DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 1: FINANCIAL ACCOUNTING

MONDAY 7 SEPTEMBER 226

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

INSTRUCTIONS TO CANDIDATES

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

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

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

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A – (Compulsory)

Attempt all ten (10) multiple choice questions.

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. Financial statements differ from management accounts in that they:

A. Are summarized and prepared mainly for external users of accounting information.
B. Provide information to enable the trial balance too be prepared.
C. Are prepared monthly for internal control purposes.
D. Contain details of costs incurred in manufacturing.

(2 marks)

1.2. An increase in inventories of K500, a decrease in the bank balance of K800 and an increase in trade payables of K2 400 results in:

A. An increase in working capital of K2,100
B. A decrease in working capital of K2,100
C. An increase in working capital of K2,700
D. A decrease in working capital of K2,700

(2 marks)

1.3. Which one of the following statements regarding the balance on a ledger account is NOT correct?

A. A debit balance exists where the total of debit entries is more than the total of credit entries.
B. A credit balance exists where the total of credit entries is more than the total of debit entries.
C. A debit balance exists where the total of debit entries is less than the total of credit entries.
D. A credit balance exists where the total of debit entries is less than the total of credit entries.

(2 marks)

1.4. An Invoice from a supplier of office equipment has been debited to the stationery account. This error is known as:

A. An error of original entry.
B. A compensating error.
C. An error of commission.
D. An error of principle.

(2 marks)

1.5. The phrase ”carrying amount” when applied to non-current assets means that:

A. The assets are shown in the statement of financial position at their cost less accumulated depreciation.
B. The assets have been depreciated using the reducing balance method.
C. The assets are valued at their likely selling price
D. The assets are shown in the statement of financial position at their original cost.

(2 marks)

1.6. In times of rising prices, the FIFO cost formula for inventory valuation, when compared with LIFO cost formula, will usually produce:

A. A lower profit and a higher closing inventories value.
B. A higher profit and a lower closing inventories value.
C. A higher profit and a higher closing inventories value.
D. A lower profit and a lower closing inventories value.

(2 marks)

1.7. If, at the end of the financial year, a company makes a charge against the profits for stationery consumed but not yet invoiced, this adjustment is in accordance with the convention of:

A. Objectivity.
B. Accruals.
C. Materiality.
D. Consistency.

(2 marks)

1.8. A user posts a payment to the wrong supplier account. Which of the following is the best way to correct this in most computerized accounting systems?

A. Delete the payment and re-enter it correctly.
B. Process a supplier credit not to reverse the error.
C. Edit the original transaction and change the supplier name.
D. Use a journal to debit the wrong supplier and credit the correct supplier.

(2 marks)

1.9. The accumulated fund represents:

A. The excess of receipts over payments in a not-for-profit organisation.
B. The carrying amount of net assets in a not–for-profit organisation.
C. The total of shareholders' funds.
D. The bank balances of an organisation.

(2 marks)

1.10. The reducing balance method of depreciating non-current assets is more appropriate than the straight line method when:

A. The asset is expected to be consumed less in later years than in the early years of its life.
B. The expected life of the asset cannot be estimated accurately.
C. The expected life of the asset is short.
D. The asset is expected to decrease in value by a fixed percentage of cost each year.

(2 marks)

[Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

Towela previously worked as an Accountant in a private sector organisation where financial statements were prepared using International Financial Reporting Standards (IFRSs) and the accrual basis of accounting. In June 2025, he decided to join a Government Ministry so that he could obtain a pension and secure his job as he was tired of working on contracts which were for short periods. He was excited to join the Government because he learnt that the government had recently computerized its accounting system and were promoting the use of technology in all economic sectors.

During orientation, he was briefed that the Government Ministry prepares financial reports in accordance with the International Public Sector Accounting Standards (IPSASs) unlike in the private sector which uses IFRSs. Towela also learnt that public sector entities may apply either the IPSASs Cash Basis or IPSASs Accrual Basis, depending on government policy and level of reform. He is expected to understand the differences between these accounting bases and the users of public sector financial information to prepare and present annual financial reports that meet IPSAS requirements.

Required:

(a) In accordance with IPSASs, distinguish between cash basis accounting and accrual basis accounting that relate to public sector entities. (2 marks)

(b) Explain two (2) advantages and two (2) disadvantages of applying the IPSASs Cash basis of accounting in public sector organizations. (4 marks)

(c) Explain two (2) advantages and two (2) disadvantages of applying the IPSASs Accrual basis of accounting in public sector organizations. (4 marks)

(d) Discuss three (3) users of public sector financial reports in accordance with the IPSASs Conceptual Framework, explaining how each user relies on the information provided. (6 marks)

(e) Explain two (2) advantages of the Government Ministry computerizing its accounting system. (4 marks)

[Total: 20 Marks]

QUESTION THREE

Kaponda, a limited liability company, has the following trial balance at 31 December 2025:

	Debit K'000	Credit K'000
Cash at bank	250	
Inventory at 1 January 2025	6,000	
Administrative expenses	5,515	
Distribution costs	1,625	
Non-current assets at cost:		
Buildings	25,000	
Plant and equipment	3,500	
Motor vehicles	800	
Suspense		3,750
Accumulated depreciation:		
Buildings		10,000
Plant and equipment		1,200
Motor vehicles		300
Retained earnings		1,400
Trade receivables	2,190	
Purchases	10,500	
Dividend paid	500	
Sales revenue		29,380
VAT payable		3,475
Trade payables		2,625
Share premium		1,250
Ordinary shares of K1 each		2,500
	55,880	55,880

The following additional information is relevant.

(1) Inventory at 31 December 2025 was valued at K4,000,000. While doing the inventory count, errors in the previous year's inventory count were discovered. The inventory brought forward at the beginning of the year should have been K5.5m, not K6.0m as above.

(2) Depreciation is to be provided as follows:

(i) Buildings at 5% straight line, charged to administrative expenses.

(ii) Plant and equipment at 20% on the reducing balance basis, charged to cost of sales.

(iii) Motor vehicles at 25% on the reducing balance basis, charged to distribution costs.

(3) No final dividend is being proposed.

(4) A customer with a debit balance of K190,000 had gone bankrupt. This debt is not expected to be recovered and an appropriate adjustment should be made. An allowance for receivables of 5% is to be set up on the remaining receivables.

(5) 2.5 million new ordinary shares were issued at K1.50 on 1 December 2025. The proceeds were left in a suspense account.

Required:

(a) Kaponda's Ltd's statement of profit or loss for the year to 31 December 2025. (7 marks)

(b) Kaponda's Ltd's statement of changes in equity as at 31 December 2025. (4 marks)

(c) Kaponda's Ltd's statement of financial position as at 31 December 2025, in accordance with the requirements of International Financial Reporting Standards (IFRSs). Ignore taxation. (9 marks)

[Total: 20 Marks]

QUESTION FOUR

The following summarized statements of financial position at December relate to Muchi Ltd.

	2025	2024
NON - CURRENT ASSETS	**K**	**K**
Property, Plant and Equipment at cost.	26 000	20 000
Less Accumulated depreciation	(12 000)	(8 000)
	14 000	12 000
Investments at cost	2 000	8 000
	16 000	20 000
CURRENT ASSETS		
Inventory	28 000	16 000
Trade Receivables	62 000	54 000
Bank	-	4 000
	90 000	74 000
Total assets	106 000	94 000
EQUITY AND LIABILITIES		
Ordinary shares at K1 each	30 000	20 000
Share Premium	8 000	6 000
Retained Earnings	21 200	26 800
	59 200	52 800
CURRENT LIABILITIES		
Trade Payables	36 800	32 000
Bank Overdraft	2 400	
Taxation	7 600	9 200
	46 800	41 200
Total Equity and Liabilities	106 000	94 000

Additional Information

(1) During the year to 31 December 2025, some non-current assets originally costing K1,000 had been sold for K800 in cash. The allowance for depreciation on the asset sold at 31 December 2024 amounted to K400. Similarly, some of the investments originally costing K6,000 had been sold for cash at their book value.

(2) The Income tax charged in 2025 was K7,600 and all taxes were paid on their due dates.

(3) A dividend of K5,200 was paid during the year to 31 December 2025.

(4) During the year to 31 December 2025, the company made a one for every two rights issue of the 10,000 Ordinary shares at K1.2 per share.

Required:

(a) Prepare Muchi Ltd's statements of cash flows for the year to 31 December 2025 in accordance with the requirements of IAS 7 using the indirect method. (16 marks)

(b) In line with the Conceptual Framework, briefly explain the accruals basis of accounting, stating its effect in revenue recognition. (4 marks)

[Total: 20 Marks]

QUESTION FIVE

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

	K
Capital	251,661
Sales	779,610
Trade payables	59,520
Returns outwards	40,221
Allowance for irrecoverable debts	1,536
Discount allowed	6,918
Discount received	5,250
Purchases	407,040
Returns inwards	16,872
Carriage outwards	13,686
Drawings	55,320
Carriage inwards	35,490
Rent, rates and insurance	77,919
Heat and lighting	33,030
Postage, stationary and telephone	7,230
Advertising	17,940
Salaries and wages	115,563
Irrecoverable debts	6,024
Cash in hand	1,602
Cash at bank	13,320
Inventory 1 January 2025	46,962
Trade receivables	73,500
Fixtures and fittings at Cost	362,220
Allowance for depreciation	189,060
Depreciation	36,222

You are also given the following information:

(1) Inventory at the close of business was valued at K53,250.

(2) Insurances have been prepaid by K3,360.
(3) Heat and lighting has been accrued by K4,080.
(4) Rates have been prepaid by K16,305.
(5) The allowance for irrecoverable debts is to be adjusted so that it is 3% of trade receivables.

Required:

(i) Prepare Lulamba's statement of profit or loss account for the year ended 31 Dec 2025. (10½ marks)

(ii) Prepare Lulamba's statement of financial position as at 31 Dec 2025. (6½ marks)

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

[Total: 20 Marks]

QUESTION SIX

You are given the following transactions by Brian Banda, a sole trader, at the start of his business in January 2025:

January 2	Brian Banda starts with K5,000 in cash and K15,000 in the bank.
January 3	Pays rent by cash K80
January 4	Purchases goods for K5,000 paying by Cheque
January 6	Sells goods for cash K210
January 10	Buys Furniture and fittings for K2,100 paying by Cheque.
January 15	Sells goods for K8,670 by Cheque.
January 18	Buys goods for cash K3,900
January 22	Sells goods for cash K1,320
January 25	Pays wages by cash K135
January 27	Sells goods for K330 by Cheque
January 31	B. Banda withdraws K200 in cash for personal use.

Required:

(a) Write up Brain Banda's ledger accounts clearly showing the balances at the end of January 2025. (15 marks)

(b) Draw up Brian Banda's trial balance as at 31 January 2025. (5 marks)

[Total: 20 Marks]

END OF PAPER

DA1 FINANCIAL ACCCOUNTING

SUGGESTD SOLUTIONS

SOLUTION ONE

1.1 A

1.2 D

1.3 C

1.4 D

1.5 A

1.6 C

1.7 B

1.8 D

1.9 B

1.10 A

SOLUTION TWO

(a) **Distinction between Cash Basis and Accrual Basis Accounting Under IPSAS**

Cash Basis Accounting

This is a system of accounting in which revenue and expenses are recognized by the public entity only when cash is received or paid.

Accrual Basis Accounting

This is the basis of accounting in which revenue and costs are recognized when transactions and events occur regardless of when cash is exchanged.

(b) **IPSAS Cash Basis Accounting - Advantages and Disadvantages**

Advantages (any two)

- It is easier to prepare and understand the financial statements.
- Enhances budgetary control and cash management which is crucial in government operations
- It eliminates subjectivity as actual activities are recorded

Disadvantages (any two)

- Assets and liabilities other than cash are not recognized thereby reducing accountability for public resources.
- Focus is only on cash transactions.
- Financial statements may be misleading as they are not complete without accruals.

(c) **IPSAS Accrual Basis Accounting - Advantages and Disadvantages**

Advantages (any two)

- It provides a full picture of the financial position and performance.
- Strengthens, transparency, accountability, and comparability across public sector entities.
- Financial information is recorded when transactions occur and not only when cash is received or remitted.

Disadvantages (any two)

- It requires advanced systems, knowledge and skilled personnel to administer.
- It is not easy for users of accounting information to understand.
- There is potential to manipulate the financial information to make it look good.

(d) **Three Users of Public Sector Financial Reports under IPSAS**

1. **Service Recipients (Citizens and Communities)**
   Use financial reports to assess the quantity and quality of services provided using public resources.
2. **Resource Providers (Taxpayers, Donors, and Lenders)**
   Assess whether funds are managed well in accordance with the laid down legal and donor requirements.

3. **Managers**
   Use the financial information to ensure day to day running of the organisation is operating smoothly and that budgets are adhered to.

4. **Central Government**
   Concerned with how funds were utilized and helps in evaluation of future controls and budgeting.

(e) **Two advantages of government Ministry computerized accounting system**

1. Computerized information or data is more accurate than data processed manually by a human being.
2. Large volumes of data for the government can be processed quickly.

