000)	(30,000)	(30,000)		
Taxable cash flow		9,200	12,684	16,477	20,607	25,103	-	
Payment of Tax@30%			(2,760)	(3,805)	(4,943)	(6,182)	(7,531)	
Add back Depreciation		30,000	30,000	30,000	30,000	30,000		
After tax cash flow		39,200	39,924	42,672	45,664	48,921	(7,531)	
Investment	(150,000)							
Net cash flow	(150,000)	39,200	39,924	42,672	45,664	48,921	(7,531)	
DF@11%	1.000	0.901	0.812	0.731	0.659	0.593	0.535	
Present value	(150,000)	35,315	32,403	31,201	30,080	29,032	(4,026)	**4,006**

The EFI project generates a positive NPV of K4,006,000 meaning it is financially viable .

MIRR = (154,005/150,000)^(1/5) X (1.10) - 1

= **11.59%**

Decision:

The project is financially viable because the MIRR is higher than the weighted average cost of capital.

W1: Investment cost = $120,000 x 25 = K3,000,000 X 50 = K150,000,000.

W2: Weighted average cost of capital

Equity beta factor

0.9 = Be x 0.7/0.7 + 0.30(1-0.30)

Be = 1.17

Cost of equity (Ke)

Ke = 5.5% + (6%) 1.17

= 12.52%

Cost of debt (Kd)

Kd = 10% (1-0.30)

= 7%

WACC = (12.52% X 0.7) + (7% X 0.30)

= **11%**

Part (c) Discuss the role and impact of risk consideration for the GreenLink EFI project.

Risk analysis is crucial as it measures the uncertainty of the forecast cash flows of the EFI project and determines the likelihood of achieving a positive NPV. In Zambia, specific macroeconomic and political risks heighten this uncertainty. The following are the impact of Risk on Investment Appraisal using risk evaluation techniques such as;

1. Sensitivity Analysis would help to determine the impact on the project's NPV of a 10% adverse change in key variables, such as, Fuel Price or operational Cost which are highly volatile and tied to global oil prices and ZMW/USD exchange rate; Inflation Rate such that if inflation is higher than expected, the real value of future cash flows is reduced and Revenue Growth or Volume which are affected by the volatile agricultural and mining sectors in Zambia.

2. Scenario Analysis which is useful to develop Worst-Case, Base-Case, and Best-Case scenarios. A Worst-Case such as a global commodity price crash leads to reduced mining or agriculture volumes and a simultaneous sharp Kwacha depreciation, drastically increasing the foreign-denominated cost of spare parts and finance payments.

3. Risk-Adjusted Discount Rate to Justify whether the EFI project's specific risks such as technology risk of new trucks warrant adding a risk premium to the 18% WACC used in the initial NPV calculation.

Part (d) Explain GreenLink's treasury function role in the financing and risk management of the EFI project.

Financing Role

The Treasury is responsible for executing the financing strategy outlined in the Capital Structure Policy. For the EFI project, the Treasury team would be able to;

1. Assess and recommend the optimal mix of long-term funding sources including negotiating long-term loan facilities with local and regional banks, issuing a corporate bond on the

LuSE, or attracting a Development Finance Institution (DFI) loan for the 'Green' aspect of the project.
2. Cash Flow Management to ensure a smooth flow of funds to meet the initial K150 million outlays and manage the subsequent debt servicing payments timely.
3. Liquidity Management to monitor and manage the impact of the large investment on GreenLink's day-to-day operating cash levels and the Quick Ratio constraint.

Risk Management Role

The Treasury is the primary function for managing the financial risks identified in the investment appraisal includes;

1. Foreign Exchange (FX) Risk as the trucks are imported, the K150 million cost and future spare part costs are denominated in USD. The Treasury must recommend and execute hedging strategies such as forward contracts or options to lock in the ZMW cost and protect the project's NPV from Kwacha depreciation.
2. Interest Rate Risk for example if a floating-rate bank loan is used, the Treasury would use instruments like Interest Rate Swaps to convert the floating rate exposure to a fixed rate, ensuring predictable cash outflows for the project.
3. Commodity Price Risk management to mitigate the risk of high fuel prices, the Treasury could explore fuel hedging instruments or bulk purchasing agreements.

Part (e) Describe how current global financial market trends impact the financing of the EFI project.

There has been a significant development and shift towards an Environment, Social and Governance (ESG) and Sustainable Finance Focus globally. The "Eco-Fleet Initiative" is a perfect candidate for Green Bonds or Sustainability-Linked Loans (SLLs). This could allow GreenLink to tap into a wider pool of global institutional investors and DFIs who offer lower interest rates for demonstrably green projects, potentially lowering the WACC and increasing the NPV. Other aspects of the global financial markets impacting the financing of the EFI project include;

1. Global Inflation and Interest Rate Hikes arising from Tightening Monetary Policy globally for example, Central banks globally including developed countries have tightened monetary policy to combat post- COVID pandemic inflation. This increases the cost of USD-denominated borrowing for Zambian companies. GreenLink would face higher interest rates on any international debt or Eurobond issue, increasing the financing cost and making the project more expensive.
2. Sovereign Debt Distress and Risk Aversion particularly Zambia's public debt restructuring negotiations and high sovereign risk have made international lenders highly cautious with a high perceived country risk. Even a well-managed company like GreenLink faces a higher country risk premium on its borrowing. This restricts access to cheap international capital and forces reliance on domestic banks, which may have limited capacity or high lending rates.
3. Digitalisation of Finance (FinTech) resulting in the growth of decentralised finance platforms and sophisticated digital payment systems such as mobile payments, e-wallets and microchips with biometric credentials can improve the efficiency of cross-border

payment flows for GreenLink's regional logistics, reducing working capital requirements. However, it also introduces new cybersecurity and data privacy risks that the Treasury function must manage.

SOLUTION TWO

(a) **Explain stakeholder interests and their effect on financial strategy formulation and propose resolutions to stakeholder conflicts**

(i) Shareholders are interested in maximized returns, increase firm value, dividend payouts. Therefore, they push for equity financing, aggressive growth strategies.

(ii) Management are interested in strategic control, career security and reputation and therefore, favor debt financing to avoid dilution of ownership, but balance with risk.

(iii) Employees are interested in the Job security, fair wages, safe working conditions and therefore, influence cost structures and HR investment decisions.

(iv) Creditors (Banks) are interested in loan repayment, interest income, reduced default risk and therefore, demand conservative leverage ratios and collateral.

(v) Suppliers are interested in stable demand, timely payments and hence, affect working capital and procurement financing.

(vi) Customers are interested in affordable prices, reliable quality, ethical sourcing and hence, influence pricing strategy and brand reputation.

The following are some of the conflicts that arise and the proposed resolutions:

(i) **Conflict 1: Financing Method**

- ✓ Shareholders prefer equity issuance to reduce debt burden.
- ✓ Management prefers debt financing to avoid dilution.
- ✓ **Resolution:** Adopt a hybrid capital structure (moderate debt plus equity issuance) to balance control and risk.

(ii) **Conflict 2: Dividend vs. Reinvestment**

- ✓ Shareholders want higher dividends.
- ✓ Management wants to reinvest profits into expansion.
- ✓ **Resolution:** Implement a progressive dividend policy (small but growing dividends) while retaining earnings for reinvestment.

(iii) **Conflict 3: Cost Control vs. Employee Welfare**

- ✓ Management wants to minimize labor costs.
- ✓ Employees demand fair wages and safety investments.
- ✓ **Resolution:** Introduce performance-based incentives and invest in safety programs, aligning productivity with compensation.

(b) **Identify ethical problems in financial strategy and propose appropriate resolutions**

(i) Insider Trading is where executives using confidential expansion plans to trade shares and this can result in loss of investor trust and legal penalties.
(ii) Manipulation of Financial Statements which may include overstating asset values to secure loans and this can result in risk of insolvency and reputational damage.
(iii) Unfair Labor Practices such as cutting wages below industry standards to reduce costs can lead to employee unrest and reputational harm.
(iv) Environmental Negligence such as ignoring pollution controls to save money can result in regulatory fines and community backlash.

The proposed resolutions for these ethical issues include:

(i) Insider Trading Prevention:
- ✓ Enforce strict corporate governance policies
- ✓ Establish blackout periods for trading before major announcements

(ii) Financial Transparency:
- ✓ Independent audits and board oversight
- ✓ Adoption of International Financial Reporting Standards (IFRS)

(iii) Fair Labor Practices:
- ✓ Benchmark wages against industry standards
- ✓ Create grievance mechanisms and employee representation in decision-making

(iv) Environmental Responsibility:
- ✓ Invest in cleaner technologies
- ✓ Publish sustainability reports to demonstrate accountability

Conclusion

In a private company like SteelZ Ltd., stakeholder interests directly shape financing choices, dividend policies, and cost structures. Conflicts are inevitable but can be resolved through balanced capital structures, progressive dividend policies, and fair labor practices.

Ethical problems such as insider trading, misrepresentation, and environmental neglect pose serious risks. Embedding transparency, governance safeguards, and sustainability measures into financial strategy ensures long-term profitability and stakeholder trust.

(c) Discuss the importance of sensitivity analysis in investment appraisal and forecasting.

Sensitivity analysis is crucial in investment appraisal and forecasting because it helps decision-makers understand how changes in key assumptions (like costs, revenues, interest rates, or demand) affect project outcomes, thereby highlighting risks and guiding more resilient financial strategies. It ensures that forecasts are not overly dependent on uncertain variables and supports better-informed, risk-aware decisions.

Importance of Sensitivity Analysis:

(i) Managing Uncertainty
- ✓ Forecasts are inherently uncertain: Cash flows, market demand, and costs can deviate from projections. Sensitivity analysis tests how robust an investment is under different scenarios.
- ✓ Example: If raw material prices rise by 10%, how does that affect Net Present Value (NPV)?

(ii) Identifying Critical Variables
- ✓ Sensitivity analysis pinpoints which assumptions have the greatest impact on project viability.
- ✓ This helps managers focus on monitoring and controlling the most influential drivers (e.g., sales volume vs. interest rates).

(iii) Supporting Risk Management
- ✓ By showing the range of possible outcomes, it enables firms to anticipate worst-case scenarios and prepare contingency plans.
- ✓ Investors can decide whether to hedge risks, renegotiate financing, or diversify investments.

(v) Enhancing Decision-Making
- ✓ Provides a clearer picture of project resilience under different conditions.
- ✓ Helps boards and investors compare projects not only on expected returns but also on risk exposure.

(vi) Improving Stakeholder Communication
- ✓ Sensitivity analysis demonstrates transparency by showing how assumptions affect outcomes.
- ✓ Builds trust with shareholders, creditors, and regulators by revealing that risks have been considered.

Sensitivity analysis is not just a technical tool—it is a strategic safeguard in investment appraisal and forecasting. By revealing how fragile or resilient a project is under different assumptions, it empowers managers and investors to make balanced, risk-aware decisions that protect long-term value.

SOLUTION THREE

(a) **Global development in international trade**

1. Financing Strategy
   - ✓ Secure trade finance facilities (letters of credit, supply chain finance) to ensure liquidity.
   - ✓ Explore partnerships with fintech platforms offering lower-cost digital trade finance solutions.
   - ✓ Hedge against currency risks by using forward contracts or multi-currency accounts.
2. Market Entry Strategy
   - ✓ Target regional trade blocs (e.g., EU, ASEAN) to benefit from tariff reductions and harmonized standards.
   - ✓ Align exports with sustainability and ESG requirements, including carbon footprint reporting.
   - ✓ Leverage digital trade platforms for compliance, logistics, and customer acquisition.
3. Risk Management
   - ✓ Diversify export markets to reduce exposure to geopolitical tensions.
   - ✓ Build resilient supply chains by sourcing inputs from multiple regions.
   - ✓ Monitor regulatory changes (carbon border taxes, digital trade rules) to remain compliant.

Recommended Approach

GlobalTech Agro Ltd. should prioritize digital trade finance solutions and ESG-compliant exports to Asia and Europe. This ensures access to affordable capital, meets evolving sustainability standards, and leverages digital platforms for competitive advantage. A blended financing approach (trade finance + retained earnings + development funds) will reduce reliance on costly debt and mitigate risks.

(b) **Revenue, Cost and Financial Synergies Through Acquisition**

Revenue synergies

Revenue synergy exists when the acquisition of the target company will result in higher revenues for the acquiring company, higher return on equity or a longer period of growth. Revenue synergies arise from:

(a) Increased market power

(b) Marketing synergies

(c) Strategic synergies

Revenue synergies are more difficult to quantify relative to financial and cost synergies. When companies merge, cost synergies are relatively easy to assess pre-deal and to implement post-deal. But revenue synergies are more difficult. It is hard to be sure how customers will react to the new company (in financial services mergers, massive customer defection is quite common), whether customers will actually buy the new, expanded 'total systems capabilities', and how much of the company's declared cost savings they will demand in price concessions (this is common in automotive supplier M&A where the customers have huge purchasing power over the suppliers). Nevertheless, revenue synergies must be identified and delivered. The stock markets will be content with cost synergies for the first year after the deal, but thereafter they will want to see growth. Customer Relationship Management and Product Technology Management are the two core business processes that will enable the delivery of revenue.