SOLUTION THREE

(a) **Kaponda**
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2025

	K'000
Revenue	29,380
Cost of sales (W2)	(12,460)
Gross profit	16,920
Administrative expenses (W3)	(7,055)
Distribution costs (1,625 +125)	(1,750)
Profit for the year	8,115

(b) **Kaponda**
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2025

	Share Capital	*Share Premium*	*Retained Earnings*	*Total*
	K'000	K'000	K'000	K'000
Balance at 1 January 2025	2,500	1,250	1,400	5,150
Prior period adjustment	-	-	(500)	(500)
Restated balance	2,500	1,250	900	4,650
Total comprehensive income for the year	-	-	8,115	8,115
Dividends paid	-	-	(500)	(500)
Share issue	2,500	1,250	-	3,750
Balance at 31 December 2025	5,000	2,500	8,515	16,015

(c) **Kaponda**
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2025

	K'000	K'000
Non-current assets		
Property, plant and equipment (W4)		15,965
Current assets:		
Inventory	4,000	
Trade receivables (2,190 –190 –100)	1,900	
Cash	250	
		6,150
Total assets		*22,115*
Equity and liabilities:		
Equity:		
Share capital (2,500+2,500)		5,000
Share premium (1,250+1,250)		2,500
Retained earnings (W5)		8,515
Current liabilities:		
VAT payable	3,475	
Trade payables	2,625	
		6,100
Total equity and liabilities		22,115

WORKINGS

1. *Depreciation*

	K'000
Buildings (25,000 * 5%)	1,250
Plant (3,500 –1,200) * 20%	460
Motor vehicles (800 –300) * 25%	125

2. *Cost of sales*

	K'000
Opening inventory	5,500
Purchases	10,500
Depreciation (W1)	460
Closing inventory	(4,000)
	12,460

3. *Administrative expenses*

	K'000
Per T/B	5,515
Depreciation (W1)	1,250
Irrecoverable debt	190
Receivables allowance ((2,190 – 190) * 5%)	100
	7,055

4. *Property, plant and equipment*

	Cost	*Acc Dep*	*Dep chg*	*NBV*
	K'000	K'000	K'000	K'000
Buildings	25,000	10,000	1,250	13,750
Plant	3,500	1,200	460	1,840
Motor vehicles	800	300	125	375
	29,300	11,500	1,835	15,965

5. *Retained earnings*

	K'000
B/f per T/B	1,400
Prior period adjustment (inventory)	(500)
Profit for period	8,115
Dividend paid	(500)
	8,515

SOLUTION FOUR

(a) **Muchi Ltd's**
Statement of cash flows for the year ended 31 December 2025

Cash flows from operating activities	K	K
Profit before tax (W1)	7 200	
Adjust for: Depreciation (W3)	4 400	
Profit on Disposal (W4)	(200)	
Movements in working capital		
Increase in inventory (28,000 – 16,000)	(12 000)	
Increase in receivables (62,000 – 54,000)	(8 000)	
Increase in payables (36,800 – 32,000)	4 800	
Cash generated from operating activities	(3,800)	
Tax paid	(9 200)	
Net cash flows from operating activities		(13 000)
Cash flows from investing activities		
Receipts from sale of PPE	800	
Payments to acquire PPE. (W2)	(7 000)	
Receipts from sale of investments	6 000	
Net cash flows from investing Activities		(200)
Cash flows financing activities		
Issue of new shares (38,000 – 26,000)	12 000	
Dividends paid	(5 200)	
Net cash flow from financing activities		6 800
Net decrease in cash and cash equivalents		(6 400)
Cash and cash equivalent at 1st Jan. 2025		4 000
Cash and cash equivalent at 31st Dec. 2025		(2 400)

WORKINGS

1. Profit for the year – Closing Balance		21 200
Add Back – tax	7 600	
- Dividends	5 200	12 800
		34 000
Less Opening Balance		(26 800)
Profit for the year.		7 200

2. PPE at cost A/C

Balance	b/f	20 000	Disposal		1 000
Bank - Additions		7 000	Balance	c/d	26 000
		27 000			27 000

3. Allowance for Depreciation on PPE A/C

Disposal		400	Balance	b/f	8 000
Balance	c/d	12 000	Depreciation Expenses		4 400
		12 400			12 400

4. PPE Disposal A/C

PPE	1 000	Allowance for Depreciation	400
P/Loss - Profit on Disposal	200	Bank	800
	1 200		1 200

(b) The conceptual framework under IAS 1, requires entities to prepare their financial statements on the basis that transactions are recorded in them, not as the cash is paid or received, but as the revenues or expenses are earned or incurred in the accounting period to which they relate.

According to the accrual assumption, in computing profit, revenue earned must be matched against the expenditure incurred in earning it.

SOLUTION FIVE

(a) (i) Lulambe Statement of profit or loss for the year ended 31 Dec. 2025

Sales (779,610-16,872)		762,738
Less cost of goods sold:		
Inventory	46,962	
Purchases (407,040-40,221)	366,819	
Carriage inwards	35,490	
	449,271	
Less inventory	(53,250)	396,021
Gross Profit		366,717
Discount received		5,250
		371,967
Less Expenses:		
Salaries and wages	115,563	
Rent, rates and insurances (77,919-3,360-16,305)	58,254	
Heat and lighting (33,030+4,080)	37,110	
Carriage outwards	13,686	
Advertising	17,940	
Postage, stationary and telephone	7,230	
Irrecoverable debts	6,024	
Allowance for irrecoverable debts	669	
Discount allowed	6,918	
Depreciation	36,222	299,616
Net profit		72,351

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

Non-Current Assets:	Cost	Dep	NBV
Fixtures & fittings	362,220	(189,060)	173,160
Current Assets:			
Inventory		53,250	
Trade receivables (73,500-2,205)		71,295	
Prepayments (16,305+3,360)		19,665	
Bank		13,320	
Cash		1,602	
			159,132
			332,292
Financed by:			
Capital		251,661	
Add: Net profit		72,351	
		324,012	
Less: Drawings		(55,320)	
			268,692
Current Liabilities:			
Trade payables		59,520	
Accrued Expenses		4,080	63,600
			332,292

Working: Allowance for irrecoverable debts

K73,500*0.03 = 2,205

Therefore: 2,205-1,536 = 669

(b) The following factors can be identified.

- National/local legislation.
- Accounting concepts and individual judgement.
- Accounting standards.
- Other international influences.
- Generally accepted accounting principles (GAAP).
- Fair presentation.

SOLUTION SIX

(a) **Brian Banda's Ledger Accounts**

CAPITAL ACCOUNT

Jan. 31	Balance	c/d	20 000	Jan.2	Cash	5 000
					Bank	15 000
			20 000			20 000
					Balance b/f	20 000

CASH ACCOUNT

Jan.2	Capital	5 000	Jan. 3	Rent	80
Jan.6	Sales	210	Jan. 18	Purchases	3 900
Jan.22	Sales	1 320	Jan. 25	Wages	135
			Jan. 31	Drawings	200
			Jan. 31	Balance $^{c}/_{d}$	2 215
		6 530			6 530
Feb. 1	Balance B/F	2 215			

BANK ACCOUNT

Jan.2	Capital	15 000	Jan.4	Purchases	5 000
Jan. 15	Sales	8 670	Jan. 10	Furniture & Fittings	2 100
Jan.27	Sales	330	Jan.31	Balance	16 900
		24 000			24 000
Feb. 1	Balance $^{b}/_{f}$	16 900			

PURCHASES ACCOUNT

Jan. 4	Bank	5 000	Jan. 31	Balance $^{C}/_{d}$	8 900
Jan. 18	Cash	3 900			
		8 900			8 900
Feb. 1	Balance $^{b}/_{f}$	8 900			

RENT ACCOUNT

Jan. 3	Cash	80

SALES ACCOUNT

Jan 31	balance $^{c}/_{d}$	10 530	Jan 6	CASH	210
			Jan 15	BANK	8 670
			Jan 22	CASH	1 320
			Jan 27	BANK	330
		10 530	Feb 1		10 530
				Balance $^{b}/_{f}$	10 530

FURNITURE AND FITTINGS ACCOUNT

Jan 10	Bank	2 100

WAGES ACCOUNT

Jan. 25	Cash	135

DRAWINGS ACCOUNT

Jan. 31	Cash	200

(b) **Brian Banda's Trial Balance as at 31 January 2025**

	Dr	Cr
	K	K
Capital		20 000
Cash	2 215	
Bank	16 900	
Purchases	8 900	
Sales		10 530
Rent	80	
Furniture	2 100	
Wages	135	
Drawings	200	
	30 530	30 530

END OF SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 2: QUANTITATIVE 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: Ten (10) compulsory multiple choice questions.
   Section B: FIVE (5) optional questions. Attempt any FOUR (4) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

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

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

SECTION A – (COMPULSORY)

Attempt all ten (10) multiple choice questions.

QUESTION ONE

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

1.1 The average number of cars passing at Monze check point in an hour is 3. The probability that at most one car passes the check point in an hour is:

A. 0.1992

B. 0.1469

C. 0.0498

D. 0.1452

(2 marks)

1.2 If the price of maize in an open market is at an average of K330 with a standard deviation of K40, what is the coefficient of variation of the cost of maize?

A. 12.12%

B. 40.00%

C. 87.87%

D. 100%

(2 marks)

1.3 If X is a random variable that is Poisson with the occurrence rate of 5, then $P(X=2)$ is:

A. 0.1024

B. 0.0842

C. 0.0791

D. 0.2317

(2 marks)

1.4 A mathematical model of linear programming is important because:

A. It helps in converting the verbal description and numerical data into a mathematical expression.
B. Decision makers prefer to work with formal models.
C. It captures the relevant relationship among decision makers.
D. It enables the use of algebraic techniques.

(2 marks)

1.5 Which of the following is true of the internal rate of return (IRR)?

A. The IRR is the current cost of borrowing.
B. The IRR is the discount rate.
C. The IRR is the discount rate for which net present value is zero.
D. All other things being equal, a project with a low IRR will always be preferable to one with a high IRR.

(2 marks)

1.6 If money is divided into the ratio $4:5$ and the largest part is $\mathrm{K}65{,}000$. What is the smallest part.

A. K52,000
B. K13,000
C. K60,000
D. K40,000

(2 marks)

1.7 For two (2) events E and F, which of the following is a true probability statement?

A. P(E or F) = P(E) + P(F) if E and F are mutually exclusive.
B. P(E or F) = P(E) + P(F) if E and F are independent.
C. P(A and B) = P(A) x P(B) if A and B are mutually exclusive.
D. P(A /B) = P(B) if A and B are independent.

(2 marks)

1.8 The distribution weight of 4 students is 40 kg, 50 kg, 70 kg and 60 kg. The mean deviation of the weight is:

A. 55 kg.

B. -10 kg.

C. 10 kg.

D. 40 kg.

(2 marks)

1.9 Kamoko plans a trip to Livingstone and estimated that he requires K15,000 for the same. He wants to amortize the balance at 10% annual interest rate compounded monthly for five (5) years. What is the value of the monthly payment?

A. K9,116.83

B. K318.71

C. K518.61

D. K443.40

(2 marks)

1.10 The coefficient of variation measures:

A. The risk per unit of expected payoff.

B. The risk – adjusted expected value.

C. The payoff per unit of risk.

D. A decision maker's risk – return tradeoff.

(2 marks)

[Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

(a) The following data relate to advertisement expenditure and their corresponding sales (in Thousands of kwachas)

Advertisement expenditure	40	50	38	60	65	50	35
Sales	38	60	55	60	68	48	30

(i) Find the regression line establishing the relationship between sales and advertisement. (7 marks)

(ii) Compute the coefficient of correlation and comment. (3 marks)

(iii) Compute the coefficient of determination and comment. (3 marks)

(iv) Estimate the sales corresponding to advertising expenditure of K30. (3 marks)

(b) Unemployment in the first quarter was 1,500,000. The trend value for that quarter was 900,000 and the seasonal factor using the multiplicative model was 1.4. What is the seasonally adjusted unemployment value in the first quarter? (4 marks)

[Total: 20 Marks]

QUESTION THREE

(a) A farmer wishes to invest part of the money made through sales of his farm produce. He has K5,000 invested at 8% compound interest per annum for four (4) years.

(i) Calculate the value of the investment at the end of four (4) years if investment is compounded per month. (3 marks)

(ii) Calculate the value of the investment at the end of four (4) years if investment is compounded per day. (3 marks)

(b) The table below shows the scores obtained by 18 different candidates during the interviews.

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

Required:

Using the figures given above, calculate:

(i) The arithmetic mean. (3 marks)

(ii) The standard deviation. (5 marks)

(iii) The median. (3 marks)

(iv) Coefficient of variation. (3 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) Mr. Kalima owns a small business entity. He decides to save up some money in order to expand his business in the near future. Assume he saves money for a period of 8 years at an interest rate of 15% per annum.

(i) If he deposits a K4,000 annually, find the value of the fund at the end of eight (8) years. (3 marks)

(ii) How much should he be depositing each year if the final value of the fund is K60,000? (3 marks)

(iii) How much should be deposited each month if the final value of the fund is K80,000? (3 marks)

(b) According to a Bridge Gate survey and credit bureau data, in 2008, college students carried an average of K3,173 debt on their credit cards. Suppose that current credit card debts for all college students have a normal distribution with a mean of K3,173 and a standard deviation of K800. Find the probability that credit card debt for a randomly selected college student is:

(i) Not more than K2,025. (3 marks)

(ii) Greater than K3,265. (3 marks)

(iii) Between K2,109 and K3,605. (5 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) An ice cream retailer's record of previous month's sale of a particular variety of ice cream is as shown in the table below:

Demand	Probability
4	0.17
5	0.33
6	0.20
7	0.27
8	0.03

(i) Simulate the demand for the first ten (10) days of the month according to the following random numbers 17, 46, 85, 09, 50, 58, 04, 77, 69 and 74. (6 marks)

(ii) What will be the average demand of ice cream per day? (1 mark)

(iii) What will be the expected daily demand of ice cream? (3 marks)

(b) The price per share (in hundreds of Kwacha) of a company quoted on the Lusaka Stock Exchange at the close of business for forty (40) days is summarized in the following frequency distribution.