Cost synergy

A cost synergy results primarily from the existence of economies of scale. As the level of operation increases, the marginal cost falls and this will be manifested in greater operating margins for the combined entity. The resulting costs from economies of scale are normally estimated to be substantial.

Financial synergy – Diversification

Acquiring another firm as a way of reducing risk cannot create wealth for two publicly traded firms, with diversified stockholders, but it could create wealth for private firms or closely held publicly traded firms.

A takeover, motivated only by diversification considerations, has no effect on the combined value of the two firms involved in the takeover. The value of the combined firms will always be the sum of the values of the independent firms. In the case of private firms or closely held firms, where the owners may not be diversified personally, there might be a potential value gain from diversification.

Financial synergy – Cash slack

When a firm with significant excess cash acquires a firm with great projects but insufficient capital, the combination can create value. Managers may reject profitable investment opportunities if they have to raise new capital to finance them. It may therefore make sense for a company with excess cash and no investment opportunities to take over a cash-poor firm with good investment opportunities, or vice versa.

The additional value of combining these two firms lies in the present value of the projects that would not have been taken if they had stayed apart, but can now be taken because of the availability of cash.

Financial synergy – Tax benefits

The tax paid by two firms combined together may be lower than the taxes paid by them as individual firms. If one of the firms has tax deductions that it cannot use because it is losing money, while the other firm has income on which it pays significant taxes, the combining of the two firms can lead to tax benefits that can be shared by the two firms. The value of this synergy is the present value of the tax savings that accrue because of this merger. The assets of the firm being taken over can be written up to reflect new market value, in some forms of mergers leading to higher tax savings from depreciation in future years.

Financial synergy – Debt capacity

By combining two firms, each of which has little or no capacity to carry debt, it is possible to create a firm that may have the capacity to borrow money and create value. Diversification will lead to an increase in debt capacity and an increase in the value of the firm. This has to be weighed against the immediate transfer of wealth that occurs to existing bondholders in both firms from the stockholders.

When two firms in different businesses merge, the combined firm will have less variable earnings, and may be able to borrow more (have a higher debt ratio) than the individual firms.

SOLUTION FOUR

(a) **Key Financial Risks**

(i) Liquidity Risk: This involves the rising raw material costs plus slower inventory turnover which can cause cash shortages and difficulty meeting short-term obligations.

(ii) Credit Risk: This relate to the heavy reliance on one client (40% of sales) and If the client defaults or shifts supplier can lead to revenue collapse. This possess concentration risk as well.

(iii) Market Risk: The oil price volatility affecting raw material costs and this can lead to margin erosion and unpredictable cost structure.

(iv) Foreign Exchange Risk: About 60% of inputs are purchased in US$ and if the Kwacha depreciates against the US$ it can increase costs and squeezes profits.

(v) Interest Rate Risk: The company has K40 million loan at 12% and the rising rates increase debt servicing burden.

(vi) Operational Risk: Slower production efficiency, inventory buildup can lead to higher holding costs and potential obsolescence.

(vii) Strategic Risk: Overdependence on one industry (beverages) can lead to vulnerability to sector downturns.

The possible risk mitigation strategies include:

(i) Diversify client base to reduce concentration risk and the credit risk.
(ii) Hedge foreign exchange exposure (forward contracts, supplier renegotiation).
(iii) Improve inventory management to restore turnover efficiency.
(iv) Explore refinancing options to lower interest burden.
(v) Invest in cost-control measures (energy efficiency, local sourcing).

(b) **Role of money markets**

The money market plays a crucial role in supporting the operations and growth of PlastZam Plc. Its importance lies in providing short-term liquidity, stabilizing cash flows, and offering investment opportunities for idle funds.

Short-Term Financing: PlastZam Plc often face timing gaps between paying suppliers and receiving customer payments. Money market instruments (e.g., commercial paper, treasury bills, certificates of deposit) provide quick access to funds to bridge these gaps.

Liquidity Management: PlastZam Plc can invest surplus cash in money market instruments to earn returns while keeping funds liquid. This ensures that cash is available when needed for raw materials, wages, or utility bills.
Cost Efficiency: PlastZam Plc borrowing from the money market can be cheaper than long-term loans. This reduces financing costs for working capital and short-term obligations.

Risk Diversification: By using money market instruments, PlastZam Plc diversify its funding sources beyond banks. This reduces dependency on a single lender and enhances financial resilience.

SOLUTION FIVE

(a) **Interest rate futures**

Current:

Interest cost = K10m x 8% x 6/12 = K400,000

Futures 'gamble' required = K10 x 6/3 = K20m

On 1 January:

Interest cost = K10 x 10% x 6/12 = K500,000

Profit in futures: K20m x $\frac{92 - 90}{400}$ = K100,000

Net cost = K500,000-K100,000 = K400,000.

(b) **Interest rate swaps**

Description	SteelZamb Ltd	Speed Steels Ltd	Total
Own Borrowing	SOFR + 1%	11%	SOFR + 12%
Swap	10%	SOFR + 1.5%	SOFR + 11.5%
Savings			0.5%
Split savings equally			0.25%
	SOFR + 1.5%	10%	
Speed Steels Ltd pays SteelZamb Ltd 0.75%	(0.75%)	0.75%	
Net Interest	SOFR + 0.75%	10.75%	

(c) The risks associated with expansion through acquisitions are:

(i) Exposure to business risk: Acquisitions normally represent large investments by the bidding company and account for a large proportion of their financial resources. If the acquired company does not perform as well as it was envisaged, then the effect on the acquiring firm may be catastrophic.

(ii) Exposure to financial risk: During the acquisition process, the acquiring firm may have less than complete information on the target company, and there may exist aspects that have been kept hidden from outsiders.

(iii) Acquisition premium: When a company acquires another company, it normally pays a premium over its present market value. This premium is normally justified by the management of the bidding company as necessary for the benefits that will

accrue from the acquisition. However, too large a premium may render the acquisition unprofitable.

(iv) Managerial competence: When a firm is acquired, which is large relative to the acquiring firm, the management of the acquiring firm may not have the experience or ability to deal with operations on the new larger scale, even if the acquired company retains its own management.

(v) Integration problems: Most acquisitions are beset with problems of integration as each company has its own culture, history and ways of operation. This risk can be offset by implementing a post-integration plan once the acquisition is complete.

CA ZAMBIA PROGRAMME EXAMINATIONS

CA ADVISORY PROFESSIONAL IN ACCOUNTANCY

CA3.7 PUBLIC SECTOR AUDITS AND ASSURANCE

FRIDAY 11 SEPTEMBER 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: FOUR (4) Optional scenario questions. Attempt any THREE (3) 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

This question is compulsory and must be attempted.

QUESTION ONE – (COMPULSORY)

You work for the Office of the Auditor General (OAG) as a Principal Auditor. You have been appointed to be one (1) of four (4) public sector auditors to go and carry out an evaluation of the operations of the Supreme Audit Institution(SAI) of Wakanda a North African developing country.

Wakanda established the Supreme Audit Institution three (3) years ago on recommendation of the International Monetary Fund(IMF) from which the country wished to get into a funding agreement for a long term loan. Finalization of the agreement is dependent on a positive report from the International Organization for Supreme Audit Institutions (INTOSAI).

Wakanda was given an initial short term loan of $750 million meant for use in improving the health sector and ensuring availability of essential drugs in the country. The short term loan was signed and entered into two (2) years ago and one (1) of the loan conditions is that subject to proper utilization of the funds, a long term financing agreement would be entered into at the end of year three (3).

The following information was extracted from the agreement with the International Monetary Fund (IMF):

(1) Repayment of the short term loan required to commence at the end of year two (2) and the loan is repayable in three (3) equal instalments.

(2) The funds require to be managed by a newly established Unit under the country's Ministry of Finance. The Unit will be supported by the International Monetary Fund and all expenditure for managing the loan facility will be in accordance with the approved budget.

(3) All staff under the Unit will be full time employees of government and will be paid allowances according the conditions in the agreement and the total support for the unit shall not exceed $200 000 per year.

(4) Loan facility funds shall not be used for any entertainment and bank charges shall not be charged to the project.

(5) All procurement using facility funds shall not be subject to any form of taxation and all orders for goods and services must be supported by tax exemption revenue authority orders.

(6) All expenditure should be within the approved budget and any variances should be justified. Adherence to the budget is a factor considered for future funds disbursements.

(7) Annual financial records require to be prepared by the unit responsible for the loan facility. The financial records will require to be audited by private external auditors appointed by the Minister of Finance.

The Minister of Finance appointed Chris to head the Unit to manage the IMF Funds. Until this appointment Chris was the Secretary General of the ruling political party. The appointment was strategic in order to ensure that government remains in control of the funds. The Government of Wakanda is in arrears in paying salaries to civil servants and is currently six (6) months in arrears.

The assignment, to evaluate the operations of the SAI of Wakanda, is fully supported and funded by the IMF through the INTOSAI.

The main objectives of the evaluation include the following:

(1) To evaluate the operations of the SAI against the provisions of ISSAI 10: *Mexico Declaration on SAI Independence*.
(2) To review the conduct of one (1) compliance audit conducted by the Supreme Audit Institution of Wakanda.
(3) To suggest other public sector audits that can be conducted by the Supreme Audit Institutions.

The following information relates to the establishment and operations of the SAI of Wakanda:

The establishment of the SAI was by way of a decision made by Cabinet. There is no legal framework governing the operations of the institution. The current head of the SAI was appointed at its establishment and is seconded from the country's Ministry of Finance until a substantive office holder is appointed.

It is a requirement that the SAI issues audit reports annually. All audit reports for audits conducted are subject to clearance by Cabinet before they can be published. It is common to make changes to the contents of the reports after review by Cabinet. A Director in charge of the audit of government ministries resigned from his position citing lack of corporation from Controlling Officers when gathering evidence during audits. In an exclusive interview with a leading television channel, he alleged that there were many instances where requested documentation could not be provided citing security concerns by the Controlling Officers.

The SAI of Wakanda performed a financial and compliance audit of the short term loan by the International Monetary Fund.

Required:

(a) Explain four (4) public sector audits that can be conducted by the Supreme Audit Institution of Wakanda and explain the objective of each of the audits. (4 marks)

(b) Explain five (5) factors that should be considered in evaluating the performance of the SAI of Wakanda against the Mexico declaration. (10 marks)

(c) (i) Explain four (4) fraud risk factors in the management of the short term loan of $750 million managed by the Unit established to manage the loan. (4 marks)

(ii) Explain five (5) audit risks you expect to have been considered in planning the audit of the financial records of the IMF Short Term Funding Management Unit. (10 marks)

(d) (i) Describe four (4) criterions that should have been used in the compliance audit of short term IMF loan by the Government of Wakanda. (4 marks)

(ii) Describe one (1) substantive audit procedure for each criteria in (d)(i) that should have been performed in the compliance audit of the IMF short term funds. (8 marks)

(You are required to answer parts (d)(i) and (d)(ii) in columnar format)

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

(a) The Republic of Zamunda established a Supreme Audit Institution (SAI) five (5) years ago. The motivation for the establishment of the SAI was to enhance transparency and accountability with a view to curb serious financial mismanagement in the country. Major donors have withheld aid to Zamunda on account of gross misapplication and misappropriation of public funds.

You work for a private firm of Chartered Accountants. Your firm has been engaged by the government of Zamunda to provide consultancy services whose main objective is for your firm to evaluate the justification for the continued existence of the Supreme Audit Institution. A private members bill was presented to parliament, the law making body, to disband the Supreme Audit Institution and to transfer all its functions to the Ministry of Finance.

The following information relates to the operations of the Supreme Audit Institution of Zamunda:

Zamunda is a democracy which holds elections every three (3) years and recently a new government was elected. There is currently a committee of Parliament that is responsible for governance in terms of management of public funds. The Supreme Audit Institution annually issues audit reports to this committee and the country's president. The audit reports are simultaneously issued to the public for public debate. It is arising from the published reports that there arose calls to disband the SAI because despite its existence misuse and misapplication of public funds has continued.

In the last two (2) years, there have been many reports of mismanagement of public funds. These reports have been made by private investigators and have been reported on by the private media. This has not gone well with the government of Zamunda resulting in the closure of two (2) media houses. The closure of the media houses has brought displeasure to the public that feels that as a result there is an increase in abuse of public funds. The Supreme Audit Institution has continued to conduct audits in accordance with its own program and none of the alleged instances of mismanagement of public funds have been subjected to audits by the institution.

The Supreme Audit Institution is funded by taxpayer's money. Annually the institution submits its budget requirement to parliament and funds are allocated directly to it depending on availability of funds. Since its inception, the Supreme Audit Institution has not had its financial records independently checked and audited. There is no information

to the public to show how funds appropriated to it are used further increasing the calls for the closing of the Supreme Audit Institution.

Required:

Explain how the Supreme Audit Institution of Zamunda can demonstrate value and benefits according to ISSAI 12: *Value and benefits of SAIs*. (6 marks)

(b) The Office of the Auditor General(OAG) is planning to conduct compliance audits on the management of Constituency Development Funds (CDF) under the ministry of local government. In order to speed up the audits in view of the large number of constituents that require to be subjected to compliance audits within a short period of time the following guidelines have been agreed by the Ministry responsible and the Office of the Auditor General:

(1) The audit teams will work closely with the provincial committees set up to oversee the use of the funds. These committees will comprise two (2) representatives of the Ministry of Local Government, two (2) provincial Finance Officers responsible for disbursement of the Constituency Development fund and two (2) Members of Parliament nominated by the provincial Members of Parliament.
(2) The Office of the Auditor General will recruit new staff who will be assigned to the provinces to conduct the audits under supervision of the Provincial Principal Auditors. The staff to be assigned will be conducting public sector audits for the first time and will require close supervision.
(3) The Ministry of Local Government has agreed to provide free meals and lodging to the audit teams at their guest houses run by the ministry. This will allow the audit teams to work longer hours with a view to completing the audits within the agreed timeframe.
(4) The audit teams will require to assist the completion of accounting records for the funds where these would not have been finalized at the time of the audit. This will ensure that all disbursements will be subject to audit.

Required:

(i) Describe the three (3) parties to the planned compliance audit of the Constituency Development Funds. (6 marks)

(ii) Describe four (4) ethical matters in the audit of Constituency Development Funds and suggest a suitable safeguard for each ethical matter. (8 marks)
(You are required to use the columnar format in answering this question.)

[Total: 20 Marks]

QUESTION THREE

You are Principal Auditor in the Office of the Auditor General and you have been assigned to lead a team to conduct a financial audit of the Busaka City Council.

You will follow a risk based approach to the audit in accordance with the provisions of the International Standards for Supreme Audit Institutions(ISSAIs). In so doing, you are planning to conduct a risk assessment of the operations of the City Council and based on your assessment you will decide on the materiality level that will be used in the audit. The accounting and other activities of the City Council have been manual until two (2) years ago when the council computerized all its accounting functions. This will be the first time that the financial statements under the computerized environment will be subject an audit by the Supreme Audit Institution.

Your supervisor has asked you to evaluate the possibility of conducting an Information Technology audit at the same time as financial, performance and compliance audits are conducted. Furthermore, you will be required to make use of Computer Assisted Audit Techniques (CAATs) in conducting the financial audit of Busaka City Council and you will be required to illustrate to your supervisor how you will use the CAATs in the conduct of the audit.

The conduct of the financial audit of the Busaka City Council will require to be conducted in accordance with the general requirements of financial auditing in the public sector according to ISSAI 200. This will require the audit team maintaining audit working papers which will be subject to review. You will require to design audit procedures that should be performed by the audit team members. You are required to assess the effectiveness of the internal controls and depending on the results of the assessment you may use a combined approach and place reliance on the effectiveness of the internal controls. Based on the results of the audit procedures conducted you will require to conclude and issue an approximate opinion.

Your Supervisor called for a pre-audit meeting at which the following matters were emphasized:

(1) You will be required to obtain sufficient appropriate audit evidence which will form the basis of the opinion.
(2) You should set an appropriate materiality level at the planning stage of the audit which should be reflective of the assessed risk of material misstatement of the financial statements of Busaka City Council.
(3) You will require to maintain working papers to document the evidence that you will gather at planning and during the substantive audit procedures stage of the audit. He reminded you to obtain written representations from management to support the oral evidence that you will get.
(4) Emphasis was made for the audit team members to apply professional judgment throughout the audit.

Required:

(a) Explain the role of Information Technology audits to each of financial, performance and compliance audits. (6 marks)

(b) Explain the meaning of audit software and test data and illustrate their use in the Information Technology audit of Busaka City Council. (6 marks)

(c) Describe four (4) areas in which professional judgment should be applied in the audit of the financial statements of Busaka City Council. (8 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) You work for the Office of the Auditor General (OAG) under the Specialized Audits and Consultancy Directorate. You have been assigned to lead a team to conduct a performance audit of a Unit under the Ministry of Lands whose objective is to clear the backlog in the issuance of title deeds to property owners.

The Unit was funded by the Ministry of Lands with a grant of K3.5 million and was required to tour the country within a period of six (6) months ending 31 December 2025. The target set by the ministry was that the Unit should clear and process title deeds for 90% of the backlog of fifty (50) thousand applications.

It is hoped that after this initiative, the period for processing of title deeds for new applications effective 1 January 2026 will be reduced to fourteen (14) working days. Soon after the initial six (6) months, provincial ministry of Lands staff will require to send details of all title deeds processed with details of how long it takes to process the title deeds. This information will be used by central registry for monitoring and evaluation with a view to avoiding accumulation of unprocessed title deeds to previous levels.

Part of the grant required to be used for the procurement of five (5) suitable motor vehicles through a competitive tender from reputable suppliers. There are many suppliers of suitable 4 X 4 motor vehicles suitable for undertaking this project. In order to achieve the objective of the grant, there were five (5) teams set up by the Unit. Each team was assigned to cover two (2) provinces.

At the end of the initial six (6) months period the following results were submitted by the five (5) teams that were involved in the assignment:

(1) Three (3) of the teams completed the processing of the backlog of title deeds within a period of four (4) months. The teams returned to base at Head Quarters and they spent on average 70% of the budget.

(2) The remaining two (2) teams could not finish the assignment by the end of the first six (6) months. The teams had fully spent their allocated budget and requested for a

supplementary budget and funding which enabled them complete the assignment one (1) month after the targeted period.

(3) The consolidated results of the assignment show that 95% of the backlog in processing title deed had been processed and completed at the end of the initial project period.

(4) The first reports for new applications in the subsequent period shows that on average new application are processed and title deeds issued within ten (10) working days of receiving the application.

Required:

(i) Explain the meaning of sufficient and appropriate evidence in the context of the planned performance audit of the title processing project. (2 marks)

(ii) Describe the objectives of the planned performance audit of the title processing project considering the value for money principles. (6 marks)

(b) The Government of Buganda introduced a pilot Agricultural Support Scheme to Small Scale Farmers in three (3) provinces to introduce and grow a drought resistant variety of soya beans. The project has been running for two (2) years now and the donor has requested for an evaluation of the project. Each province has a Project Coordinator who reports to the Project Lead at the Ministry of Agriculture.

The project involves supporting five thousand (5,000) small scale farmers in each of the three (3) provinces by giving them all the inputs required. Recipients are required to apply to committees set up to evaluate the applications and recommend successful applicants.

The Ministry of Agriculture requested that the audit and evaluation should be undertaken by the Office of the Auditor General. You are the Director responsible for Specialized Audits and the following information came to light during a meeting you had with the Project Lead in planning the evaluation:

North East Province:
A reconciliation of the total quantities of various inputs sent to the province and the inputs distributed could not agree with the remaining inventory of inputs. In most cases the expected balance of inputs was much less than the quantities computed based on issues made to Small Scale Farmers.

The Provincial Coordinator could not provide a satisfactory explanation for the variances. There is no evidence of a break in at the warehouse.

South West Province:
There were complaints in the way that inputs were distributed in this province. A majority of people who applied to be considered did not get any inputs. It was established that the Provincial Coordinator and his team had their own preferred beneficiaries. They replaced bona fide beneficiaries with their relatives or people they knew.

Interviews conducted of some beneficiaries revealed that the Provincial Coordinator demanded payments of K1,500 by each beneficiary in order to be given inputs which was not a requirement.

Central Province:
There were no complaints related to the distribution of inputs in this province. A review of the supporting documents of the distribution of inputs revealed the following:

(1) A significant number of beneficiaries could not be traced and identified but the records showed that inputs had been given.

(2) There were many instances where documents were amended to show higher quantities of inputs issued than were originally shown on the documents. The amendments were on the quantities in figures and no amendments were made on the quantity in words.

No clear explanation was made for the amendments. A few selected beneficiaries interviewed claimed they were given less inputs than those shown on the amended documents.

The government decided that a forensic investigation should be conducted on the pilot Agriculture Support Scheme. You will be required to specify the objectives of the forensic investigation before embarking on the investigation.

Required:

(i) Explain three (3) objectives of the forensic investigation to be conducted on the Agriculture Support Scheme. (6 marks)

(ii) Explain, using the information in the scenario, the types of fraudulent activities in the three (3) provinces. (6 marks)

[Total: 20 Marks]

QUESTION FIVE

The Office of the Auditor General (OAG) of Sokovia was established three (3) years ago specifically to conduct financial and compliance audits with the objective of enhancing transparency and accountability in the management of public funds.

Most of the staff of the Office of the Auditor General were not trained in finance and auditing and the majority previously worked for government and were only transferred to the OAG at its establishment. The OAG of Sokovia recently joined the International Organization of Supreme Audit Institutions (INTOSAI). After the first evaluation of the operations of the SAI of Sokovia the INTOSAI recommended that the SAI should follow the provisions of the various fundamental principles of public sector auditing. The INTOSAI is concerned that the SAI does not conduct performance audits and has recommended that the SAI should start conducting performance audits due to high incidents of misappropriation and misapplication of public funds.

Recently, the World Bank gave a grant of $5 million to Sokovia for capacity building in the SAI and for use in voter registration before the general elections that were recently held.

You work for the International Organization of Supreme Audit Institution(INTOSAI) as Training Manager. You have been assigned to lead a team of three (3) to conduct training to staff of the OAG of Sokovia on the importance of fundamental principles of public sector auditing and the need for the SAI to conduct performance audits in the use of public funds.

The following information relates to the voter registration project by the Electoral Commission of Sokovia:

(1) A total of ten (10) teams were assigned to co-ordinate the voter registration. Each team was assigned to each of the ten (10) provinces and comprises four (4) members of staff.
(2) The budget for the voter registration and the actual expenditure were as follows:

Details	**Budget**	**Actual**
	$'000	**$'000**
Procurement of 10 4 X 4 Vehicles	500	515
Fuel & maintenance	50	63
Staff allowances	150	132
Printing of new voters roll	200	165
Totals	**900**	**875**

(3) The target that was set was to register a total of three (3) million new voters. An evaluation conducted after the exercise shows that the total number of new voters registered was 1.9 million and none of the ten (10) provinces met the set target.

It is the practice of the Supreme Audit Institution of Sokovia to determine and discuss the criteria in the conduct of financial and compliance audits. During these audits, it is common for the public sector auditors to discuss any findings with the management of the entities subject to audit and the responses by the management are considered. There have been instances when observations have been dropped on satisfactory explanation during these discussions.

The Supreme Audit Institution has a policy requiring that all staff sign a commitment at the start of each year committing to follow the established ethical code and comply with the requirements for independence and that any ethical dilemmas that may impact the independence of the audit team members shall be reported to the Quality Control champion within the SAI for appropriate action.

Required:

(a) (i) Explain the purpose of the fundamental principles of financial auditing. (2 marks)

(ii) Explain any two (2) general principles of financial auditing in the Public Sector. (2 marks)

(b) Evaluate the operations of the Supreme Audit Institution(SAI) against the provisions of the general requirements for performance auditing according to ISSAI 3000. (6 marks)

(c) (i) Explain the use of the criteria in a performance audit and suggest three (3) suitable criterion for the performance audit of the voter registration exercise. (4 marks)

(ii) Apply the value for money principles in planning a performance audit of the voter registration exercise. (6 marks)

[Total: 20 Marks]

END OF PAPER

CA 3.7 PUBLIC SECTOR AUDITS AND ASSURANCE

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) **Types of public sector audits & related objectives:**

	Type of audit	Objective
1	**Financial audits** – These are audits conducted by the Supreme Audit Institution on the financial records of recipients of public funds.	The objective of financial audits is to establish whether the financial information has been prepared in accordance with the applicable financial reporting framework and give a true and fair view.
2	**Performance audits** – these are audits conducted by the Supreme Audit Institutions to establish whether or or not there has been any wastage in the use of public funds.	The objective of performance audits is to assess whether in the use of public funds the value for money principles of economy, efficiency and effectiveness have been complied with and to assess whether there is room for improvement.
3	**Compliance audits** – These are audits conducted by the SAI to confirm whether there is compliance with relevant criteria of programs or activities.	The objective of compliance audits is to obtain evidence that there has been compliance with the given criteria in the use of public funds. The criteria is obtained from the rules and regulations that guide the public sector institutions subject to the compliance audits.
4	IT Audits – These are audits that are conducted to establish whether the IT system is operating as it is expected.	The objective of performing an IT audit by the Supreme Audit Institution is to obtain evidence on whether the information system subject to the audit meet the intended objective. To establish whether the results of the Information system can be relied upon for decision making.
5	**Forensic audits** – These involve the use of accounting and auditing skills to establish if a crime has been committed.	The objective of forensic investigations is to establish if a criminal offence has occurred and to determine the extent of the fraud including establishing the loss suffered by the public sector institutions.