Price per share (K'000)	Number of days
21-25	3
26-30	5
31-35	8
36-40	12
41-45	6
46-50	4
51-55	2

(i) Calculate the mean. (2 marks)

(ii) Calculate the variance. (4 marks)

(c) A company negotiates a loan of K200,000 over 2 years at 10.5% compounded three (3) times in a year. Calculate the regular payments necessary to amortize the debt.

(4 marks)

[Total: 20 Marks]

QUESTION SIX

(a) The information below relates to people taking out mortgages. Draw an appropriate pie chart for the all buyers' information.

By type of dwelling (%)

Type	**All buyers**
Bungalow	10
Detached house	19
Semi – detached house	31
Terraced house	30
Purpose built flat	7
Converted flat	3

(8 marks)

(b) The number of cars arriving per hour at MM's Car wash during the past 200 hours of operation is shown in the following table:

Number of cars arriving	**Frequency**
3 or less	0
4	20
5	30
6	50
7	60
8	40
9 or more	0

Required:

(i) Set up a probability and cumulative probability distribution for the variable of car arrivals. (4 marks)

(ii) Establish random number intervals for the variable. (1 mark

(iii) Simulate 10 hours of car arrivals per hour. Using the following random numbers: 52, 37, 82, 69, 98, 96, 33, 50, 88, 90

(5 marks)

(iv) Compute the expected number of car arrivals. (2 marks)

[Total: 20 Marks]

END OF PAPER

DA 2 QUANTITATIVE ANALYSIS

SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 A

1.2 A

1.3 B

1.4 A

1.5 C

1.6 A

1.7 A

1.8 C

1.9 B

1.10 A

SOLUTION TWO

(a) The computations are given in the table:

Advertisement expenditure (x)	Sales (Y)	X^2	Y^2	XY
40	38	1 600	1 444	1 520
50	60	2 500	3 600	3 000
38	55	1 444	3 025	2 090
60	60	3 600	3 600	3 600
65	68	4 225	4 624	4 420
50	48	2 500	2 304	2 400
35	30	1 225	900	1050
$\sum x = 338$	$\sum y = 359$	$\sum x^2 = 17\,094$	$\sum y^2 = 19\,497$	$\sum xy = 18080$

(i) $$b = \frac{\sum xy - \frac{\sum x \sum y}{n}}{\sum x^2 - \frac{(\sum x)^2}{n}} = \frac{1\,8080 - \frac{(338)(359)}{7}}{7} = \frac{745.4285714}{773.4285714} = 0.963797561 \approx 0.964$$

$$a = \overline{y} - b\overline{x} = \frac{359}{7} - (0.963797561)\left(\frac{338}{7}\right)$$
$$= 51.28571429 - 46.53765366$$
$$= 4.748060626 \approx 4.748$$
$$\breve{y} = 4.748 + 0.964x$$

(ii) $$r = \frac{\sum xy - \frac{\sum x \sum y}{n}}{\sqrt{\left[\sum x^2 - \frac{(\sum x)^2}{n}\right]\left[\sum y^2 - \frac{(\sum y)^2}{n}\right]}} = \frac{18\,080 - \frac{(338)(359)}{7}}{\sqrt{\left[17\,094 - \frac{(338)^2}{7}\right]\left[19\,653 - \frac{(359)^2}{7}\right]}} =$$
$$\frac{745.4285714}{\sqrt{(773.4285714)(1085.428571)}} \approx 0.81$$

Since $r = 0.81$ is since the value is greater than 0) greater than .5, we can say that there is a positive linear relationship between advertisement expenditure and sales.

(iii) $r^2 = (0.813570709)^2 = 0.6617897299 \approx 66.2\%$

This implies that 66.2% of the variability can be explained by the fitted line.

(iv) $\hat{y} = 4.748 + 0.964x$; $\hat{y}_{30} = 4.748 + 0.964(30) = 33.7$

(b) The multiplicative model has the seasonal index$\left(S = \frac{y}{\ddot{y}}\right)$ of 1.4, Unemployment figure was $(y = 1\,500\,000)$ with the trend value as $(\hat{y}) = 900\,000$

Multiplicative model $Y = S \times \hat{Y}$

Where
$$y = Actual\ value$$
$$\hat{y} = trend\ value$$
$$S = the\ seasonal\ index$$

Seasonally adjusted unemployment figure in the first quarter is

$$\frac{Actual}{the\ seasonal\ index} = \frac{1\,500\,000}{1.4} = 1\,071\,428.571 \approx 1\,071\,429$$

SOLUTION THREE

(a) (i)

$$P_T = P\left(1+\frac{r}{n}\right)^{nt}$$
$$= 5000\left(1+\frac{0.08}{12}\right)^{4(12)}$$
$$= 6878.33$$

(ii)

$$P_T = P\left(1+\frac{r}{n}\right)^{nt}$$
$$= 5000\left(1+\frac{0.08}{365}\right)^{4(365)}$$
$$= 6885.40$$

(b) **Calculations are as follows**

(i) **The mean** $= \frac{1}{n}\sum x = \frac{1}{18}(43+53+64+\cdots+55)$

$$= \frac{1}{18}(804) = 44.67$$

(ii) **Standard deviation**

$$\sum x = 43+53+64+\cdots+55 = 804$$

$$\sum x^2 = 43^2+53^2+64^2+\cdots 55^2 = 40,226$$

$$S^2 = \frac{\sum x^2 - \frac{(\sum x)^2}{f}}{f-1} = \frac{40,226 - \frac{(804)^2}{18}}{18-1}$$
$$= \frac{40,226 - 35,912}{17}$$
$$= \frac{4,314}{17} = 253.76$$

$$S = \sqrt{\frac{\sum x^2 - \frac{(\sum x)^2}{f}}{f-1}} = \sqrt{253.76} = 15.93$$

(iii) To find the median, arrange the date in increasing order.

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

Median $= \frac{45+50}{2} = 47.5$

(iv) $CV = \frac{S}{\mu} = \frac{15.93}{44.67} \times 100\% = 35.66\%$

SOLUTION FOUR

(a) (i) $A_t = A_0\frac{(1+i)^t-1}{i}$, $where\ A_t = ?,\ A_0 = 4000$ $i = \frac{15}{100},$ $t = 8$

$$= 4000 \times \frac{(1+0.15)^8 - 1}{0.15}$$

$$= 4000 \times \frac{3.059 - 1}{0.15}$$

$$= 4000 \times \frac{2.059}{0.15}$$

$$= K54906.67$$

The fund will be worth $K54906.67$ at the end of 8 years.

(ii) $A_t = A_0\frac{(1+i)^t-1}{i}$, $where\ A_t = 60000,\ A_0 = ?$ $i = \frac{15}{100},$ $t = 8$

$$60000 = A_0 \times \frac{(1+0.15)^8 - 1}{0.15}$$

$$60000 = A_0\frac{3.059 - 1}{0.15}$$

$$60000 = A_0 \times \frac{2.059}{0.15}$$

$$A_0 = K4371.05$$

To end up with K60000, the annual deposit should be K4371.05.

(iii)

$A_t = A_0\frac{(1+i)^t - 1}{i}$, $where\ A_t = 80000,$ $A_0 = ?$ $\frac{i}{12} = \frac{0.15}{12}, t \times 12 = 8 \times 12 = 96$

$$80000 = A_0 \times \frac{\left(1 + \frac{0.15}{12}\right)^{8\times12} - 1}{\frac{0.15}{12}}$$

$$80000 = A_0\frac{3.3 - 1}{0.0125}$$

$$80000 = A_0 \times \frac{2.3}{0.0125}$$

$$A_0 = K434.78$$

Saving K434.78 per month will provide a fund of K80000 at the end of 8 years.

(b)

(i) $Z = \frac{X-3173}{800}$

$P(X \leq 2025)$

$$P\left[\frac{X-3173}{800} \leq \frac{2025-3173}{800}\right]$$
$$= P[Z \leq -1.44]$$
$$= 1 - 0.9251$$
$$= 0.0749$$

(ii) $P(X > 3265)$

$$P\left[\frac{X-3173}{800} > \frac{3265-3173}{800}\right]$$
$$= P[Z > 0.115]$$
$$= 1 - 0.5478$$
$$= 0.4522$$

(iii) $P(2109 < X < 3605)$

$$P\left[\frac{2109-3173}{800} < \frac{X-3173}{800} < \frac{3605-3173}{800}\right]$$

$$P[-1.33 < Z < 0.54]$$
$$P[Z < 0.54) - P[Z < -1.33]$$
$$0.7054 - 0.0918$$
$$= 0.6136$$

SOLUTION FIVE

(a) (i) Cumulative Probability Distribution

Demand	Probability	Cumulative Probability	Random Digit Assignment
4	0.17	0.17	1 – 17
5	0.33	0.50	18 – 50
6	0.20	0.70	51 – 70
7	0.27	0.97	71 – 97
8	0.03	1.00	98 – 100

Demand Simulation

Random Number	Demand
17	4
46	5
85	7
9	4
50	5
58	6
4	4
77	7
69	6
74	7
Total Demand	55

(ii) Average demand $= \frac{55}{10} = 5.5$ ice cream per day.

(iii) The expected demand per day is computed as follows:

$$\begin{aligned} \mathrm{E}(\mathrm{X}) &= \sum_{x} x\mathrm{P}(\mathrm{X}=x) \\ &= 4(0.17)+5(0.33)+6(0.2)+7(0.27)+8(0.03) \\ &= 0.68+1.65+1.20+1.89+0.24 \\ &= 5.66 \text{ ice cream} \end{aligned}$$

(b)

Price per share	f	**Mid-point** x	fx	$(x-\bar{x})$	$(x-\bar{x})^2$	$f(x-\bar{x})^2$
21 – 25	3	23	69	-14.125	199.52	598.56
26 – 30	5	28	140	-9.125	83.27	416.35
31 – 35	8	33	264	-4.125	17.02	136.16
36 – 40	12	38	456	0.875	0.77	9.24
41 – 45	6	43	258	5.875	34.52	207.12
46 – 50	4	48	192	10.875	118.27	473.08
51 – 55	2	53	106	15.875	252.02	504.04
	$\sum f = 40$		$\sum fx = 1,485$			$\sum f(x-\bar{x})^2 = 2,344.55$

(i) $$\bar{x} = \frac{\sum fx}{\sum f} = \frac{1485}{40} = 37.125$$

(ii) $$S^2 = \frac{\sum f(x-\bar{x})^2}{n-1} = \frac{2,344.55}{40-1} = 60.12$$

(c) We are given $\mathrm{P} = \mathrm{K}200,000$, $n = 3 \times 2 = 6$ and $r = \frac{0.105}{3} = 0.035$. We need to find R. The regular payment is:

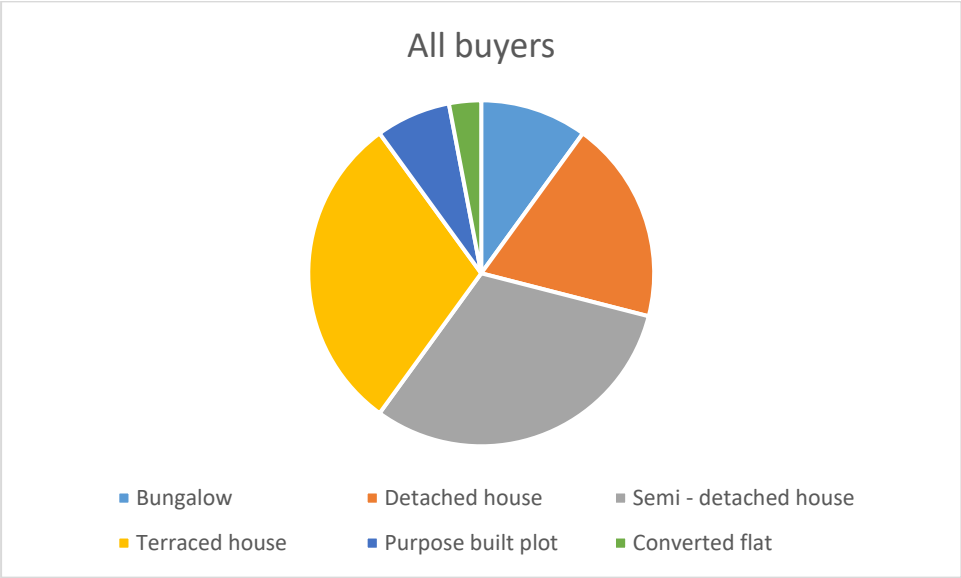
$$R = \mathrm{P}\left[\frac{r}{1-(1+r)^{-n}}\right]$$

$$R = 200,000\left[\frac{0.035}{1-(1+0.035)^{-6}}\right]$$

$$= \mathrm{K}37,533.64$$

SOLUTION SIX

(a)



`

The slices of the pie are calculated as follows:

$$360° \times 0.10 = 36°$$

For the rest, the results are shown in the table:

Type	All buyers	Slice of a pie
Bungalow	10	$36°$
Detached house	19	$68.4°$
Semi – detached	31	$111.6°$
Terraced house	30	$108°$
Purpose built plot	7	$25.2°$
Converted flat	3	$10.8°$

(b)

(i) and (ii) are shown in the table below

Arriving	Frequency	Probability	Cumulative probability	Random number intervals
3 or less	0	0	0	0
4	20	0.10	0.10	0 – 9
5	30	0.15	0.25	10 – 24
6	50	0.25	0.50	25 – 49
7	60	0.30	0.80	49 – 79
8	40	0.20	1.00	80 – 99
9 or more	0	0	1.00	0

(iii)

Radom number	Number of cars arriving
52	7
37	6
82	8
69	7
98	8
96	8
33	6
50	7
88	8
90	8

(iv)

$$E(X) = \sum xP(x) = 4(0.10) + 5(0.15) + 6(0.25) + 7(0.30) + 8(0.20) = 6.35$$

END OF SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 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 carefully study the examination paper so that you understand what to do in each question.