(b) **Factors to consider in evaluating the performance of the Wakanda SAI against Mexico declaration:**

(1) The fact that Wakanda does not have a legal framework that governs the operations of the Supreme Audit Institution is contrary to the provisions of the Mexico declaration. One of the principles of the Mexico declaration requires that there should be legislation that sets out the extent of SAI independence.

(2) The fact that the Head of the SAI of Wakanda is on secondment from the country's Ministry of Finance means that the Head of the SAI is not independent. The Mexico declaration requires that the Head of the SAI must be independent and this can only be achieved if there is a substantive office holder not one that is on temporal secondment.
(3) The requirement that the SAI should issue annual reports of the audits that it undertakes is in line with the principles of the Mexico declaration which requires that the SAI should have the right to report on its work.
(4) The requirement that the SAI reports should be subject to clearance by cabinet diminishes the independence of the SAI. This is contrary to the principles of the Mexico declaration which require that the SAI should be free to decide the contents of its audit reports.
(5) The insinuation in the public media that there were many instances where the SAI was not given the requested documentation in the conduct of audits is contrary to the SAI principles on SAI independence which requires that the SAI should have unrestricted access to all documents and information it needs to discharge its duties.
(6) The argument by controlling officers that some documents cannot be made available to the SAI staff on account of security concerns is contrary to the principles of the Mexico declaration. The declaration requires that the SAI should have a sufficiently broad mandate and full discretion on subject matters. The SAI should have authority to audit the use of public money and resources regardless of the legal nature.

(c) (i) **Fraud risk factors in the operations of the IMF Short Term Funding Management Unit:**

(1) The fact that the funds are to be used to procure drugs to be distributed to public health institutions which will be distributed freely – It is easier to falsify records to cover up any misappropriation of funds and drugs.
(2) The fact that expenditure should be within the approved budget and that adherence to the budget will be used for deciding on further funding could result in fraudulent financial reporting for fear of losing future funding if there are unexplained budget variations.
(3) The conflict of interest that Chris possesses in that he was the Secretary General of the ruling party. He is unlikely to do something that would put the government in disrepute such as having funding stopped on account of misuse of funds. He could be involved in fraudulent financial reporting to conceal any wrong doing in the management of the funds.
(4) The fact that staff under the Unit have not been paid salaries for six (6) months could be a justification for staff to misappropriate funds. Further, there is a risk that management of the fund may misapply the funds to pay salaries above what is allowed a stipend.

(ii) **Audit risks in planning the financial audit of the Funding management unit:**

(1) There is a risk that there will be falsification of the financial records to meet budget requirements. This could be achieved through reallocation of actual expenditure on over spent budget lines to underspent budget lines. This will result in the misstatement of the financial records.

(2) The grant agreement prohibits the use of funds for entertainment and bank charges. Funds could fraudulently be spent on these two (2) expenditure lines and the costs charged to allowed budget lines in order to conceal the misapplication of funds.

(3) Supplies not exempt from taxes by requiring suppliers to charge tax inclusive amounts without showing tax separately on the invoice.

(4) There is risk that the financial records may be misstated by the funding used to pay for goods or services not received. This could be achieved by falsifying supporting documentation to support payments.

(5) The newly established unit managing funds may face inexperience, untested procedures and unfamiliarity with reporting requirements which increases the likelihood of errors, misstatements, or delays.

(d) (i) **Criteria in compliance audit of Funding management unit:**

(1) Actual expenditure incurred should be within the approved budget.

(2) Stipend paid to staff should not exceed the approved amount per staff category and not exceed the $200 000 allocated to this budget line.

(3) Entertainment and bank charges shall not be charged to the project.

(4) No taxes should be charged for all procurement.

(5) Annual financial statements should be prepared and subject to independent audits by independent auditors.

(ii) **Compliance substantive audit procedures:**

	Criteria	**Compliance substantive audit procedure**
1	Expenditure within approved budget.	Review the budget execution report and confirm there is no expenditure on budget lines. For a sample of budget lines examine a sample of expenditure against the supporting documents to ensure correctly allocated to budget line.
2	Stipend paid within approved rates.	Confirm that the actual total stipend does not exceed the approved amount of $200 000. For a sample of stipend paid confirm payments according to approved rates per category of staff.
3	No taxes on all supplies of goods/services	For a sample of procurement of supplies and services review the supporting documents and confirm no taxes

		charged. For a sample of payments obtain independent confirmation of current prices being charged.
4	Annual financial statements independently audited by private auditors.	Confirm that the previous year financial records were independently audited by private auditors. Do this by reviewing the audited financial statements and review the appointment correspondence by the Ministry of Finance to the independent auditors.
5	Entertainment costs and bank charges are disallowed.	Review the expenses against supporting documents and confirm that no entertainment costs or bank charges have been charged against the funds.

SOLUTION TWO

(a) **Demonstration of compliance with ISSAI 12 by SAI of Zamunda:**

(1) The Supreme Audit Institution of Zamunda conducts audits annually and issues reports to parliament and the President simultaneously. By so doing the Supreme Audit Institution is strengthening accountability, integrity and transparency in the management of public funds.

The ones responsible for holding custodians of public funds is the committee of parliament which is provided with the results of the audits by the SAI. The committee is required to request the custodians of public funds to appear before it and recommend action to be taken against misuse of public funds.

The SAI of Zamunda is compliant with the provision of ISSAI 12 by fulfilling the objective on strengthening accountability and transparency.

(2) The Supreme Audit Institution has not responded to the public outcry about the increase in misuse and misapplication of public funds. The SAI has continued to conduct audit according to its own annual plan. This is fine but the SAI is expected to demonstrate its ongoing relevance. According to the principles of ISSAI 12 the SAI could achieve this objective by being responsive to changing environments which includes being aware of stakeholder concerns and addressing them.

The SAI of Zamunda has not complied with this requirement by not responding to the public concerns. The SAI is expected to conduct investigations to the allegations and concerns of the public.

(3) One (1) of the requirements of ISSAI 12 is that the SAI should be a role model organization in the management of public funds. Under the objective of being a role model there is a principle requiring that the SAI should be subject to independent external scrutiny including an external audit of its operations.

The information available for the SAI of Zamunda is that it has not had any external independent evaluation of its activities. This is contrary to the requirements of ISSAI 12 Value and benefits of SAIs.

(b) **Compliance audit on the CDF:**

(i) Parties to planned compliance audit:

(1) **The Supreme Audit Institution** – This is one of the parties to the planned compliance audits and the one to conduct the audits. The SAI will perform audit procedures to obtain sufficient appropriate audit evidence which will form the basis for the conclusions to be reached.

(2) **The responsible parties**- These are the custodians of public funds in this case the constituency Development Committee that are responsible for management of the CDF in their constituents. They are the party that is accountable on how the funds have been spent.

(3) **The interested parties** – these are the parties that are interested in the correct use of the funds. These include the people in the constituency who are supposed to benefit from the funds and the government which appropriates funds to the constituents.

(ii) **Ethical matters & safeguards in the audit of the Constituency Development Fund:**

	Ethical matter	**Safeguard**
1	The Supreme Audit Institution audit team members require to be independent of audited entities. The fact that the audit teams will work with the provincial committees to oversee the audits will result in the responsible parties evaluating their own work. This is likely to impact the objectivity of the audit team members.	The audit team members should work independently of the custodians of the CDF. The proposed committee members may wish to monitor the use of the public funds as a control but not participate in the conduct of the audits by the SAI.
2	The assignment of newly recruited staff to conduct CDF audits in the provinces impacts the quality of audits that will be undertaken. One of the fundamental ethical principles is that of professional competence and due skill. It is unlikely that newly recruited staff will possess the necessary skills.	Assignment of audit team members to undertake audits of the CDF should be carefully done. The audit teams should comprise a mixture of experienced audit team members and some newly recruited staff. It is unlikely that the Provincial Principal Auditors will be able to closely supervise the work of new auditors.
3	The provision of free accommodation to audit team members is likely to create a self-interest threat to the audit team members. They are likely to lose objectivity as a result and may overlook matters on account of the hospitality extended to them.	The offer for free accommodation should be declined. The audit team members should meet their own board and lodging expenses on account of the fact that the OAG is supposed to meet the cost of lodge and boarding for its staff.

4	The fact that the audit team members will assist in the completion of financial reports creates a self-review threat. The audit team members will lose objectivity on account of reviewing financial records they have helped prepare.	The OAG audit team members should not get involved in the preparation of the financial records.

SOLUTION THREE

(a) **Role of IT audits in public sector auditing:**

	Type of audit	Role of IT audit
1	Financial audit	IT systems are used to generate information used for the preparation of financial statements. The audit of an IT system is necessary for the efficient and accurate preparation of financial statements. IT audit will focus on the controls around the input of data, its processing and the related output.
2	Performance audit	This relates to the application of the value for money principles on IT systems in the public sector. This involves consideration of the three value for money principles as follows: Economy – this relates to the minimization of IT resource costs Efficiency – This relates to the maximization of the IT system to minimize excess capacity Effectiveness – To assess whether the IT system has been implemented in a manner that the intended objectives have been met.
3	Compliance audit	The concern of compliance auditors with regards IT audit is to identify non-compliance with relevant laws and regulations. Determining whether the public IT system comply with relevant compliance criteria such as those related to the use and storage of personal data.

(b) **Meaning and use of audit software & test data in IT audit of Busaka City Council:**

Audit software

Meaning

This is the use of IT by the auditors to perform audit procedures which otherwise would have been performed manually. The use of audit software improves the efficiency of audits and enables the auditors to conduct higher levels of audit tests thereby reducing audit risk.

Illustration of use

In planning a financial audit and gaining an understanding of an entity involves the use of analytical procedures. This involves the computation of ratios and making useful interpretation of the results. Instead of doing this manually, use of audit software either off the shelf or tailor made to compute the ratios and analyze them.

Test data

Meaning

Test data is used by auditors largely to test the IT general and application controls and to also determine whether the IT system is operating the way it is expected. This is achieved

by the auditors developing dummy data and determining the expected results then requiring the client to process the dummy data using the client IT system and compare with the expected results.

Illustration of use

The audit team could come up with dummy payroll data and manually compute the results of processing the data. Having a predetermined outcome, the auditors will request the management of Busaka City Council to process the dummy data using the IT system. The results of the processing will be compared with the pre-determined results and any differences investigated.

(c) **Application of professional judgement in the financial audit of Busaka City Council:**

	Areas requiring use of professional judgment	**Explanation**
1	Risk assessment	During the risk assessment stage of planning the audit there will be need to apply professional judgment is identifying risks that will impact the financial statements and relate the identified risks to the financial statements in terms of which assertions will be affected by the identified risks.
2	Sufficiency of evidence	The audit team will be required to obtain sufficient appropriate evidence. The question of when evidence is sufficient is a matter of professional judgment. The audit team require to know the factors such as the risk and quality of evidence which will assist in deciding the level of evidence to be obtained.
3	Determination of materiality level to use in the audit	The auditors require to apply professional judgment in determining a materiality level to use. This requires consideration of the assessed risk which has an impact on the materiality level.
4	Extent of audit work	In order to decide the extent and nature of further audit procedures to be performed, the auditors require to evaluate the results of tests of controls that will be performed. This requires the use of professional judgment to conclude whether or not the internal controls are reliable and to which extent they impact the nature and extent of further procedures to be undertaken.
5	Concluding and reaching an opinion	The use of professional judgment is essential when making conclusions in audit areas based on evidence obtained. Further, to arrive at an appropriate opinion after the audit requires the use of professional judgment.
6	Deciding on audit procedures to undertake.	The determination of audit procedures to undertake to gather evidence requires the use of professional judgment. There is need to relate the procedures to the assertions contained in the financial statements.