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

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

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

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

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A – (COMPULSORY)

Attempt all ten (10) multiple choice questions.

QUESTION ONE

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

1.1 Which of the following is an injection in the Circular Flow of income?

A. Consumption.
B. Investment.
C. Savings.
D. Imports.

(2 marks)

1.2 Which of the following Balance of payments account is used to record the purchases and sale of financial assets and real estate between Zambia and other countries?

A. The balance of trade account.
B. The current account.
C. The capital account.
D. Official reserve account.

(2 marks)

1.3 The difference between invisible exports and invisible imports is called……

A. Balance of trade.
B. Invisible balance.
C. Visible balance.
D. Deficit or surplus.

(2 marks)

1.4 Which of the following statements is correct about autonomous consumption?

A. It is positively related to the level of consumption.
B. It is negatively related to the level of consumption.
C. It is positively related to the level of disposable income.
D. It is independent of the level of disposable income.

(2 marks)

1.5 In economic people's .....are unlimited while.....to satisfy them are limited.

A. Resources, wants.
B. Resources, choices.
C. Choices, resources.
D. Wants, resources.

(2 marks)

1.6 Suppose Zambia can produce 100 tons of maize and 10 barrels of oil while Angola can produce 80 tons of maize and 40 barrels of oil using the same resources. Which of the following statements is correct?

A. Zambia has a comparative advantage in maize production.
B. Zambia has an absolute advantage in maize production.
C. Trade between Zambia and Angola cannot benefit both.
D. Both A and B.

(2 marks)

1.7 If the marginal propensity to consume (MPC) is 0.80, the value of the spending multiplier is .....

A. 2
B. 5
C. 8
D. 10

(2 marks)

1.8 A business organization in which ownership is separate from control and management is known as a:

A. Sole trader.
B. Partnership.
C. Company.
D. Cooperative society.

(2 marks)

1.9 The document that governs the internal rules and day-to-day operations of a company is the:

A. Memorandum of Association.
B. Articles of Association.
C. Prospectus.
D. Business registration certificate.

(2 marks)

1.10 Which one of the following is NOT a benefit of privatization of state industries?

A. To improve efficiency.
B. To encourage competition.
C. To discourage competition.
D. To raise funds for the state.

(2 marks)
[Total 20 Marks]

SECTION B

This section has TWO (2) parts:

Part 1. Microeconomics and Part 2. Macroeconomics

1. Microeconomics

Attempt any TWO (2) from questions: TWO (2), THREE (3) AND FOUR (4)

QUESTION TWO

(a) The table below shows the fixed costs, total cost and total revenue for a certain company in Lusaka:

Output (Q)	Fixed cost (K)	Total cost (K)	Marginal cost (MC)	Total Revenue (K)	Marginal Revenue(K)
0	120	160		0	
1	120	230		150	
2	120	290		300	
3	120	340		450	
4	120	360		600	
5	120	400		750	
6	120	470		900	
7	120	620		1050	
8	120	800		1200	
9	120	990		1350	
10	120	1260		1500	

Required:

Using the data in the table above:

(i) Define fixed cost using the given figures. (2 marks)

(ii) State the selling price for the product. (2 marks)

(iii) Complete the table by calculating marginal cost and marginal revenue columns. (5 marks)

(iv) Describe the behaviour of marginal cost curve. (2 marks)

(v) Determine the quantity and maximum profit the firm can earn. (4 marks)

(b) Explain the reason why a firm may still fail to maximize profit under perfect competition even though marginal revenue = marginal cost. (5 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Using a well labelled graph, explain the perfect competitor:

(i) Earning economic profit. (4 marks)

(ii) Earning normal profit. (4 marks)

(b) Outline any two (2) features of monopoly market structure. (4 marks)

(c) Discuss whether or not monopoly market structure is efficient in the allocative sense (No graph is needed). (4 marks)

(d) In discussing various types of organizations, distinguish between Public sector and private sector (4 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) Explain the concept of 'production Possibilities curve' (4 marks)

(b) Distinguish between a substitute in consumption and a substitute in production by giving examples of goods. (4 marks)

(c) With the aid of graphs, explain the effect of each of the following events on the equilibrium price and equilibrium quantity of named goods:

(i) Maize seed in July. (4 marks)

(ii) Tomatoes at Soweto market following a bumper harvest. (4 marks)

(iii) Bed-spaces in lodges during the Kuomboka ceremony in Mongu. (4 marks)

[Total: 20 Marks]

2. MACROECONOMICS

Attempt Any TWO (2) questions from FIVE (5), SIX (6) AND SEVEN (7)

QUESTION FIVE

(a) Outline any three (3) reasons why it is important for each country to compute its national income (6 marks)

(b) You are given the following data for an open economy: Consumption (C) = 7,000 + 0.6Yd; Disposable income (Yd) = Y – T; Taxes (T) = 0.4Y; Government spending (G) = 1,500; Investment (I) = 800; Exports(X) = 2,500; and Imports (M) = 600 + 0.3Y.

(i) Find the marginal propensity to consume. (2 marks)

(ii) Determine the equilibrium national income. (6 marks)

(iii) Write the aggregate demand function. (2 marks)

(iv) Evaluate the changes when investment has doubled. (4 marks)

[Total 20 Marks]

QUESTION SIX

(a) Distinguish between capital market and money market giving any two (2) examples of financial instruments traded in each market (8 marks)

(b) Outline any three (3) problems associated with unemployment. (6 marks)

(c) Explain how expansionary monetary policy can be used to control economic activity. (6 marks)

[Total: 20 Marks]

QUESTION SEVEN

(a) Outline any three (3) functions of financial intermediaries in Zambia. (6 marks)

(b) Explain the meaning of 'trade embargo' as a barrier to international trade. (6 marks)

(c) Explain the following exchange rate systems that may be adopted by a country:

(i) Freely floating exchange rate system. (3 marks)

(ii) Fixed exchange rate system. (3 marks)

(iii) Managed float exchange rate system. (2 marks)

[Total: 20 Marks]

END OF PAPER

DA 3 BUSINESS ECONOMICS

SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 B

1.2 C

1.3 B

1.4 D

1.5 D

1.6 B

1.7 B

1.8 C

1.9 B

1.10 C

SOLUTION TWO

(a) Short run costs and revenue:

(i) Fixed costs are costs which do not change with the level of activity. In the table fixed costs are K120 regardless of the quantity.

(ii) The selling price is K150. This is because when a firm sells 1 unit total revenue is K150, 2 units K300, and so on.

(iii) The completed table is given below:

Output (Q)	Fixed cost (K)	Total cost (K)	Marginal cost (MC)	Total Revenue (K)	Marginal Revenue (K)
0	120	160	-	0	-
1	120	230	70	150	150
2	120	290	60	300	150
3	120	340	50	450	150
4	120	360	20	600	150
5	120	400	40	750	150
6	120	470	70	900	150
7	120	620	150	1050	150
8	120	800	180	1200	150
9	120	990	190	1350	150
10	120	1260	270	1500	150

(iv) Marginal cost curves starts high but falls as more and more units are produced before rising again due to the law of diminishing returns. The curve traces out a U-shape.

(v) Profit maximization occurs at a point where MR = MC. At this point, quantity is 7 units and maximum profit is K430, that is TR –TC= 1050-620.

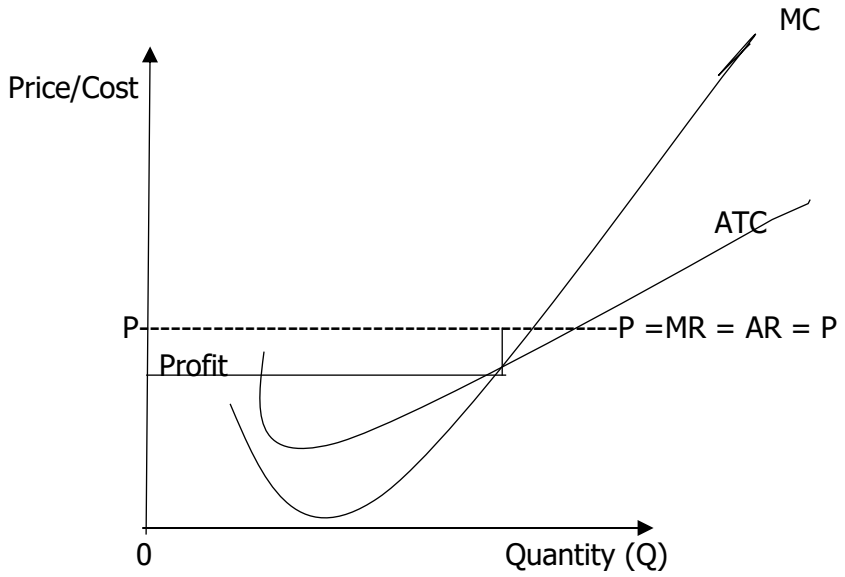
(b) At times, there may be two or more quantities where MR =MC. This means that profit are maximised at a point where MR =MC and MC must be rising.

SOLUTION THREE

(a) Perfect competition

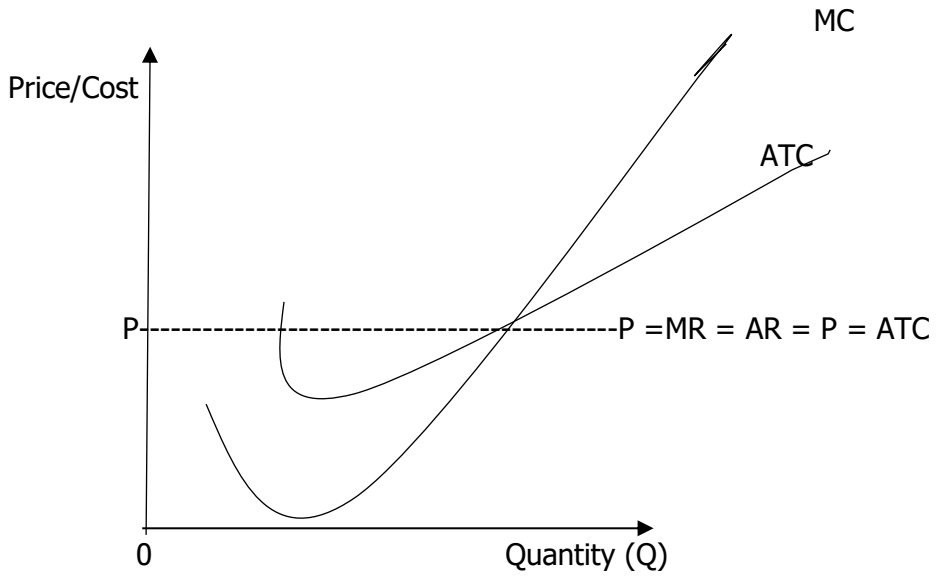
In a perfectly competitive market, a firm is a price taker, meaning it accepts the market price. Therefore: AR = MR = Demand (D) = Price (P). Profit maximization occurs where: MR=MC

(i) Perfect Competitor Earning Economic (Supernormal) Profit**:**



The firm maximizes profit where MR = MC. At this output level, AR (price) is greater than ATC**.** The difference between AR and ATC represents economic profit per unit**.** Total economic profit is the shaded area between AR and ATC**,** up to the output level.

(ii) Perfect Competitor Earning Normal Profit**:**



Profit is maximized where MR = MC**.** At this point, AR = ATC. The firm earns normal profit**,** which is the minimum required to keep the firm in business. There is no economic profit or loss**.**

(b) Features of Monopoly Market Structure:

- Single Seller**:** There is only one firm producing the entire market output.
- High Barriers to Entry: Entry is restricted due to legal barriers (patents, licences), high capital requirements, or control of raw materials.
- Price Maker: The monopolist has control over price and output since it faces the market demand curve.
- Unique Product: A monopolist offers a unique product which does not have close substitutes.

(c) A monopoly market structure is allocatively inefficient. Allocative efficiency occurs when Price = Marginal Cost (P = MC) A monopolist maximizes profit where MR = MC, then charges a price from the demand curve. This results in Price > Marginal Cost**.** Consumers pay a higher price and consume less output than is socially optimal. The result is deadweight welfare loss to society.

(d) The public sector contains a range of organizations that provide public services and may also include some state owned businesses. The private sector, on the other hand, includes both profit-seeking businesses and non-profit-making organisations such as charities, and mutual.