SOLUTION FOUR

(a) **(i) Sufficient and appropriate evidence in the performance audit:**

The audit team on the performance audit of the title deed processing project are required to obtain sufficient appropriate evidence which will form the basis of the conclusion that will be reached.

Sufficient evidence refers to the quantity of evidence which will be gathered. The performance audit team will be required to obtain evidence of the performance of all the five (5) teams that were set up to undertake the assignment. The conclusion expected is required to cover the whole country to assess whether the objective has been met.

Appropriate evidence refers to the relevance of the evidence obtained. In this case the performance audit team will require to obtain evidence of the processed title deeds by each of the five (5) teams. Further, the team will require to obtain evidence of how quickly it takes to issue title deeds effective the subsequent period. The audit team will require to test samples of new applications at all provincial centers and establish the time it took to process the title deeds.

(ii) Objectives of the planned performance audit:

The performance audit of the title deeds processing project will be aimed at assessing to establish whether the value for money principles were followed in running the project.

Economy:

The objective of this element of value for money will be to obtain sufficient evidence on expenditure incurred on the project. This will involve establishing whether the project acquired supplies and services at the best price. For example, could the purchased motor vehicles been bought at a lower price. This will require the performance auditors to compare the price paid to the prevailing market prices for similar vehicles.

Efficiency:

An evaluation of this element aims at establishing whether or not the same output could have been achieved using lesser resources both financial and human.

This will involve establishing the reasons why three (3) teams completed the assignment earlier than planned while the remaining two (2) were unable to do so. Consideration of the backlog would require to be made. Could it be that the two (2) teams were assigned to provinces that had the largest number of unprocessed title deed application?

Effectiveness:
In this element the audit team will require to obtain evidence on whether the intended objective has been achieved. The objectives in this assignment are two (2) fold namely clearing the backlog of title deed processing and reducing the processing time for title deeds down to fourteen (14) days from date of application.

(b) **(i) Objectives of the planned forensic investigations:**

(1) The investigation will be aimed at establishing whether or not fraudulent activities occurred in all the three (3) provinces. In view of the possibility of legal action being taken mere suspicions will not stand in court.
(2) The investigation will aim at identifying those that were involved in fraudulent activities and seek their admission of having been involved.
(3) Another objective of the forensic investigation will be to assess the extent of the loss that will have been suffered as a result of the fraud.

(ii) Explanation of fraudulent activities in the three provinces:

North East Province:
The failure to reconcile book stock of remaining inputs to the physical quantities is indicative of loss of inventory. Failure by the Provincial Coordinator and the fact that there is no evidence of a break into the warehouse clearly suggest that the loss was as a result of fraud.

The loss of the inputs is a misappropriation of assets and involved the theft of inventory.

South West Province:
The fraud that occurred in this province can be described as corruption fraud. The demand for a payment of K1,500 per beneficiary is extortion of money by the Provincial Coordinator and his team. The giving of inputs to relatives and friends is a conflict of interest fraud.

Central Province:
The failure to trace beneficiaries of inputs suggests misappropriation of assets and specifically theft of inventory. Most likely the beneficiaries that could not be traced did not exist and were used as a cover up.

The amendments of financial documents is financial statements fraud. The attempt was to falsify the accounting records to show an expected position which was not the reality.

SOLUTION FIVE

(a) **(i) Purpose of fundamental principles of financial audits:**

Fundamental principles were developed to be followed in the conduct of audits. The fundamental principles of financial audits aim at ensuring that financial statements of the required quality are conducted by public sector audits.

The principles guide the public sector auditors on work that should be performed at the three stages of audits namely the planning of the audit, conducting the audit and reporting.

(ii) General principles of financial auditing in public sector auditing:

The general principles of financial auditing are developed from the general principles of ISSAI 100: Principles of public sector auditing.

The general principles of financial auditing in ISSAI 100: are specific to financial auditing and include the following:

Audit risk:

In planning a financial audit, the audit team will require to assess the audit risks that may exist. This will enable the audit team to respond appropriately to the risks that will be identified.

Materiality:

This general principle requires the audit team to determine a materiality level and performance materiality level that will be applied in the conduct of the financial audit. Among other uses the materiality level will be used in determining the number of sample items to be tested and the level misstatements will be considered material.

Professional judgment & professional skepticism:

The general principle related to professional judgment and professional skepticism requires the auditors to be alert at all times and have a questioning mind. The auditors are also required to use their professional judgment in making professional decisions during the audit.

Documentation:

This general principle requires that all audit work during the financial audit should be documented. The documentation is necessary because it is the basis for the opinion that will be reached.

Quality control:
The general requirement requires that the public sector auditors should conduct audits that meet the quality control standards contained in ISSAI 40. This will enable auditors conduct financial audits that can be relied upon as a basis for the opinion.

Audit team and management skills:
The general requirement requires that the skills and competences of audit team members should be considered when assigning staff to audit. This is aimed at assigning staff who will be able to conduct a quality audit.

Communication:
This general requirement requires that the audit team should maintain communication with the audited entity both in planning and during the audit. Timely communication of audit finding is required.

(b) **Application of general requirements of performance auditing by the SAI:**
Public sector auditors are required to conduct audits according to the provisions of ISSAIs. Performance audits require to be conducted in line with the general requirements of performance auditing according to ISSAI 3000.

An evaluation of the operations of the SAI of Sokovia shows the following with regards compliance with the standard:

(1) The SAI of Sokovia has a practice of discussing the criteria to be used in the performance audit with the audited entity. This is in line with the provisions of the general principles for performance audits. It is important that the audited entity is aware of the criteria against which the actual performance will be measured.
(2) Communicating of findings during the performance audit with management of the audited is a requirement of the general principles of performance audits. The SAI is compliant in this regard with the general principle requiring communication of the findings to enable the audited entity to respond to any observations made.
(3) By requiring SAI staff to sign a commitment to maintain independence during an engagement indicates that the SAI of Sokovia considers the importance of independence which ensures objectivity. This is in line with the general principle of performance auditing on independence.

(c) **(i) Purpose of the criteria in a performance audit:**
In conducting a performance audit, one of the requirements is that the public sectors should determine suitable criteria that will be used in the audit. The criteria is the benchmark against which actual performance will be measured.

The criteria is determined from the applicable laws and in this case the criteria will be determined from information in the budget for the exercise and other sources such as the commission's conditions of service for staff in terms of payable allowances.

Criteria to be used in the performance audit of the voter registration:

(1) The rate per day for allowances that will be paid to staff involved with the voter registration.
(2) The budgeted amounts will form the criteria against which actual spending will be measured.
(3) The set targets for the number of new registered voters that should be captured.

(ii) Value for money principles using voter registration exercise:

	Value for money principle	Explanation
1	**Economy**	This principle addresses the wastage that may occur in the acquisition of recourse for the activity. In the case at hand consideration will be made to determine whether the commission paid the best price for the motor vehicles that were bought without compromising on quality. Audit procedures will require to be performed to establish the current prices of suitable motor vehicles to determine whether the vehicles could have been bought at a lower price. Price considerations will be made for any outsourced services such as the printing of the new voter's role.
2	**Efficiency**	Efficiency is a measure of the use of resources. The resources in this case include the human and financial resources. The measurement will involve establishing whether the outcome of the actual number of new voters could have been met using lesser resources. Consideration can also be made in terms of the human resources that were used and whether the same result could have been achieved using fewer members of staff.
3	**Effectiveness**	This principle involves the establishing of whether the objective of the exercise has been met. In this case it is a comparison of the actual number of new voters that has been registered compared to the intended number. In this case it is clear that the objective has not been met with a shortfall in the number of voters that were indented to be registered.

CA ZAMBIA PROGRAMME EXAMINATIONS

CA ADVISORY PROFESSIONAL IN ACCOUNTANCY

CA 3.8: PUBLIC SECTOR FINANCIAL MANAGEMENT

FRIDAY 11 SEPTEMBER 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: One (1) compulsory scenario question.
   Section B: Four (4) Optional scenario Questions. Attempt any three (3) 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. Formulae, Present Value and Annuity tables are attached at the end of this paper.

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

SECTION A

This question is COMPULSORY and must be attempted.

QUESTION ONE – (COMPULSORY)

A Government infrastructure agency is assessing a proposed capital project with uncertain costs and revenues, and has been provided with scenario forecasts by the project sponsor. The agency must evaluate financial viability using NPV and probabilistic analysis and recommend how government should respond to the quantified risks. The project faces several sources of uncertainty including fluctuating demand forecasts, possible construction delays and cost overruns, variable financing costs, and exposure to macroeconomic and environmental shocks for which the sponsor's scenarios reflect these broad uncertainties but do not include detailed mitigation plans. The agency has limited time and data and must therefore prioritize practical appraisal steps that quantify downside exposure, examine the sensitivity of outcomes to key assumptions, and propose feasible risk responses that can be acted on within the public sector's governance constraints. The government uses a social opportunity cost of capital of 4% to appraise its projects. The project has a lifespan of six (6) years.

The agency must choose between proceeding with the project now or deferring it for one year to obtain improved demand information.

(a) **Decision table**

Decision Option	Possible Outcome After Demand Uncertainty	Probability	Estimated NPV (ZMW millions)
Proceed now	High demand	0.60	+120
Proceed now	Low demand	0.40	−70
Defer 1 year	High demand after study	0.60	+130
Defer 1 year	Low demand after study	0.40	−40

If the project is deferred for 1 year, additional costs of study of K10 million will be incurred.

Required:

(i) Draw a decision tree showing the decision options and demand outcomes. (4 marks)

(ii) Calculate the Expected Value for each option and advise the agency which option it should select. (7 marks)

(iii) Using the scenario cash flows and probabilities in the table below, calculate the project's expected NPV over the project lifespan of six (6) years and recommend the appropriate decision under the NPV rule. (9 marks)

(b) **Scenario table**

Economic cycle	**Probability**	**Annual Net cash flow**	
		KM	**YEAR**
Recession	0.2	-10	1
Expansion	0.5	50	2-5
Peak	0.3	150	6

Required:

(i) Calculate the probability that the project will generate a negative NPV and explain what this implies about the level of financial risk. (3 marks)

(ii) Discuss the relevance of the concept of internal rate of return and its role in decision-making in public sector capital project appraisal. (6 mark)

(iii) Explain on four (4) external risks that can affect the financial performance of public sector capital projects. (4 marks)

(iv) Explain operational risks and change risks that can affect the successful delivery and implementation of public sector capital projects, and give brief examples of feasible mitigation measures that fit typical public-sector governance constraints. (7 marks)

[Total: 40 Marks]

SECTION B

There are FOUR (4) questions in this section.

Attempt any THREE (3) questions.

QUESTION TWO

In the riverside municipality of Nkwazi City, informal street vending has expanded across pavements and arterial routes, disrupting pedestrian movement, impeding traffic and creating public-health and safety concerns.

The municipal council has limited capital and constrained operational capacity and is therefore exploring a permanent solution. A purpose-built market building offering formal trading spaces and basic amenities to replace roadside vending was proposed to be constructed.

To finance, construct and manage the market, the council is considering a long-term Public–Private Partnership (PPP) under a full private-provision/concession model. Stakeholders are divided about the proposal as some expect improved infrastructure and order, while others worry about cost, access and impacts on livelihoods.

The municipality recognises that the project will have legal, financial and social implications and that careful choices will be required in procurement, contract design and the transition of traders, but the council has not yet decided on structure or terms.

The proposed site for the market is located on municipally owned land near a transport interchange that serves surrounding residential areas. Preliminary consultations have been conducted with trader associations and local community representatives, and the council has indicated that further stakeholder engagement and regulatory approvals would be required before implementation proceeds.

Required:

(a) Evaluate five (5) risks of using a PPP private-provision (concession) model for the construction and operation of municipal market in Nkwazi City (10 marks)

(b) Explain six (6) principal features of the PPP private-provision (concession) model as they would apply to a municipal market building. (6 marks)

(c) Explain four (4) principal advantages of the private-provision PPP model for delivering essential market services in the Nkwazi City scenario. (4 marks)

[Total: 20 Marks]

QUESTION THREE

Following recent fiscal pressures and rising public expectations for improved service delivery, Cabinet has directed the Ministry of Finance to review the composition and effectiveness of government spending. A cross-ministerial advisory committee has therefore been established to prepare a concise policy brief to guide expenditure decisions for the upcoming fiscal year. The committee must work within tight timelines, relying mainly on consolidated budget data, recent audit observations and broad sector performance reports rather than detailed programme evaluations. Their task is to provide high-level but practical advice that will help Cabinet understand the main areas where public funds are currently directed and where future spending emphasis should be placed to support national development objectives.

Required:

(a) Explain the six (6) key areas of public expenditure in Zambia. (12 marks)

(b) Recommend any four (4) policy priorities for public expenditure in Zambia.