SOLUTION FOUR

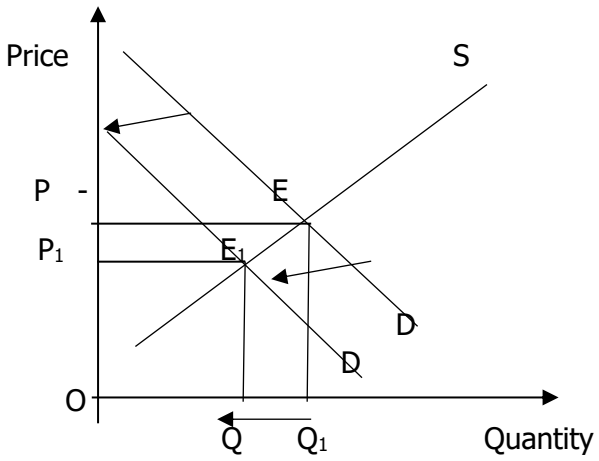
(a) The Production Possibilities Curve (PPC)or production possibilities frontier (PPF) is a graphical representation that shows the maximum possible combinations of two (2) goods or services that an economy can produce using given resources and technology within a given period of time**.**

- Points on the curve represent efficient use of resources.
- Points inside the curve indicate under-utilisation or unemployment of resources**.**
- Points outside the curve are unattainable with current resources and technology.
- The downward slope of the PPC reflects opportunity cost, showing that producing more of one good requires sacrificing some of the other**.**

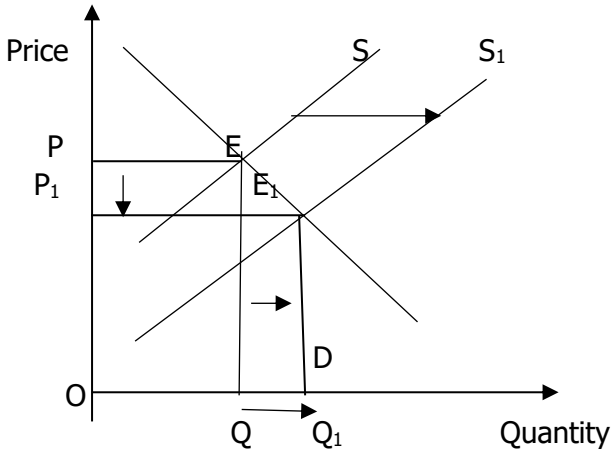
(b) A substitute in consumption is a good that satisfy the same need e.g Butter and Margarine. A substitute in production, on the other hand, is a good that can be produced using the same resources e.g. maize and soy beans.

(c) Demand and supply analysis:

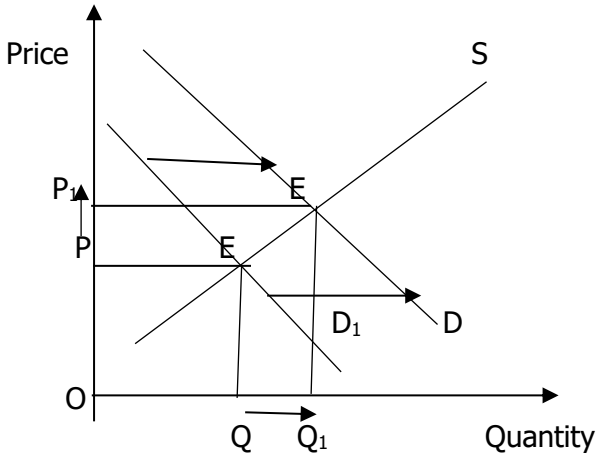
(i) The initial market equilibrium occurs at point E (Q, P) where demand is equal to supply. Maize seed is mainly demanded for planting during the rain season in Zambia. In July, less is demanded. This shifts the demand curve for maize seed to the left while supply remains constant. This moves equilibrium point from E to E_1. At this point equilibrium price has increased from P to P_1 while equilibrium quantity has decreased from Q to Q_1.



(ii) The initial market equilibrium occurs at point E (Q, P) where demand is equal to supply. A bumper harvest of tomatoes increases the supply of tomatoes on the market. This shifts the supply curve for tomatoes to the right while demand remains constant. This moves equilibrium point from E to E_1. At this point equilibrium price has decreased from P to P_1 while equilibrium quantity has increased from Q to Q_1.



(iii) The initial market equilibrium occurs at point E (Q, P) where demand is equal to supply. During the Kuomboka ceremony lodges experience high demand for bed-spaces. This shifts the demand curve for bed-spaces to the right while supply remains constant. This moves equilibrium point from E to E_1. At this point equilibrium price has increased from P to P_1 while equilibrium quantity has decreased from Q to Q_1.



SOLUTION FIVE

(a) Reasons why it is important for a country to compute its national income:

- Measurement of economic performance: National income shows the overall level of economic activity and helps assess whether the economy is growing, stagnant, or declining.
- Basis for economic planning and policy formulation: Governments use national income data to plan budgets, set development priorities, and design fiscal and monetary policies.
- Comparison of living standards**:** National income (especially per capita income) is used to compare living standards within the country over time and with other countries.
- Assessment of sectoral contribution**:** It helps identify which sectors (agriculture, industry, services) contribute most to the economy.

(b) Open economy analysis:

Given:

- $C = 7,000 + 0.6Yd$
- $Yd = Y - T$
- $T = 0.4Y$
- $G=1,500$
- $I=800$
- $X=2,500$
- $M=600+0.3Y$

(i) Marginal propensity to consume (MPC)

The MPC is the coefficient of disposable income in the consumption function.

$MPC = 0.6$

(ii) Equilibrium national income

First find disposable income:
$Yd = Y - T = Y - 0.4Y = 0.6Y$
Substitute into the consumption function:
$C = 7,000 + 0.6(0.6Y)$
$C=7,000 + 0.36Y$

Now write the aggregate demand (AD) equation:

$AD = C + I + G + X - M$

Substitute values:
$AD= (7,000+0.36Y) + 800 + 1,500 + 2,500 - (600+0.3Y)$
Simplify:
$AD=11,200+0.06Y$
At equilibrium:

Y = AD
Y =11,200+0.06Y

Bring like terms together:

Y−0.06Y = 11,200
0.94Y = 11,200

Solve for Y:
Y=11,200 /0.94
Y ≈ 11,915

Equilibrium national income ≈ 11,915

(iii) Aggregate demand function

AD = 11,200 + 0.06Y

(iv) Effect when investment doubles

New investment:
I = 2 × 800 = 1,600

Increase in investment:
ΔI=800

New aggregate demand:

AD=12,000+0.06Y

New equilibrium:
Y = 12,000 + 0.06Y
0.94Y = 12,000
Y = 12,000/0.94
Y ≈ 12,766
Change in national income:
ΔY=12,766−11,915=851

Doubling investment increases national income by approximately **851 units.**

SOLUTION SIX

(a) **Types of financial markets:**

- Capital markets are financial markets for raising and investing largely long term capital. The financial instruments traded include ordinary shares, preference shares, convertible securities, bonds and debentures.
- Money markets are financial markets for lending and borrowing largely short term capital. Examples of financial instruments traded in the money markets include short term bank loans, bank overdrafts, trade credit, Bills of exchange, commercial paper.

(b) **Problems Associated with Unemployment**

- Loss of income**:** Unemployment results in loss of income for individuals and households, leading to lower living standards.
- Increased poverty: Many unemployed people struggle to meet basic needs such as food, housing, and healthcare. This increases poverty and inequality in society.
- Waste of human resources: Unemployment leads to underutilization of labour, which is a key factor of production. Skills may deteriorate over time, reducing workers' employability and productivity.
- Social problems and instability: High unemployment can lead to social problems such as crime, drug abuse, and family breakdown. It may also cause frustration and low morale, especially among young people. Prolonged unemployment can threaten social and political stability.
- Increased government expenditure: High unemployment increases government spending on social welfare programmes such as unemployment benefits and poverty relief.
- Loss of government revenue: tax revenue falls because fewer people are earning incomes. This places pressure on public finances and may lead to budget deficits

(c) **Expansionary Monetary Policy**

- Expansionary monetary policy is used by the central bank to stimulate economic activity during periods of low growth or recession. The central bank may reduce interest rates, making borrowing cheaper for consumers and firms. This encourages spending on consumption and investment, increasing aggregate demand. Additionally, the central bank may increase the money supply through open market operations by buying government securities. It may also lower reserve requirements, allowing commercial banks to lend more. These measures increase credit availability, boost production, create employment, and promote overall economic growth.

SOLUTION SEVEN

(a) Financial intermediaries such as commercial banks, microfinance institutions, pension funds, insurance companies and building societies perform the following functions:

- Mobilisation of Savings: They collect savings from surplus units (individuals and firms) and make them available for investment.
- Provision of Credit: They lend funds to deficit units for consumption, business expansion and development activities.
- Facilitation of Payments: They provide payment services such as cheques, electronic transfers, mobile banking and ATM services.
- Risk Management: They reduce and spread financial risks through diversification and insurance services.
- Maturity Transformation: They transform short-term deposits into long-term loans such as mortgages and investment loans.

(b) A trade embargo is a government-imposed restriction that completely or partially prohibits trade with a particular country. It involves banning imports, exports, or both, usually for political, economic or security reasons. As a barrier to international trade, a trade embargo prevents free exchange of goods and services ,reduces international market access and disrupts supply chains and export earnings.

(c) Exchange rate systems (regimes)

(i) Freely floating exchange rate system: This is a system where the exchange rate is determined solely by the forces of demand and supply in the foreign exchange market, with no government or central bank intervention**.** The exchange rate fluctuates freely according to market conditions.

(ii) Fixed exchange rate system: Under this system, the government or central bank pegs the domestic currency to another currency or a basket of currencies at a fixed rate. The authorities intervene in the foreign exchange market by buying or selling foreign currency to maintain the fixed rate.

(iii) Managed float exchange rate system: This is a system where the exchange rate is mainly determined by market forces**,** but the central bank occasionally intervenes to stabilize the currency or prevent excessive fluctuations.

END OF SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 4: INFORMATION TECHNOLOGY AND 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. Five (5) on Information Technology and five (5) on Communication.

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

   There are also three (3) questions on **Communication.** Attempt any (2) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A

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 are indicated against each question.

1.1 A computer has suddenly stopped responding to any commands or in short it has frozen. What keyboard combination would use to open the task manager to resolve the problem?

A. Ctrl + Alt + Delete.
B. Ctrl + Shift + Delete.
C. Ctrl + Delete + End.
D. Ctrl + Alt + End.

(2 marks)

1.2 What is the difference between Solid State Drive(SSD) and Hard Disk Drive(HDD)?

A. SSD does not contain moving parts whilst HDD has a spinning mechanism to read and write data.
B. HDD is faster than SSD.
C. SSD is non-volatile whist HDD is volatile.
D. SSD is susceptible to damage than HDD drives.

(2 marks)

1.3 The contents of any cell in a spreadsheet may include:

A. Rows.
B. Text.
C. Columns.
D. Picture.

(2 marks)

1.4 The following are types of data processing methods except …

A. Batch processing.
B. Real-time processing.
C. Transaction processing.
D. Virtual processing.

(2 marks)

1.5 Which of the statements best describes a cybercrime?

A. Unauthorised access to a critical information infrastructure.

B. Backing and restoration of damaged information on a company workstation.

C. Supervised hacking of a company database to test security controls.

D. Installing and using systems software from a legitimate source with minimal protection.

(2 marks)

1.6 A letter is a very flexible and versatile medium of communication. This means that it is:

A. used for many purposes.

B. very clear.

C. Ambiguous.

D. very brief.

(2 marks)

1.7 Which of the following is a technique for making notes?

A. Responding while someone is talking.

B. Be brief and to the point.

C. Use different languages.

D. Provide effective feedback.

(2 marks)

1.8 Which of the following is **NOT** a factor that affects the choice of medium of communication?

A. Confidentiality of the matter.

B. Distance between sender and receiver.

C. Cost and resources available.

D. The need to be polite.

(2 marks)

1.9 Which of the following is **NOT** among the 7C's of effective of communication?

A. Clarity.

B. Conciseness.

C. Coherence.

D. Completeness.

(2 marks)

1.10 Which communication pattern resembles a hierarchy?

A. Cycle pattern.

B. Chain pattern.

C. Y-Pattern.

D. Wheel pattern.

(2 marks)

[Total: 20 Marks]

SECTION B

This section has two (2) parts:

1. INFORMATION TECHNOLOGY
2. COMMUNICATION

1. INFORMATION TECHNOLOGY

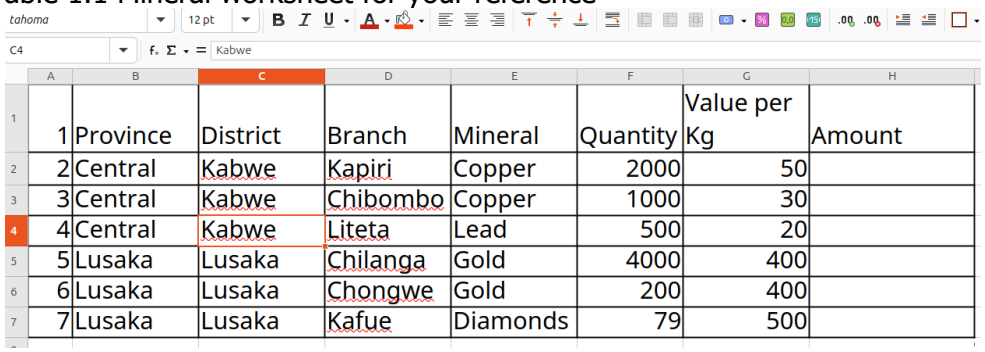
Attempt any TWO (2) from questions: TWO, THREE AND FOUR

QUESTION TWO

Chibwentu Enterprises Ltd is a company dealing in precious minerals with offices in all provinces of Zambia, its clients are spread all over the world including local. Currently, the company stores data in manual form rendering retrieval and analysis labour intensive. Management had decided to migrate its mineral manual record to electronic data and install a spreadsheet in order to introduce efficiency in mineral management.

Required:

Table 1.1 Mineral worksheet for your reference



	A	B	C	D	E	F	G	H
1	1	Province	District	Branch	Mineral	Quantity	Value per Kg	Amount
2	2	Central	Kabwe	Kapiri	Copper	2000	50	
3	3	Central	Kabwe	Chibombo	Copper	1000	30	
4	4	Central	Kabwe	Liteta	Lead	500	20	
5	5	Lusaka	Lusaka	Chilanga	Gold	4000	400	
6	6	Lusaka	Lusaka	Chongwe	Gold	200	400	
7	7	Lusaka	Lusaka	Kafue	Diamonds	79	500	

(a) Refer to the table 1.1 above write formulas to do the following:

(i) Formulae to calculate the total mineral cost for each branch. (2 marks)

(ii) Find the number of branches located in Kabwe district. (3 marks)

(iii) Formulae to count quantity with value greater or equal to 200. (3 marks)

(b) Outline any five (5) moral dimensions of the information age. (10 marks)

(c) Explain the difference between authentication and encryption in information security. (2 marks)

[Total: 20 Marks]

QUESTION THREE

(a) Explain with examples the following spreadsheet features commonly used :

(i) Data types. (2 marks)

(ii) Charts. (2 marks)

(iii) Macros. (2 marks)

(b) Litoo system is a Government Management Information System (GMIS) which prints land titles deeds and has integrated with other Information Systems creating a single access to land title records. The system is based on internet technologies to transmit and retrieve information on citizens. Management is concerned about privacy of information stored in the system and the effect of the new technologies to staff with regards to employment and computer crimes.

Required:

Explain to the staff on the effect of using the GMIS with a view to:

(i) Rapid technology changes. (2 marks)

(ii) Employment of staff. (2 marks)

(iii) Computer crimes. (2 marks)

(c) Accounting Information Systems can process information through batch or online processing.

Required:

State two (2) reasons management would choose batch processing. (2 marks)

(d) State any three (3) types of network topologies that can be used in a computer system (6 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) You have purchased new software that requires a minimum of 2 GB RAM to operate. Your laptop has 2 GB RAM, and after installing the software, the computer becomes very sluggish and is unable to run most other applications efficiently.

(i) Explain two (2) factors that affect system performance in this situation. (4 marks)

(ii) Distinguish between minimum system requirements and recommended system requirements for software. (4 marks)

(iii) Explain the role of virtual memory in improving system performance when RAM is limited. (4 marks)

(b) Technical controls are security measures implemented through technology to protect information systems from threats, unauthorized access, and data breaches. They are an essential part of an organisation's information security framework and are designed to prevent, detect, or correct security risks.

Required:

Explain four (4) main types of technical control. (8 marks)

[Total: 20 Marks]

2. COMMUNICATION

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

QUESTION FIVE

In an organization information can move in different directions as official channels of communication.

(a) Outline two (2) purposes of each of the following directions of communication in an organization.

(i) Upward (2 marks)

(ii) Downward (2 marks)

(iii) Diagonal (2 marks)

(iv) Lateral (2 marks)

(b) Identify four (4) communication patterns that are created during the flow of communication in an organization. (4 marks)

(c) Explain any four (4) reasons informal communication may not be suitable for carrying out business transactions. (8 marks)

[Total: 20 Marks]

QUESTION SIX

One of the accounts staff, Peter Zulu, often fails to listen attentively during departmental meetings and when receiving instructions from the supervisors. Recently, Peter also misheard the payment deadline and during payroll preparations, he ignored clarifications about overtime which resulted in underpayments of several employees.

Required:

(a) Identify any three (3) types of listening that Peter needs to use in different situations. (3 marks)

(b) Write a memorandum to Peter Zulu highlighting any four (4) suggestions for successful listening. (17 marks)

[Total: 20 Marks]

QUESTION SEVEN

You are an Accountant for a multinational accounting firm that conducts audits with teams based in different countries and time zones. Communication among the teams is informal and unstructured, and as a result, there are ignored audit deadlines, replicated work efforts, and a failure to understand the audit requirements and presentation needs. Some accounting staff has suggested holding online meetings and workshops to improve the situation.

Required:

(a) Explain any five (5) ways of improving communication in order to avoid poor coordination and misunderstanding in the firm. (10 marks)

(b) Explain any five (5) reasons why holding online meetings might improve communication in this situation. (10 marks)

[Total: 20 Marks]

END OF PAPER

DA 4 INFORMATION TECHNOLOGY AND COMMUNICATION

SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 A

1.2 A

1.3 B

1.4 D

1.5 A

1.6 A

1.7 B

1.8 D

1.9 C

1.10 B

SOLUTION TWO

(a) (i) Formula: =F2*G7 per row,

(ii) Formula: =COUNTIF(C2:C7, "Kabwe")

(iii) Formula: =COUNTIF(F2:F7,>=200)

(b) **Five (5) moral dimensions of the information age.**

- **Information rights and obligation**: what information rights do individuals and organizations possess with respect to information about themselves?
- **Property rights**: intangible property created by individuals or corporations which is subject to protection and includes trade secrets, copyright and patents.
- **Accountability and control**: mechanisms for assessing responsibility for decisions made and actions taken.
- **System quality**: what standards of data and system quality should we demand to protect individual rights and the safety of society?
- **Quality of life**: what values should be preserved in an information and knowledge-based society.

(c) Difference between authentication and encryption in information security

- Authentication is proof of identity or process of verifying the identity of a user
- Encryption is the scrambling of data being transmitted so that it is not read or the process of converting sensitive data into an unreadable, scrambled format using algorithms & a secret key.

SOLUTION THREE

(a) (i) **Data Types -** The excel field has different data types these are Text, Number, Date, Currency, Boolean. E.g., "Names" (Text), 110 (Number), 12/05/2024 (Date), $500 (Currency). This is the data presentation or form of data.

(ii) **Charts -** Visual representation of data (e.g., Bar chart, Pie chart). E.g., A pie chart showing percentage distribution of minerals by district.

(iii) **Macros -** stored sequences of commands to automate repetitive tasks. E.g., A macro to format new data, apply formulas, and print reports

(b) **Effects of Using GMIS**

(i) **Rapid Technology Changes** - Requires continuous staff training, system upgrades, and adaptation to new tools, which can be costly but improves efficiency in the long term.

(ii) **Employment of Staff** - Automation may reduce manual jobs but creates new roles in IT, data management, and cybersecurity. Reskilling is essential to avoid job displacement.

(iii) **Computer Crimes** – Unauthorised access and data theft, and requires strong cybersecurity measures, staff awareness, and legal compliance to protect sensitive data such as land title records.

(c) Two (2) reasons management would choose batch processing.

- Error detection is simpler.
- No special hardware needed.
- Can deal with large volumes at one time.
- System design is simpler.
- Time is not priority.

(d) **Types of network topologies**

(i) **Bus topology** – All devices connected are connected to a single cable
(ii) **Star topology** – Devices are connected to a central point (hub/switch)
(iii) **Ring topology** – Devices are connected in circular loop.
(iv) **Tree topology** – Combination of bus & Star topology
(v) **Mesh topology** – Each device connected to every other device
(vi) **Hybrid topology** – mix of different topologies

SOLUTION FOUR

(a) (i) **Two (2) factors that affect system performance in this situation.**

- **Software Requirements and Optimization -** Some software may require more than the **minimum RAM** for smooth operation, or it may not be fully optimized for low-end systems.

- The software requires a minimum of **2 GB RAM**, which matches exactly the laptop's available memory.
  When multiple applications run simultaneously, the system has **no extra memory**, causing slow performance and frequent use of virtual memory (hard drive space used as temporary RAM), which is much slower.

- **Background Processes and Applications**
  Other programs running in the background consume RAM and CPU resources, leaving less available for the new software.

(ii) Distinguish between minimum system requirements and recommended system requirements for software.

- Minimum system requirements refer to the lowest hardware and software specifications needed for a program to run at all.
- Meeting these requirements ensures that the software can operate, but performance may be slow
- some features might not function smoothly whereas recommended system requirements are the specifications that allow the software to run efficiently and at its best performance.

(iii) The role of virtual memory in improving system performance when RAM is limited.

- Virtual memory is a memory management technique that allows a computer to compensate for limited RAM by temporarily using a portion of the hard drive as additional memory.
- When the system runs out of physical RAM, data that is not actively being used is moved from RAM to the virtual memory space on the hard drive.
- This frees up RAM for active applications, allowing the system to continue running multiple programs without crashing.

(b) Four main types of technical control.

- **Authorisation** control that ensures that only authorised individuals have access to and can amend or delete files
- **Documentation** ensures that amendments to files are properly recorded and changed can be traced to named individual who is accountable for them
- **Backup** ensures proper arrangements are in place to regularly backup files and to restore them securely
- **Recovery** ensures that data can be recovered in case of disaster.

SOLUTION FIVE

(a) **Purposes on direction of communication.**

(i) **Upward**

- To request for permission.
- To supply feedback to senior management on tasks done.
- To seek clarity.

(ii) **Downward**

- To give instructions
- To notify juniors about meetings
- To communicate any strategic changes about the organisation
- To grant permission

(iii) **Diagonal**

- To promote transparency and more open communication
- To assist connecting individuals and departments at different hierarchical levels.
- To align departments towards shared goals.
- To compliment one another's' efforts.

(iv) **Lateral/Horizontal**

- To share tasks.
- To encourage one another.
- To complement one another's effort.
- To encourage team building.

(b) **Communication Patterns include:**

- Wheel
- Chain
- Circle
- Network
- The Y-Pattern

(c) **Reasons informal communication may not be suitable for carrying out** business transactions:

- Managers often overlook informal communication because it lacks documented trails, structured channels, and formal accountability. Unlike formal communication, which follows established protocols and easily traceable
- Informal communication such as casual conversation or instant messages is spontaneous and unrecorded. It is hard to measure impact, consistency or verify information. There is no accountability.
- Informal exchanges maybe missed entirely, reducing visibility.
- It leads to conflicts if rumours are believed and acted upon.
- No prescribed or systematic flow of information (it is unpredictable)

SOLUTION SIX

(a) **Types of listening that needs to use in different situations**

- Empathetic listening
- Critical listening
- Selective listening
- Appreciative
- Reflective
- Therapeutic

(b) **Memo**

MKL LIMITED

Memorandum

To: Peter Zulu – Accounts Clerk

From: Assistant Accountant

Date: (any date during exam time)

Subject: Guidelines to effective listening

It has come to Management's attention that you have challenges in listening during meetings and when receiving instructions. This has resulted in missed deadlines and underpayments of several employees.

Effective communication is the foundation of our success and it involves more than just speaking, but effective listening as well. This can improve our ability to understand one another and improve teamwork.

To help us create a more collaborative and supportive environment, there is need to highlight essential active listening skills that can be practiced in your daily interactions to avoid challenges.

These guidelines include:

- Concentrate on the subject matter under discussion
- Resist any form of distractions such as noise
- Write notes where possible.
- Ask for clarifications where you are not sure,
- Maintain eye contact and show encouraging facial expressions

By consciously incorporating these skills, you can create a more inclusive respectful and effective workplace. Your engagement in this matter will be appreciated.

Sender's signature.

Mr. T. Banda

SOLUTION SEVEN

(a) **Ways of improving communication in order to avoid poor coordination and misunderstanding in the firm.**

- Use appropriate or familiar language to the recipient of the message
- Ensuring that document are neat, concise and technically correct.
- Formal structure of communication should be established.
- Use of communication platforms that are reliable and emphasis must be placed on the consistence use of the same platforms that are agreed upon.
- The need to also obtain feedback to check if the communication has been effective.
- Avoid over and under loading of information.
- Avoid any form of stereotypes about different multinationals.

(b) **Online Meetings**

- Online meetings allow real-time interaction between people in different places
- It reduces travel costs and saves time
- Through enhanced feedback, participants can ask questions and provide responses instantly
- Online meetings can be held at people's convenience wherever they are.
- Online meetings allow unlimited number of people to participant.

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 5 COST 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 question.

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

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A

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

QUESTION ONE

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

1.1 A company absorbed fixed production overheads at a rate of K6 per unit based on a normal output of 8,000 units. Actual production was 7,500 units. Fixed production overheads were under-absorbed by K3,000.
What was the actual fixed production overhead incurred?

A. K45,000
B. K48,000
C. K51,000
D. K54,000

(2 marks)

1.2 An inventory item has an annual demand of 24,000 units. Ordering costs are K120 per order and holding costs are K4 per unit per annum.

What is the Economic Order Quantity (EOQ)?

A. 600 units.
B. 800 units.
C. 1,200 units.
D. 2,400 units.

(2 marks)

1.3 Which of the following statements about marginal costing is correct?

A. Fixed production overheads are treated as product costs.
B. Closing inventory includes fixed overheads.
C. Contribution is calculated by deducting variable costs from sales.
D. Profits are always higher than absorption costing.

(2 marks)

1.4 A joint product is best described as:

A. A product with no commercial value.
B. A product that requires further processing.
C. One of two or more products produced simultaneously with significant value.
D. A secondary product of low volume.

(2 marks)

1.5 In a process where expected normal loss is 10% of input, actual loss is 6%, the difference is classified as:

A. Normal gain.
B. Abnormal loss.
C. Abnormal gain.
D. Scrap loss.

(2 marks)

1.6 Which of the following would lead to a favourable material price variance?

A. Purchasing materials at a higher price.
B. Using inferior quality materials.
C. Purchasing materials at a discount.
D. Increased wastage.