(8 marks)

[Total: 20 Marks]

QUESTION FOUR

You are a senior public financial management adviser engaged by the Ministry of Finance in Zambia to provide strategic guidance on strengthening national budgeting and control arrangements. The Government is undertaking a review of its fiscal governance systems in response to concerns about budget credibility, expenditure overruns in selected sectors and the increasing complexity of fiscal management in a constrained macroeconomic environment.

Recent consultations between the Executive, the National Assembly of Zambia, and the Office of the Auditor General have highlighted weaknesses in the sequencing of budget activities, coordination between institutions, and the timeliness of budget monitoring information. Parliamentary committees have raised questions regarding the extent to which deviations between approved budgets and actual expenditure are identified early and corrected effectively.

Stakeholders have observed that although financial reports and audit findings are produced regularly, there is insufficient integration of this information into mid-year corrective measures and subsequent budget formulation cycles. As a result, lessons from implementation challenges are not consistently embedded into forward planning and fiscal risks are not always managed proactively.

The Ministry has therefore requested advisory level input that clarifies how the national budget cycle should operate in principle, how monitoring and feedback mechanisms can be strengthened to reinforce fiscal discipline and how systemic weaknesses can be addressed without prescribing detailed legislative amendments. Your response should provide structured, policy-oriented guidance suitable for discussion at senior level.

Required:

(a) Explain on the key stages of the national budget cycle and the significance of each stage. (8 marks)

(b) With reference to the budget cycle, explain why effective sequencing and coordination across institutions are critical for fiscal discipline and service delivery. (2 marks)

(c) Explain five (5) best practice measures required to ensure efficient and effective budget execution monitoring and control. (5 marks)

(d) Discuss the significance of budget reliability. (5 marks)

[Total: 20 Marks]

QUESTION FIVE

The Independent Fiscal Transparency Unit, hosted in the Office of the Auditor General, has been asked by the Parliamentary Public Accounts Committee to produce a short policy assessment on how the country measures up against the IMF Fiscal Transparency Code. The Unit holds consolidated budget, cash flow and debt service reports for the last two (2) years but lacks a central register of contingent liabilities, up-to-date guarantees data, subnational fiscal reports, and detailed resource revenue disclosures; the Committee wants ten practical tasks the Unit can hand to a cross-institutional working group to start within two weeks.

Required:

(a) Explain the four (4) pillars of the IMF Fiscal Transparency Code. (8 marks)

(b) Describe any two (2) levels of practice the Code uses to stage reforms. (4 marks)

(c) Discuss the differences between a program loan and a project loan. (4 marks)

(d) Explain any two (2) stages of the budget cycle in Zambia. (4 marks)

[Total: 20 Marks]

END OF PAPER

Formulae

Modigliani and Miller Proposition 2 (with tax)

$$k_e = k_e^i + (1 - T)(k_e^i - k_d)\frac{V_d}{V_e}$$

Two asset portfolio

$$s_p = \sqrt{w_a^2 s_a^2 + w_b^2 s_b^2 + 2 w_a w_b r_{ab} s_a s_b}$$

The Capital Asset Pricing Model

$$E(r_i) = R_f + \beta_i (E(r_m) - R_f)$$

The asset beta formula

$$\beta_a = \left[\frac{V_e}{(V_e + V_d(1-T))}\beta_e\right] + \left[\frac{V_d(1-T)}{(V_e + V_d(1-T))}\beta_d\right]$$

The Growth Model

$$P_o = \frac{D_o(1+g)}{(r_e - g)}$$

Gordon's growth approximation

$$g = br_e$$

The weighted average cost of capital

$$WACC = \left[\frac{V_e}{V_e + V_d}\right]k_e + \left[\frac{V_d}{V_e + V_d}\right]k_d(1-T)$$

The Fisher formula

$$(1+i) = (1+r)(1+h)$$

Purchasing power parity and interest rate parity

$$S_1 = S_0 x \frac{(1+h_c)}{(1+h_b)} \qquad F_0 = S_0 x \frac{(1+i_c)}{(1+i_b)}$$

Modified Internal Rate of Return

$$MIRR = \left[\frac{PV_R}{PV_I} \right]^{\frac{1}{n}} \left(1 + r_e\right) - 1$$

The Black-Scholes option pricing model

$$c = P_a N(d_1) - P_e N(d_2) e^{-rt}$$

Where:

$$d_1 = \frac{\ln(P_a / P_e) + (r + 0.5s^2)t}{s\sqrt{t}}$$

$$d_2 = d_1 - s\sqrt{t}$$

The Put Call Parity relationship

$$p = c - P_a + P_e e^{-rt}$$

Present Value Table

Present value of 1 i.e. $(1 + r)^{-n}$

Where r = discount rate
n = number of periods until payment

Discount rate (r)

Periods (n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0·990	0·980	0·971	0·962	0·952	0·943	0·935	0·926	0·917	0·909	1
2	0·980	0·961	0·943	0·925	0·907	0·890	0·873	0·857	0·842	0·826	2
3	0·971	0·942	0·915	0·889	0·864	0·840	0·816	0·794	0·772	0·751	3
4	0·961	0·924	0·888	0·855	0·823	0·792	0·763	0·735	0·708	0·683	4
5	0·951	0·906	0·863	0·822	0·784	0·747	0·713	0·681	0·650	0·621	5
6	0·942	0·888	0·837	0·790	0·746	0·705	0·666	0·630	0·596	0·564	6
7	0·933	0·871	0·813	0·760	0·711	0·665	0·623	0·583	0·547	0·513	7
8	0·923	0·853	0·789	0·731	0·677	0·627	0·582	0·540	0·502	0·467	8
9	0·941	0·837	0·766	0·703	0·645	0·592	0·544	0·500	0·460	0·424	9
10	0·905	0·820	0·744	0·676	0·614	0·558	0·508	0·463	0·422	0·386	10
11	0·896	0·804	0·722	0·650	0·585	0·527	0·475	0·429	0·388	0·305	11
12	0·887	0·788	0·701	0·625	0·557	0·497	0·444	0·397	0·356	0·319	12
13	0·879	0·773	0·681	0·601	0·530	0·469	0·415	0·368	0·326	0·290	13
14	0·870	0·758	0·661	0·577	0·505	0·442	0·388	0·340	0·299	0·263	14
15	0·861	0·743	0·642	0·555	0·481	0·417	0·362	0·315	0·275	0·239	15

(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0·901	0·893	0·885	0·877	0·870	0·862	0·855	0·847	0·840	0·833	1
2	0·812	0·797	0·783	0·769	0·756	0·743	0·731	0·718	0·706	0·694	2
3	0·731	0·712	0·693	0·675	0·658	0·641	0·624	0·609	0·593	0·579	3
4	0·659	0·636	0·613	0·592	0·572	0·552	0·534	0·516	0·499	0·482	4
5	0·593	0·567	0·543	0·519	0·497	0·476	0·456	0·437	0·419	0·402	5
6	0·535	0·507	0·480	0·456	0·432	0·410	0·390	0·370	0·352	0·335	6
7	0·482	0·452	0·425	0·400	0·376	0·354	0·333	0·314	0·296	0·279	7
8	0·434	0·404	0·376	0·351	0·327	0·305	0·285	0·266	0·249	0·233	8
9	0·391	0·361	0·333	0·308	0·284	0·263	0·243	0·225	0·209	0·194	9
10	0·352	0·322	0·295	0·270	0·247	0·227	0·208	0·191	0·176	0·162	10
11	0·317	0·287	0·261	0·237	0·215	0·195	0·178	0·162	0·148	0·135	11
12	0·286	0·257	0·231	0·208	0·187	0·168	0·152	0·137	0·124	0·112	12
13	0·258	0·229	0·204	0·182	0·163	0·145	0·130	0·116	0·104	0·093	13
14	0·232	0·205	0·181	0·160	0·141	0·125	0·111	0·099	0·088	0·078	14
15	0·209	0·183	0·160	0·140	0·123	0·108	0·095	0·084	0·074	0·065	15

Annuity Table

Present value of an annuity of 1 i.e. $\frac{1-(1+r)^{-n}}{r}$

Where r = discount rate
n = number of periods

Discount rate (r)

Periods (n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0·990	0·980	0·971	0·962	0·952	0·943	0·935	0·926	0·917	0·909	1
2	1·970	1·942	1·913	1·886	1·859	1·833	1·808	1·783	1·759	1·736	2
3	2·941	2·884	2·829	2·775	2·723	2·673	2·624	2·577	2·531	2·487	3
4	3·902	3·808	3·717	3·630	3·546	3·465	3·387	3·312	3·240	3·170	4
5	4·853	4·713	4·580	4·452	4·329	4·212	4·100	3·993	3·890	3·791	5
6	5·795	5·601	5·417	5·242	5·076	4·917	4·767	4·623	4·486	4·355	6
7	6·728	6·472	6·230	6·002	5·786	5·582	5·389	5·206	5·033	4·868	7
8	7·652	7·325	7·020	6·733	6·463	6·210	5·971	5·747	5·535	5·335	8
9	8·566	8·162	7·786	7·435	7·108	6·802	6·515	6·247	5·995	5·759	9
10	9·471	8·983	8·530	8·111	7·722	7·360	7·024	6·710	6·418	6·145	10
11	10·37	9·787	9·253	8·760	8·306	7·887	7·499	7·139	6·805	6·495	11
12	11·26	10·58	9·954	9·385	8·863	8·384	7·943	7·536	7·161	6·814	12
13	12·13	11·35	10·63	9·986	9·394	8·853	8·358	7·904	7·487	7·103	13
14	13·00	12·11	11·30	10·56	9·899	9·295	8·745	8·244	7·786	7·367	14
15	13·87	12·85	11·94	11·12	10·38	9·712	9·108	8·559	8·061	7·606	15

(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0·901	0·893	0·885	0·877	0·870	0·862	0·855	0·847	0·840	0·833	1
2	1·713	1·690	1·668	1·647	1·626	1·605	1·585	1·566	1·547	1·528	2
3	2·444	2·402	2·361	2·322	2·283	2·246	2·210	2·174	2·140	2·106	3
4	3·102	3·037	2·974	2·914	2·855	2·798	2·743	2·690	2·639	2·589	4
5	3·696	3·605	3·517	3·433	3·352	3·274	3·199	3·127	3·058	2·991	5
6	4·231	4·111	3·998	3·889	3·784	3·685	3·589	3·498	3·410	3·326	6
7	4·712	4·564	4·423	4·288	4·160	4·039	3·922	3·812	3·706	3·605	7
8	5·146	4·968	4·799	4·639	4·487	4·344	4·207	4·078	3·954	3·837	8
9	5·537	5·328	5·132	4·946	4·772	4·607	4·451	4·303	4·163	4·031	9
10	5·889	5·650	5·426	5·216	5·019	4·833	4·659	4·494	4·339	4·192	10
11	6·207	5·938	5·687	5·453	5·234	5·029	4·836	4·656	4·486	4·327	11
12	6·492	6·194	5·918	5·660	5·421	5·197	4·988	4·793	4·611	4·439	12
13	6·750	6·424	6·122	5·842	5·583	5·342	5·118	4·910	4·715	4·533	13
14	6·982	6·628	6·302	6·002	5·724	5·468	5·229	5·008	4·802	4·611	14
15	7·191	6·811	6·462	6·142	5·847	5·575	5·324	5·092	4·876	4·675	15