(2 marks)

1.7 A firm using marginal costing reports a profit of K82,000. Opening inventory was 600 units and closing inventory was 200 units. Fixed production overhead absorption rate is K10 per unit.

What is the profit under absorption costing?

A. K78,000
B. K80,000
C. K86,000
D. K88,000

(2 marks)

1.8 Which costing method is most suitable where production is continuous and identical units are produced?

A. Job costing.

B. Batch costing.

C. Contract costing.

D. Process costing.

(2 marks)

1.9 A carpentry workshop is preparing a quotation for custom-made furniture. The following costs are estimated:

- Direct materials: K12,000.
- Direct labour (2,000 hours @ K6): K12,000.
- Production overheads: K4 per labour hour.
- Administration overheads: 15% of production cost.
- Profit mark up: 25% of cost.

What is the selling price?

A. K42,000

B. K48,750

C. K46,000

D. K52,500

(2 marks)

1.10 In a process, 5,000 units of material costing K20,000 were input. Conversion costs amounted to K15,000. Normal loss is 5% with no scrap value. Actual output was 4,800 units.

What is the cost per unit of output?

A. K6.35

B. K7.37

C. K7.00

D. K7.29

(2 marks)

[Total: 20 Marks]

SECTION B

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

QUESTION TWO

KS Traders Ltd is a wholesale company and had the following transactions for product X in June:

Date	**Details**
June 1	Opening inventory 200 units at K10 per unit
June 5	Purchased 300 units at K12 per unit
June 10	Sold 250 units
June 15	Purchased 200 units at K14 per unit
June 30	Sold 300 units

Required:

(a) Prepare inventory valuation schedules showing the Cost of Goods Sold (COGS) and closing inventory under each of the following methods:

(i) First In, First Out (FIFO). (7 marks)

(ii) Weighted Average Cost Method (AVCO). (8 marks)

(b) Using your results from Part (a), compute and compare the Gross profit for June under each valuation method, assuming sales revenue is K20 per unit sold.
(5 marks)

[Total: 20 Marks]

QUESTION THREE

BMK Manufacturing Company produces two (2) joint products called Cake Jax and Cake Max from the same process. The company uses two types of materials to make Cake Jax and Cake Max as follows:

Material A (4,000 units @ K15 per unit)

Material B (7,500 units @ K10 per unit)

The process takes 2,000 hours of labour at a rate per hour of K25. Production overheads are at K20 per labour hours. Normal loss is expected at the end of the process at 10% of total input units. Scrap from normal loss can be sold at K2 per unit.

For the month of March, the actual production is as follows:

Cake Jax 4,500 units

Cake Max 5,300 units

BMK Manufacturing Company uses sales value method to value finished goods. The selling price per unit for the products is as follows:

Cake Jax K240

Cake Max K120

Required:

(a) Prepare the process account. (12 marks)

(b) Prepare the abnormal gain/loss account. (3 marks)

(c) Explain the five (5) characteristics of process costing. (5 marks)

[Total: 20 Marks]

QUESTION FOUR

XYZ Manufacturing Ltd. Has three (3) production departments (A, B, C) and two (2) service departments (X and Y). The following overhead costs are to be apportioned:

	K
Rent and Rates	60,000
Power	30,000
Depreciation of Machinery	40,000
Canteen Expenses	20,000

Additional information:

	A	**B**	**C**	**X**	**Y**
Floor Area (Sq.meters)	1,200	800	1,000	500	500
Horsepower of machines	50	30	20	0	0
Value of Machinery (K)	200,000	150,000	100,000	50,000	0
Number of Employees	40	30	20	10	10

Service department overheads are to be re-apportioned as follows:

	A	**B**	**C**
Department X	50%	30%	20%
Department Y	40%	40%	20%

Details for Job BMK38 undertaken by XYZ Manufacturing Ltd are as follows:

Material cost per unit K100,000

	Department A	**Department B**	**Department C**
Labour hours per unit	200 hours	300 hours	250 hours
Labour rate per hour	K30	K45	K50

The company absorbs overheads using labour hours and the total labour hours for each department are as follows:

Department	**A**	**B**	**C**
Total Labour hours	2,000	1,000	3,000

Required:

(a) Apportion the overheads to all departments on the most suitable basis and Re-apportion the service department overheads to the production departments. (12 marks)

(b) Calculate the selling price for Job BMK38 if profit margin is 20%. (8 marks)

[Total: 20 Marks]

QUESTION FIVE

Gunners Manufacturing Company (GMC) produces a single product, which is known as the 'Title'. The product requires a single operation, and the standard cost for this operation is presented in the following standard cost card:

Standard cost card for product 'Title'	**(K)**
Direct materials:	
2kg of material A at K10 per kg	20
1kg of material B at K15 per kg	15
Direct labour (3 hours at K9 per hour)	27
Variable overhead (3 hours at K2 per direct labour hour)	6
Total standard variable cost	68
Standard contribution margin	20
Standard selling price	88

GMC plans to produce 10,000 units of 'Title' in April, and the budgeted annual fixed overheads are K114 000 and are assumed to be incurred evenly throughout the year. The company uses a variable costing system for internal profit measurement purposes.

The actual results for April are as follows.

	K	**K**
Sales (9,000 units @ K90)		810,000
Direct materials:		
A: 19,000kg @ K11 per kg	209,000	
B: 10,100kg @ K14 per kg	141,400	
Direct labour (28,500 hours @ K9.60 per hour)	273,600	
Variable overheads	52,000	676,000
Contribution		134,000
Fixed overheads		116,000
Profit		18,000

Manufacturing overheads are charged to production on the basis of direct labour hours. Actual production and sales for the period were 9,000 units.

Required:

Calculate the appropriate revenue and cost variances using the information related to GMC for the month of April. (20 marks)

[Total: 20 Marks]

QUESTION SIX

FastFix Engineering Ltd produces two products, Spanner and Wrench, using similar machinery.

Currently, overheads are absorbed using direct labour cost.

	Spanner	**Wrench**
Materials (K/unit)	18	12
Labour (K/unit)	12	8
Units produced	60,000	90,000

Total production overheads are K540, 000, absorbed at 40% of labour cost.

Management is considering switching to Activity Based Costing (ABC).

Overheads cost analysis:

Activity	**K**
Purchasing	162,000
Machine setups	108,000
Packaging	150,000
Quality inspection	120,000

Activity drivers:

Activity	**Spanner**	**Wrench**
Purchase orders	90	30
Setups	120	180
Packages	300	450
Inspections	400	600

Required:

(a) Calculate the unit cost using the traditional method. (4 marks)
(b) Calculate the unit cost using ABC. (13 marks)
(c) State three functions of cost accounting. (3 marks)

[Total: 20 Marks]

END OF PAPER

DA5 -COST ACCOUNTING

SUGGESTED SOLUTIONS

SOLUTION ONE

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

SOLUTION TWO

(a) (i) FIFO

Date	Details	Purchases			Issues			Balances		
		Units	price (K)	value (K)	Units	price (K)	value (K)	Units	price (K)	value (K)
1 June	Opening	200	10.0	2,000				200	10.0	2,000
5 June	Purchases	300	12.0	3,600				300	12.0	3,600
								500		5,600
10 June	Sold				200	10.0	2,000			
					50	12.0	600			
					250		2,600			
								(250)		(2,600)
								250		3,000
15 June	Purchases	200	14.0	2,800				200	14.0	2,800
					250	12.0	3,000	450		5,800
30 June	Sold				50	14.0	700			
					300		3,700	(300)		(3,700)
								150		**2,100**

(ii) AVCO

Date	Details	Purchases			Issues			Balances		
		Units	price (K)	value (K)	Units	price (K)	value (K)	Units	price (K)	value (K)
1 June	Opening	200	10.0	2,000				200	10.0	2,000
5 June	Purchases	300	12.0	3,600				300	12.0	3,600
								500	11.2	5,600
10 June	Sold				250	11.2	2,800	(250)	11.2	(2,800)
								250		2,800
15 June	Purchases	200	14.0	2,800				200	14.0	2,800
								450	12.4	5,600
30 June	Sold				300	12.4		(300)		(3,720)
					3,720			**150**		
								1,880		

(b) Gross profit

	FIFO		**AVCO**	
	K	K	K	K
Sales (K20 X 550 units)		11,000		11,000
Opening inventory	2,000		2,000	
Purchases	6,400		6,400	
	8,400		8,400	
Closing inventory	(2,100)		(1,880)	
Cost of sales		(6,300)		(6,500)
Gross profit		**4,700**		**4,480**

SOLUTION THREE

(a) Workings

W1: Input, loss, and output units

Input (4,000 + 7,500)	11,500
Normal loss 10% x 11,500	(1,150)
Expected output	10,350
Actual output (4,500 + 5,300)	9,800
Abnormal loss	550

W2: Total process costs

			K
Material	A	4,000 units x K15	= K60,000
Material	B	7,500 units x K10	= K75,000
Labour		2,000 hours x K25	= K50,000
Production overheads		2,000 units x K20	= K40,000
Total			**225,000**

W3: Normal loss value

= 1,150 units x K2 = K2,300

W4: Cost per unit

$$\text{Cost per unit} = \frac{\text{K225,000 - K2,300}}{\text{10,350 units}} = \frac{\text{K222,700}}{\text{10,350 units}} = \text{K21.517}$$

W5: Value of abnormal loss

= 550 units x K21.52 = K11,836

W6: Allocation of joint costs to finished goods (Sales value method)

Sales values at split-off:

Cake Jax 4,500 units x K240 = K1,080,000

Cake Max 5,300 units x K120 = K636,000

Total sales 1,716,000

Common cost = K222,700 – K11,836

= K210,864

Cake Jax = 1,080,000/1,716,000 X K210,864 = K132,712

Cake Max = 636,000 / 1,716,000 X K210,864 = K78,152

Process account

Items	Units	Value K	Items	Units	Value K
Material A & B	11,500	135,000	Finished goods:		
Labour		50,000	Cake Jax	4,500	132,712
Production OH		40,000	Cake Max	5,300	78,152
			Normal loss	1,150	2,300
			Abnormal loss	550	11,836

11,500	225,000		11,500	225,000

(b) Abnormal loss account

Items	Units	Value	Items	Units	
Abnormal loss	550	11,836	Scrap	550	1,100
			SPL		10,736
	550	11,836			11,836

(c) Five characteristics of process costing

- Process costing suits industries with a continuous flow of homogeneous units (e.g., chemicals, food processing), where identical products move through sequential processes.
- Costs are accumulated by process over a period and averaged across units to derive a per-unit process cost, rather than traced to individual jobs.
- Expected losses are recognized and their scrap value credited to the process; abnormal losses/gains are isolated to highlight inefficiencies.
- When work-in-progress exists, equivalent units are used to spread costs between completed output and WIP based on degrees of completion.
- When multiple outputs arise from a common process, joint costs up to split-off are allocated to products using rational bases (e.g., sales value at split-off), ensuring inventories reflect economic value

SOLUTION FOUR

(a) Apportionment and re-apportionment of overheads

Cost Items	**Basis of apportionment**	**Total**	**A**	**B**	**C**	**X**	**Y**
			K	K	K	K	K
Rent & Rates	Floor Area	60,000	18,000	12,000	15,000	7,500	7,500
Power	Horse power	30,000	15,000	9,000	6,000	0	0
Depreciation	Value of machine	40,000	16,000	12,000	8,000	4,000	0
Canteen	No. of Employees	20,000	7,273	5,455	3,636	1,818	1,818
Total		**150,000**	**56,273**	**38,455**	**32,636**	**13,318**	**9,318**
Department X	50%,30%,20%		6,659	3,995	2,664	(13,318)	
			62,932	**42,450**	**35,300**	**0**	**9,318**
Department Y	40%,40%,20%		3,727	3,727	1,864	0	(9,318)
			66,659	**46,177**	**37,164**	**0**	**0**

(b) JOB BMK38

OAR (Dept A) = K66,659/2,000 hours = K33.33 per labour hour

OAR (Dept B) = K46,177 / 1,000 hours = K46.18 per labour hour

OAR (Dept C) = K37,164 / 3,000 hour = K12.39 per labour hour

Cost of Job BMK38	K	K
Material cost		100,000
Labour:		
Dept A 200 hours x K30	= 6,000	
Dept B 300 hours x K45	= 13,500	
Dept C 250 hours x K50	= 12,500	
		32,000
Production overheads:		
Dept A 200 hours x K33.33	= 6,666	
Dept B 300 hours x K46.18	= 13,854	

Dept C 250 hours x K12.39	= 3,098	
		23,618
Total Job cost		155,618
Profit 20/80 x 155,570		38,905
Selling price		194,523

SOLUTION FIVE

1. *Material A price variance*

	K
19,000 kg should have cost x K10	190,000
But did cost	209,000
Price variance	19,000(A)

2. *Material B price variance*

	K
10,100 should have cost x K15	151,500
But did cost	141,400
Price variance	10,100(F)

3. *Material A usage variance*

9,000 units should have used x 2kgs	18,000kgs
But did use	19,000kgs
Usage variance in kgs	1,000kgs (A)
Valued at std price/kg	x K10
	K10,000(A)

4. *Material B usage variance*

9,000 units should have used x 1kg	9,000 kgs
But did use	10,100kgs
Usage variance in kgs	1,100kgs (A)
Valued at std rate/kg	x K15
Usage variance	K16,500(A)

5. *Labour rate variance*

	K
28,500 hours should have cost x K9	256,500
But did cost	273,600
Rate variance	17,100(A)