Standard normal distribution table

	0·00	0·01	0·02	0·03	0·04	0·05	0·06	0·07	0·08	0·09
0·0	0·0000	0·0040	0·0080	0·0120	0·0160	0·0199	0·0239	0·0279	0·0319	0·0359
0·1	0·0398	0·0438	0·0478	0·0517	0·0557	0·0596	0·0636	0·0675	0·0714	0·0753
0·2	0·0793	0·0832	0·0871	0·0910	0·0948	0·0987	0·1026	0·1064	0·1103	0·1141
0·3	0·1179	0·1217	0·1255	0·1293	0·1331	0·1368	0·1406	0·1443	0·1480	0·1517
0·4	0·1554	0·1591	0·1628	0·1664	0·1700	0·1736	0·1772	0·1808	0·1844	0·1879
0·5	0·1915	0·1950	0·1985	0·2019	0·2054	0·2088	0·2123	0·2157	0·2190	0·2224
0·6	0·2257	0·2291	0·2324	0·2357	0·2389	0·2422	0·2454	0·2486	0·2517	0·2549
0·7	0·2580	0·2611	0·2642	0·2673	0·2704	0·2734	0·2764	0·2794	0·2823	0·2852
0·8	0·2881	0·2910	0·2939	0·2967	0·2995	0·3023	0·3051	0·3078	0·3106	0·3133
0·9	0·3159	0·3186	0·3212	0·3238	0·3264	0·3289	0·3315	0·3340	0·3365	0·3389
1·0	0·3413	0·3438	0·3461	0·3485	0·3508	0·3531	0·3554	0·3577	0·3599	0·3621
1·1	0·3643	0·3665	0·3686	0·3708	0·3729	0·3749	0·3770	0·3790	0·3810	0·3830
1·2	0·3849	0·3869	0·3888	0·3907	0·3925	0·3944	0·3962	0·3980	0·3997	0·4015
1·3	0·4032	0·4049	0·4066	0·4082	0·4099	0·4115	0·4131	0·4147	0·4162	0·4177
1·4	0·4192	0·4207	0·4222	0·4236	0·4251	0·4265	0·4279	0·4292	0·4306	0·4319
1·5	0·4332	0·4345	0·4357	0·4370	0·4382	0·4394	0·4406	0·4418	0·4429	0·4441
1·6	0·4452	0·4463	0·4474	0·4484	0·4495	0·4505	0·4515	0·4525	0·4535	0·4545
1·7	0·4554	0·4564	0·4573	0·4582	0·4591	0·4599	0·4608	0·4616	0·4625	0·4633
1·8	0·4641	0·4649	0·4656	0·4664	0·4671	0·4678	0·4686	0·4693	0·4699	0·4706
1·9	0·4713	0·4719	0·4726	0·4732	0·4738	0·4744	0·4750	0·4756	0·4761	0·4767
2·0	0·4772	0·4778	0·4783	0·4788	0·4793	0·4798	0·4803	0·4808	0·4812	0·4817
2·1	0·4821	0·4826	0·4830	0·4834	0·4838	0·4842	0·4846	0·4850	0·4854	0·4857
2·2	0·4861	0·4864	0·4868	0·4871	0·4875	0·4878	0·4881	0·4884	0·4887	0·4890
2·3	0·4893	0·4896	0·4898	0·4901	0·4904	0·4906	0·4909	0·4911	0·4913	0·4916
2·4	0·4918	0·4920	0·4922	0·4925	0·4927	0·4929	0·4931	0·4932	0·4934	0·4936
2·5	0·4938	0·4940	0·4941	0·4943	0·4945	0·4946	0·4948	0·4949	0·4951	0·4952
2·6	0·4953	0·4955	0·4956	0·4957	0·4959	0·4960	0·4961	0·4962	0·4963	0·4964
2·7	0·4965	0·4966	0·4967	0·4968	0·4969	0·4970	0·4971	0·4972	0·4973	0·4974
2·8	0·4974	0·4975	0·4976	0·4977	0·4977	0·4978	0·4979	0·4979	0·4980	0·4981
2·9	0·4981	0·4982	0·4982	0·4983	0·4984	0·4984	0·4985	0·4985	0·4986	0·4986
3·0	0·4987	0·4987	0·4987	0·4988	0·4988	0·4989	0·4989	0·4989	0·4990	0·4990

This table can be used to calculate $N(d)$, the cumulative normal distribution functions needed for the Black-Scholes model of option pricing. If $d_i > 0$, add 0·5 to the relevant number above. If $d_i < 0$, subtract the relevant number above from 0·5.

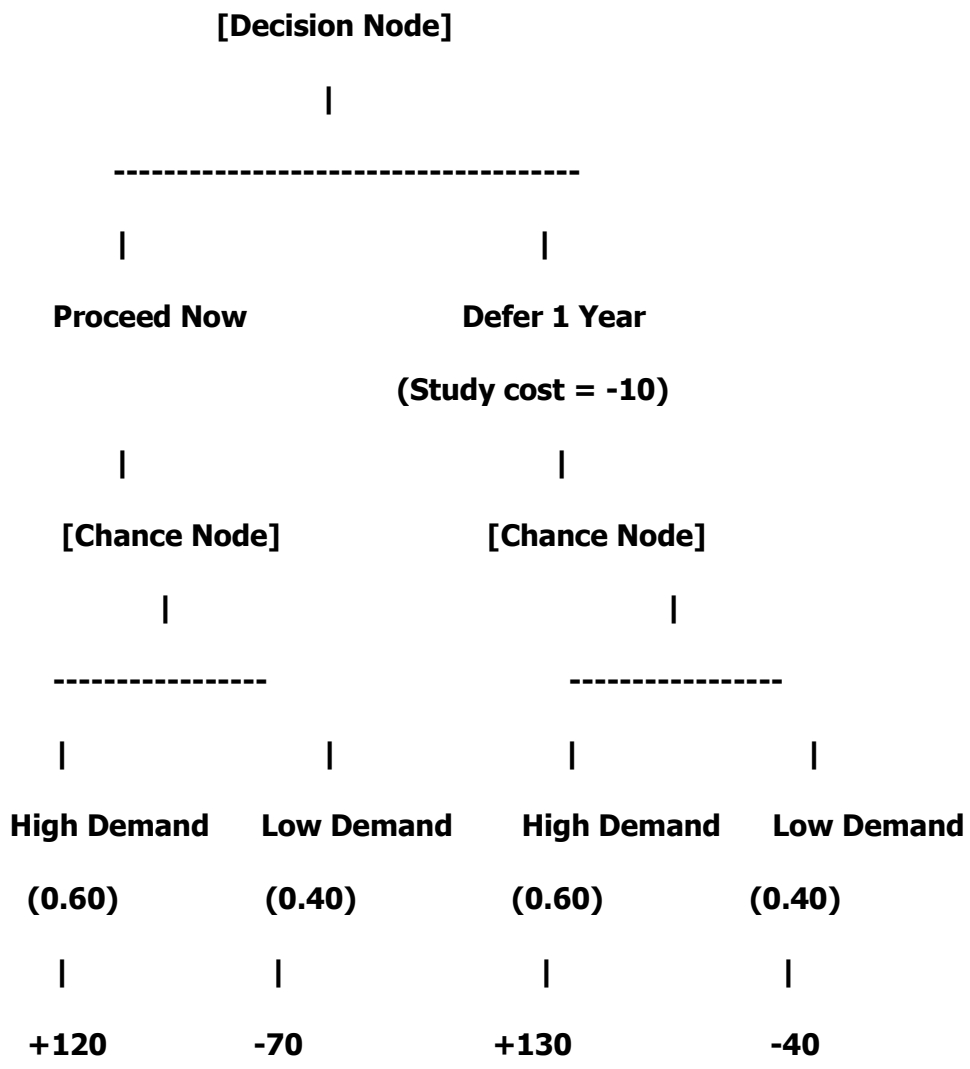
CA 3.8 PUBLIC SECTION FINANCIAL MANAGEMENT

SUGGESTED SOLUTIONS

SOLUTION ONE

(a)

(i) **Decision tree**



(ii) **Expected Value at Each Decision Branch**

Option 1: Proceed Now
EV=(0.60×120)+(0.40×−70)
EV=72−28=+44

Option 2: Defer One Year (Study Cost = 10 million)

First compute the expected value of project outcomes:

(0.60×130)+(0.40×−40) =78−16=62

Now deduct the study cost:

EMV=62−10=+52 million

Decision & Justification

The agency should defer the project**.**

Reasons:

- Defer option EMV (**K52m**) is higher than proceed-now EMV (**K44m**)

(iii) **Expected NPV Using Scenario Probabilities**

Economic cycle	Year	Net Cashflow	DF @ 4%	Present Value
Recession	1	-10	0.962	-9.62
Expansion	2-5	50	3.49	174.5
Peak	6	150	0.79	118.5

Economic cycle	Present Value	Probability	EV
Recession	-9.62	0.2	-1.924
Expansion	174.5	0.5	87.25
Peak	118.5	0.3	35.55

120.876 1

Decision

The project should be undertaken as the NPV is positive.

(b) (i)Probability of Negative NPV

Negative NPV occurs in the Recession scenario only.

Interpretation

- There is a low downside risk (20%)
- The project is viable on average, but risk mitigation and contingency planning are necessary

(ii) **Internal Rate of Return (IRR)**

The IRR is the discount rate that makes the project's NPV equal to zero.

Role in Decision-Making

- It represents the project's rate of return
- Decision rule:
  - Accept if IRR > required rate of return (cost of capital)
  - Reject if IRR < required rate
- In public projects, IRR is used as a supporting metric but should not replace NPV, because:
  - It ignores scale of investment
  - It may give misleading rankings for mutually exclusive projects

(iii) **External Risks**

External risks arise outside project control:

Risk Type	Example	Financial Impact
Macroeconomic	Inflation, exchange rate changes	Increased costs, reduced real revenues
Political / Regulatory	Policy shifts, legal changes	Delays, compliance costs
Environmental	Floods, droughts	Damage, repair costs
Market / Demand	Lower-than-expected usage	Revenue shortfalls
Financing	Interest rate increases	Higher borrowing costs

(iv) **Operational and Change Risks**

Operational Risks

Risks from project execution and management:

Risk	Example	Mitigation
Cost overruns	Poor contractor performance	Strong procurement controls, performance bonds
Delays	Supply chain disruptions	Contract penalties, schedule buffers
Technical failure	Design flaws	Independent technical reviews

Change Risks:

Risks due to policy, scope, or stakeholder shifts

Risk	Example	Mitigation
Scope creep	Political additions to project	Formal change-control processes
Stakeholder resistance	Community opposition	Early engagement and consultation
Policy shifts	Budget cuts	Phased implementation, contingency planning

Public-sector advisory perspective:
Risk management should align with **governance rules**, transparency, and value-for-money principles.

SOLUTION TWO

Overall appraisal

A private-provision concession can deliver capital and operational expertise where the council lacks funds and capacity, but it introduces significant financial, distributional and governance risks. The acceptability of the PPP depends on contract design, regulatory safeguards and municipal capacity to protect affordability and livelihoods.

(a) **Five risks**

(1) **Affordability / revenue-recovery (stall-rents) risk**

The concessionaire will need to recover investment and earn a return via stall rents and fees. This creates upward pressure on rents which may make stalls unaffordable for low-income vendors, undermining the relocation objective and risking return to street vending.

(2) **Vendor inclusion / exclusion risk**

Private operators may prefer tenants with documentation or stable incomes. Without explicit contractual eligibility rules and allocation mechanisms, vulnerable informal vendors risk exclusion from the new market.

(3) **Displacement / livelihood risk**

Moving from established street locations to a formal market can disrupt customer flows and informal support networks. If transition supports (phased moves, subsidies, marketing) are inadequate, traders may suffer income loss or abandon the market.

(4) **Demand / revenue forecast and financial viability risk**

Over-optimistic patronage or revenue forecasts may cause financial shortfalls. Low demand could trigger renegotiations, public subsidies or degraded service levels, exposing the municipality to contingent liabilities.

(5) **Procurement Complexity**

Explanation:

Public procurement—particularly for large infrastructure or PPP projects—involves multi-stage processes (prequalification, bid evaluation, financial modelling, technical assessment, contract negotiation). These processes require specialised legal, financial and technical expertise.

Risk Implication:

Poorly designed tender documents can lead to non-comparable bids.

Weak evaluation capacity may result in selecting an unsuitable bidder.

Complex financial structures (e.g., availability payments, guarantees, viability gap funding) may be misunderstood by public officials.

PFM Consequence:
This can lead to poor value for money, inflated lifecycle costs, and contingent fiscal liabilities that undermine budget credibility.

(6) **Political / Renegotiation Risk**

Explanation:
PPP and long-term public contracts span political cycles. A change in government, ministerial priorities or fiscal conditions may alter commitment to the project.

Risk Implication:

Contracts may be renegotiated to favour private partners.

Governments may revise tariffs or payment terms for political reasons.

Projects may be cancelled or restructured midstream.

PFM Consequence:
Renegotiations often increase fiscal costs and create unplanned budget pressures, weakening medium-term fiscal discipline and investor confidence.

(7) **Contract Incompleteness**

Explanation:
No long-term contract can fully anticipate all future contingencies (economic shocks, technological change, demand variability, force majeure events).

Risk Implication:

Ambiguities in risk allocation may lead to disputes.

Service quality standards may not be clearly measurable.

Unforeseen events may trigger claims for compensation.

PFM Consequence:
Incomplete contracts expose government to fiscal risks and arbitration costs, and may compromise service delivery outcomes.

(8) **Corruption Risk**

Explanation:
Large public contracts involve significant financial flows and discretionary decision-making, creating opportunities for bribery, bid rigging, collusion or political patronage.

Risk Implication:

Manipulated tender specifications to favour specific firms.

Kickbacks influencing contract awards.

Inflated project costs.

PFM Consequence:
Corruption distorts value-for-money outcomes, increases public debt burdens, reduces public trust, and weakens accountability mechanisms.

(9) Weak Monitoring and Enforcement

Explanation:
After contract award, government must monitor performance, enforce penalties, and ensure compliance with service standards.

Risk Implication:

Poor oversight may allow underperformance without sanctions.

Performance-based payments may be made without verification.

Regulatory bodies may lack technical or financial independence.

PFM Consequence:
Weak monitoring erodes efficiency gains expected from PPPs, leads to wasteful expenditure, and undermines fiscal sustainability.

(b) **Definition and five principal features**
A PPP private-provision (concession) model is a long-term contractual arrangement in which a private entity finances, designs, constructs, operates and maintains a public infrastructure asset for a defined concession period, while the public authority retains policy/regulatory responsibility and usually ultimate ownership of the asset.

Five principal features as applied to a municipal market

1. Long-term concession contract
    - A formal contract (e.g., 10–30 years) specifying roles, concession period, performance standards, revenue rights and handback conditions for the market operator.
2. Construction
   The private sector holds the financial risks related to construction, delays and overruns.
3. Private financing of capital expenditure
    - The private partner (or SPV) mobilises debt and equity to build the market, reducing immediate fiscal burden on the municipality; repayment is typically via stall rents, service charges or availability payments.
4. Revenue/payment mechanism linked to stalls
    - Operator cashflows depend on rent collection, occupancy rates and ancillary revenues (services, utilities). The payment design (user fees, revenue share, availability payments) materially affects incentives and affordability.
5. Procurement, regulatory and social inclusion clauses
    - Competitive procurement selects the concessionaire; the contract should incorporate social clauses (priority allocation, low-rent tiers, transitional
    - assistance), dispute resolution and oversight mechanisms to safeguard public interest.

(c) **Principal advantages**

1. Mobilisation of private capital
    - The model brings in private funding to build the market, relieving the municipality's immediate capital constraint.
2. Can improve efficiency and effectiveness by achieving an allocation of risks to whichever party in the public or private sector is best able to manage them.

3. Whole life costs of assets including ongoing maintenance are explicitly considered in contracts and design thus improving efficiency.

4. Access to design, construction and operational expertise.
    - Private partners often provide superior project management, maintenance regimes and commercial market management skills compared with constrained municipal capacity.
5. Potentially faster and more efficient delivery.
    - Commercial incentives and performance contracts can accelerate construction and improve cost control relative to conventional public procurement.
6. Scope for innovation and improved service levels.
    - Operators may introduce better rent collection systems, hygiene standards, security and facilities management, improving user experience and long-term sustainability.

7. Financial due diligence procedures conducted by those providing finance reduces risk of problems emerging following signing of contracts.

SOLUTION THREE

(a) **Key Areas of Public Expenditure in Zambia**

Public expenditure in Zambia is broadly concentrated in the following six major areas:

1. General Public Services

This includes expenditures that support the overall functioning of government. It covers:

- Executive and legislative functions
- Public financial management (Ministry of Finance, planning units)
- Revenue administration (e.g., Zambia Revenue Authority)
- Debt servicing (interest payments and related charges)
- Transfers to local authorities and constitutional bodies

This area does not directly produce goods or services for households but is essential for governance, macroeconomic stability, policy coordination, and maintaining the credibility of the state. In Zambia, debt service has become a significant component, limiting fiscal space for other sectors.

2. Defence and National Security

This covers spending on:

- The Zambia Army, Air Force, and National Service.
- Internal security (police, prisons, immigration).
- Border control and national protection systems.

Such expenditure ensures territorial integrity, maintenance of law and order, and internal stability. A secure environment is necessary for investment, economic activity, and social stability. Although not directly growth-enhancing, it is a foundational public good.

3. Economic Affairs

This is a growth-oriented category and includes spending that supports productive sectors and infrastructure, such as:

- Agriculture and food security programmes.
- Energy development and rural electrification.
- Transport infrastructure (roads, rail, airports).
- Mining regulation and industrial development.
- Tourism promotion and trade facilitation.

In Zambia, this area is critical for economic diversification away from copper dependency and for stimulating job creation. Public investment here often crowds in private sector investment.

4. Education

Education expenditure covers:

- Early childhood, primary, secondary, and tertiary education
- Teacher recruitment, training, and salaries
- Infrastructure such as classrooms and learning materials
- Skills development and technical/vocational training

This sector builds human capital, which is a key driver of long-term economic growth and poverty reduction. In Zambia, education also plays a major role in reducing inequality and improving labour productivity.

5. Health

Health spending includes:

- Hospitals, clinics, and rural health centres
- Medical personnel salaries and training
- Drugs, vaccines, and medical supplies
- Public health programmes (disease control, maternal and child health, nutrition)

Health expenditure improves labour productivity, reduces mortality and morbidity, and supports social welfare. In Zambia, high disease burdens and rural access challenges make this a critical expenditure area.

6. Social Protection and Community Services

This includes spending aimed at supporting vulnerable groups and improving living conditions, such as:

- Social cash transfer programmes
- Food security packs and relief support
- Public service pension obligations
- Housing and community amenities
- Water supply and sanitation services

This category addresses poverty, inequality, and social vulnerability. It also helps stabilise household consumption during economic shocks and supports inclusive development.

(b) **Recommending policy priorities**

Given Zambia's development needs and fiscal constraints, the following policy priorities should guide public expenditure:

1. Strengthening Human Capital Development

Greater priority should be placed on improving the **quality and equity** of spending in education and health. This includes:

- Reducing pupil–teacher ratios
- Improving learning outcomes, not just enrolment
- Expanding access to primary healthcare and essential medicines
- Investing in preventative healthcare and nutrition

Strong human capital improves productivity, supports economic diversification, and enhances long-term growth.

2. Promoting Economic Diversification

Public spending should support sectors that reduce reliance on copper. Priorities include:

- Agricultural value chains and irrigation
- Agro-processing and manufacturing
- Energy reliability to support industry
- Transport corridors that link production areas to markets

Expenditure should focus on catalytic investments that attract private sector participation rather than continuous subsidies.

3. Enhancing Infrastructure Efficiency and Maintenance

Rather than focusing only on new large-scale projects, priority should be given to:

- Maintaining existing roads, schools, and hospitals
- Completing ongoing projects before starting new ones
- Ensuring value for money through better procurement and project appraisal

This reduces waste, improves service delivery, and limits the accumulation of non-performing infrastructure.

4. Strengthening Social Protection Targeting

Social spending should increasingly focus on the most vulnerable through:

- Better targeting of cash transfer programmes
- Digital payment systems to reduce leakages
- Linking social protection with livelihoods and skills programmes

This improves poverty reduction outcomes without unsustainable increases in expenditure.

5. Improving Public Financial Management (PFM)

Better expenditure outcomes depend on stronger systems. Priorities include:

- Strengthening budget credibility and reducing arrears
- Enhancing expenditure controls and commitment management
- Improving audit follow-up and accountability
- Reducing waste and misapplication of funds

Effective PFM ensures that limited resources achieve maximum impact.

6. Managing the Public Debt Burden

Debt service consumes a large share of revenue. Expenditure policy should therefore:

- Avoid excessive non-concessional borrowing
- Prioritise high-return investments
- Improve domestic revenue mobilisation to reduce borrowing needs

Reducing debt pressure frees fiscal space for social and economic development.

7. Decentralising Service Delivery

More resources should be channelled to local authorities alongside strengthened capacity. This allows:

- Services to better match local needs
- Faster implementation
- Greater community accountability

Decentralisation improves efficiency and responsiveness in education, health, and water services.

Conclusion

Zambia's expenditure priorities should balance growth, human development, and fiscal sustainability. The emphasis should shift from simply increasing spending to improving the quality, targeting, and efficiency of public expenditure.

SOLUTION FOUR

(a) Key stages of the national budget cycle

(1) Budget preparation (planning & formulation): Purpose: Translate policy priorities into a costed budget and prepare medium-term expenditure frameworks and sector ceilings. Timely and evidence-based preparation ensures resource allocations reflect policy priorities and that estimates are realistic; good preparation reduces the need for in-year adjustments.

(2) Budget approval (legislative scrutiny & authorisation). Parliament reviews, amends and approves the budget, exercising control over resource allocation. Legislative scrutiny legitimises expenditure, provides democratic oversight and constrains executive discretion; timely approval prevents execution delays.

(3) Budget execution (commitments & payments): Implement approved plans through commitment controls, procurement, cash management and payments to suppliers and service providers. Effective execution translates plans into services; weak execution causes arrears, underspending or misallocation and undermines service delivery.

(4) Accounting, reporting and audit (financial monitoring & transparency): Record transactions, produce interim and year-end reports, and enable internal/external audit. Why it matters: Accurate reporting and independent audits provide the evidence base for oversight and corrective action and enhance public trust.

(b) Sequencing and coordination: Emphasize that each stage depends on the timely completion of the previous one (e.g., delays in approval delay execution), and that clear institutional roles, inter-agency coordination and realistic timelines are essential to maintain fiscal discipline and protect service delivery.

(c) Five best-practice measures for efficient and effective budget execution monitoring and control:

(1) Effective procedure for the collection and monitoring of central government revenue including how it is recorded and reported.

(2) The ability of the ministry of finance to forecast cash commitments and provide reliable information of funds available to those responsible for service delivery.

(3) Intergrity and completeness of financial data and comprehensive, accurate and timely information on budget execution.

(4) Strong and effective internal controls over payroll and non-salary expenditure with support from internal audit.

(5) Transparent open and competitive procurement arrangement.

(d) Budget reliability concerns how realistic the government budget is and the extent to which it is implemented as intended. Individual entities should not only have expenditure and revenue outturns that reflects the amounts originally approved , but also that the composition of expenditure from both a functional and economic perspective should also reflect the initial budget.

If initial budgets are unrealistic, and significant variances in both outturn and composition are common and accepted, then the likelihood that good practice is followed in execution monitoring and control is reduced.

SOLUTION FIVE

(a) Explain the four (4) pillars of the IMF Fiscal Transparency Code

1. **Fiscal Reporting:** This pillar requires governments to produce comprehensive, timely, reliable, and comparable reports on their financial position and performance, including assets, liabilities, revenues, expenditures, and debt.
2. **Fiscal Forecasting and Budgeting:** This pillar promotes transparency in the preparation, approval, and execution of the budget, including clear macroeconomic forecasts, medium-term fiscal frameworks, and disclosure of fiscal policy objectives and assumptions.
3. **Fiscal Risk Analysis and Management:** This pillar requires governments to identify, analyze, disclose, and manage risks that could affect public finances, including macroeconomic shocks, contingent liabilities, public guarantees, and risks from state-owned enterprises.
4. **Resource Revenue Management:** This pillar applies to countries with significant natural resource revenues and requires transparent reporting and management of revenues from extractive industries, including contracts, production, and revenue flows.

(b) Describe any two (2) levels of practice the Code uses to stage reforms (4 marks)

1. **Basic Practice:** At this level, governments meet the minimum standards of fiscal transparency by publishing essential fiscal data and ensuring that key fiscal reports are available, though coverage and detail may be limited.
2. **Good Practice:** At this level, governments provide more comprehensive, timely, and reliable fiscal information, including broader coverage of the public sector and clearer explanations of fiscal policy and risks.
3. Advanced Practice: represents the highest level of transparency, with full coverage, high data quality, and strong independent assurance.

(c) **Programme loan** — a repayable facility that supports a broad programme (policy reforms, sector-wide activities or budget support). Disbursements are usually tranche-based and tied to meeting policy or performance conditions. **Project loan** — a repayable facility dedicated to a specific project (road, school, water supply). Disbursements are linked to project milestones, procurement and physical progress.

(d) **Any Two stages of the budget cycle**

1. Budget Formulation & Strategic Planning

Set macro-fiscal targets and medium-term priorities; the Ministry of Finance & National Planning (MoFNP) issues the Budget Call Circular. Line ministries prepare Budget Framework Papers (BFPs) within the Medium-Term Expenditure Framework (MTEF).

2. Approval

Cabinet reviews consolidated proposals; the Minister of Finance tables the Budget Speech, Estimates and Finance Bill. Parliament debates, amends (where allowed) and passes the Appropriation Act and related finance laws.

Funds are released to ministries and local authorities; procurement and project implementation proceed. IFMIS and the Treasury Single Account (TSA) are central to payments, accounting and cash management. Regular in-year monitoring occurs.

3.Execution

Funds are released to ministries and local authorities; procurement and project implementation proceed. IFMIS and the Treasury Single Account (TSA) are central to payments, accounting and cash management. Regular in-year monitoring occurs.

4. Audit, Oversight & Evaluation.

The Auditor-General audits accounts and value-for-money. Parliamentary committees (especially the Public Accounts Committee) examine audit reports, summon accounting officers and recommend corrective actions. Audit findings feed into the next cycle.

END OF SUGGESTED SOLUTIONS