6. Labour efficiency variance

9,000 units should have taken x 3 hours	27,000 hours
But did take	28,500 hours
Efficiency variance in hours	1,500 hours (A)
Valued at std rate/hour	x K9
Efficiency variance	K13,500 (A)

7. Variable overhead expenditure variance

	K
28,500 hours should have cost x K2	57,000
But did cost	52,000
Expenditure variance	5,000(F)

8. Variable overhead efficiency variance

Efficiency variance in hours	1,500 hours (A)
Valued at std rate/hour	x K2
Efficiency variance	K3,000 (A)

9. Fixed overhead expenditure variance

	K
Budgeted overheads	114,000
Actual overheads	116,000
Expenditure variance	2,000 (A)

10. Sales price variance

9,000 units should have earned x K88	792,000
But did earn	810,000
Sales price variance	18,000 (F)

11. Sales volume variance

Budgeted volume	10,000 units
Actual volume	9,000 units
Sales volume variance in units	1,000 units (A)
Valued at std contribution per unit	x K20
Volume variance	K20,000 (A)

SOLUTION SIX

(a) Traditional Unit Cost

	Spanner	Wrench
	K	K
Materials	18	12
Labour	12	8
Overheads (40%)	4.8	3.2
Total costs per unit.	**34.8**	**23.2**

(b) ABC Costing

Activity Rates

Activity	Cost (K)	Driver	Rate
Purchasing	162,000	120	1,350
Setups	108,000	300	360
Packaging	150,000	750	200
Inspection	120,000	1,000	120

Overhead Allocation

	Spanner	Wrench
	K	K
Purchasing	121,500	40,500
Setups	43,200	64,800
Packaging	60,000	90,000
Inspection	48,000	72,000
Total OH	272,700	267,300

Unit OH

- Spanner: K272,700 / 60,000 = K4.55
- Wrench: K267,300 / 90,000 = K2.97

ABC Unit Costs

	Spanner	Wrench
	K	K
Materials	18	12
Labour	12	8
ABC OH	4.55	2.97
Unit cost	**34.55**	**22.97**

(c) Functions of Cost Accounting

- Cost control
- Cost ascertainment
- Decision support

END OF SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 6: BUSINESS 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. You will be told when to start writing.

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

   Section A: One (1) Compulsory scenario question.
   Section B: Five (5) Optional Questions. Attempt any Four (4) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A - (COMPULSORY)

Attempt all ten (10) multiple choice questions

QUESTION ONE

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

1.1 The principle by which judges are guided by decisions of other judges in similar previous cases is known as:

A. Words said by the way.

B. Obiter dicta.

C. Stare decisis.

D. The mischief rule.

(2 marks)

1.2 Which of the following contracts is void because it is contrary to public policy?

A. Bwalya conspiring with Daka to start a riot after their team has lost a football game.

B. Mary agreeing with her employer to defraud the state of revenue by false Declaration on the payment slip.

C. Jane and Joy, both students of Nyayo Nursing School, renting a room from the hostel management for the purpose of prostitution.

D. Agreement by a prison warder to let the prisoner escape from his lawful custody upon being given a tip by the prisoner.

(2 marks)

1.3 …….. is not an example of a tort?

A. Trespass to land and negligence.

B. Civil defamation.

C. Trespass to a person.

D. Criminal defamation.

(2 marks)

1.4 Bad Boy drove his uncle's car to Gerald and gave Gerald the impression that he had the authority to sell his uncle's car. This type of agency may be described as:

A. Agency of necessity.

B. Agency by ratification.

C. Agency by estoppel.

D. Express agency.

(2 marks)

1.5 Which one of the following is a feature of the Partnership Agreement?

A. Estoppel.

B. Common law.

C. Retirement from the firm.

D. Just and Equitable.

(2 marks)

1.6 In a partnership business, a dormant partner……

A. Does not take part in a profit sharing of the business.

B. Does not take part in the management of the business.

C. Does not contribute any capital into the business.

D. Is also known as a nominal partner.

(2 marks)

1.7 Vitiating factors have been known to be factors that vitiate the validity of a contract.

Which one of the following is not a vitiating factor?

A. Undue Influence.

B. Res Ipsa Loquitur.

C. Duress.

D. Mistake.

(2 marks)

1.8 Which statement denotes the mischief rule?

A. To suppress the mischief and advance the remedy.

B. To read in words and avoid the absurdity.

C. To apply the meaning of accompanying words.

D. To avoid the grammatical sense of words.

(2 marks)

1.9 What amounts to redundancy?

A. Wrongful dismissal.

B. Unfair dismissal.

C. Summary dismissal.

D. Termination of an employee's contract based on lack of financial capacity to pay.

(2 marks)

1.10 Misconduct which warrants summary dismissal may involve the following except.

A. Theft at work.

B. Assault at work.

C. Insolence or impolite at work.

D. Negligence at work.

(2 marks)

[Total: 20 Marks]

SECTION B

There are FIVE (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

Marshall a full-time Assistant Medical Officer at a hospital carried out a surgical operation in a negligent manner. The patient sued the hospital as employer. The hospital resisted the claim arguing that they had no control in his medical work.

Required:

(a) Advise the hospital how they can ascertain whether they are liable for the wrongs of the assistant or not. (15 marks)

(b) Identify any five (5) fiduciary duties of an agent. (5 marks)

[Total 20 Marks]

QUESTION THREE

Anna and Robin are two (2) friends who have a leather merchant business. One day as they were driving along the road, they saw an advert written, "leather boots wanted". That caught their attention and they immediately stopped to get more information. They were informed by the marketing agent of the company that advertised that the offer was open until the following day at 5 pm. Anna immediately made an offer to supply the leather boots and she planned to finish making the boots the following day by 3 pm, then deliver them by 5 pm. However, on the actual day of delivery she realized that she was not going to manage to deliver all the pairs of boots and decided to write an email to the company agent who did not see it until the following day. The following week the company contacted Anna who indicated that she had communicated on the day of delivery that she could not manage to deliver the boots due to power outages. The company has now threatened to sue Anna for the inconvenience. Anna comes to you for advise.

Required:

Explain to her on the rules that govern offer, acceptance and revocation of an offer.

(20 marks)

[Total: 20 Marks]

QUESTION FOUR

(a) With the aid of statute and or case law, explain three rules that govern the interpretation of statutes in Zambia. (15 marks)

(b) List any five (5) examples of an invitation to treat. (5 marks)

[Total: 20 Marks]

QUESTION FIVE

(a) (i) Explain the differences between transfer of property in the goods and transfer of risk in goods. (5 marks)

(ii) Explain the differences between a company and a partnership. (5 marks)

(b) Mulijojo is an entrepreneur who runs a business in Chembe District of Luapula Province of Zambia. He has been running this business as a sole proprietor for five (5) years now. He recently won a tender which requires a capital injection of about K5,000,000. He realises that, perhaps he needs to partner with his friend, Jones who also runs his sole trader business. They therefore, met at a restaurant known as Jovial Restaurant, where they discussed among other things, how they can merge the two (2) businesses. They now engage your business consultancy services and request for the following:

How to draft the partnership agreement and the benefits of forming a partnership.

Required:

Explain to Mulijojo and Jones on the contents of a partnership agreement and explain to them the benefits of registering a business as partnership.

(10 marks)

[Total: 20 Marks]

QUESTION SIX

Moffat is a known dealer of phones in Lusaka town centre. Last month a customer by the name of Hellen based in Senanga town called him and asked about the phones he had in stock. He told her about all of them and what they could do. She got interested in one phone called iPhone 15 and sent him K20,000 for an iPhone 15. He did not have it in stock and to avoid losing such a business opportunity, he sent her an iPhone 12.

Hellen is not happy and has come to you for advice as to whether she should take this matter to court or not.

(a) In an event that you decided to advise her to sue, do you think she can succeed? Support your answer with case law and or statute. (10 marks)

(b) Explain any four (4) differences between the law of contract and the law of tort.

(10 marks)

[Total: 20 Marks]

END OF PAPER

DA 6 BUSINESS LAW

SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 C

1.2 C

1.3 D

1.4 C

1.5 C

1.6 B

1.7 B

1.8 A

1.9 D

1.10 D

SOLUTION TWO

(a) The hospital can use tests used by the Court to determine whether one is under a contract of service or a contract for services. There are three tests which have been used to determine the status of employment, which are: the control test; the integration test; and the multiple test.

CONTROL TEST

The first test used by courts in the 19th century sees the court examine whether the master controlled or had the right to control not only what the worker did but also the manner in which he did it. This was set out in **Yewens v Noake** , where Bramwell LJ stated: "A Servant is a person subject to the command of his master as to the manner in which he shall do his work." In the past, if an employer was able to tell an employee not only what to do, but stipulate how to do it and when, then this would indicate a contract of employment existed, whereas a smaller degree of control would point towards self-employment. In the past century, as the pace of technological change hastened, it became obviously unrealistic to conceive of the employer having the knowledge to control many of his increasingly high skilled employees.

For example, an airline pilot cannot be said to be 'controlled' by the airline in any real sense while he or she is carrying out their work. Therefore, the control test became outmoded as the sole criterion. Although it remains important, it is no longer seen necessarily conclusive. It is, however, in regards to questions of employment status this test is often considered crucial.

INTERGRATION TEST

The second test that was developed for a more realistic approach came in a series of cases in the late 1940s and early 1950s in which hospitals were held vicariously liable for the acts of surgeons, radiographers and other specialists known as the integration test. It was first identified by Somervell and Denning LJJ in Cassidy v Ministry of Health , where It was applied to establish that a doctor working within the NHS was an employee of the Health Authority. Again in 1952 Denning LJ referred to this test in **Stevenson, Jordan and Harrison Ltd v Macdonald and Evans** where it was considered that the decisive question was whether the person is employed as part of the business, whether his or her work is done as 'an integral part of the business' or whether it is merely an accessory to it. Although the test has the advantage of being a fairly straightforward one, the great fall back of this approach lies in its failure to define exactly what is meant by 'integration' and 'organisation'.

MUILTIPLE TEST

Gradually the courts have recognized that no one test or set of criteria can be conclusive when determining employment status, and so the test adopted by courts for deciding whether a contract is of or for service is the 'multiple test'. This is a threefold test: a contract of service

requires duty to give personal service, the existence of a sufficient degree of control and the terms of the contract being consistent with service. The correct approach for identifying the status of a working relationship is to consider a range of factors relevant to the relationship. If the evidence reveals the existence of an employment contract or if such consideration indicates the presence of a determining factor, the worker concerned will be deemed to be an employee. A clear illustration of the test being used is in **Ready Mixed Concrete (SE) ltd v Minster of Pensions and National Insurance**, the case concerned the appellant company's liability for social security contributions of their worker which arose only if they had contracts of service. The worker who drove ready mixed concrete lorries, was buying his lorry on hire purchase from the company was found to be employed under a contract for service, not a contract of service. In his judgment, MacKenna J considered what is meant by a contract of service. He said:

"A contract of service exists if these three conditions are fulfilled.

(i) The servant agrees that, in consideration of a wage or other remuneration, he will provide his own work and skill in the performance of some service for his master.

(ii) He agrees, expressly or impliedly, that in the performance of that service he will be subject to the other's control in a sufficient degree to make that other master.

(iii) The other provisions of the contract are consistent with its being a contract of service.

As to (i). There must be a wage or other remuneration. Otherwise there will be no consideration, and without consideration no contract of any kind. The servant must be obliged to provide his own work and skill. Freedom to do a job by one's own hands or by another's is inconsistent with a contract of service, though a limited or occasional power of delegation may not be…."

The 'multiple' test leaves a lot of room for interpretation, not least the third condition where there is no prescribed list of factors which are consistent and inconsistent, but a matter of common sense in each case.

(b) The following are the fiduciary duties of an agent;

1. Duty not to make a secret profit
2. Duty to account
3. Duty not to delegate
4. Duty not to take a bribe
5. Duty to avoid conflict of interest

SOLUTION THREE

This question requires candidates to discuss some of the basic rules relating to offer and acceptance in the law of contract.

An offer is a promise to be bound on certain specific terms. An offer must be distinguished from an invitation to treat, and it has legal consequences. Once an offer is made ad it is accepted, then an agreement is made. Acceptance is necessary for the formation of a contract. Once the offeree has accepted the terms offered, a contract comes into effect. Both parties are bound: the offeror can no longer withdraw his offer, nor can the offeree withdraw his acceptance. Thus in unilateral contracts, such as *Carlill* v *Carbolic Smoke Ball Co* (1893) acceptance occurred when the offeree performed the required act. Consequently, in the *Carlill* case, Mrs Carlill did not have to inform the Smoke Ball Co that she has used their treatment.

Revocation is the technical term for the cancellation of an offer and occurs when the offeror withdraws their offer. The rules relating to revocation are as follows:

(i) An offer may be revoked at any time before acceptance. However, once revocation has occurred, it is no longer open to the offeree to accept the original offer (*Routledge* v *Grant* (1828)); *Hyde* v *Wrench*.

(ii) Revocation is not effective until it is actually received by the offeree. This means that the offeror must make sure that the offeree is made aware of the withdrawal of the offer, otherwise it might still be open to the offeree to accept the offer (*Byrne* v *Tienhoven* (1880)).

(iii) Communication of revocation may be made through a reliable third party. Where the offeree finds out about the withdrawal of the offer from a reliable third party, the revocation is effective and the offeree can no longer seek to accept the original offer (*Dickinson* v *Dodds* (1876)).

(iv) A promise to keep an offer open is only binding where there is a separate contract to that effect. Such an agreement is known as an option contract.

Therefore, the legal position is that since Anna accepted an offer from the advertising company, and only decided to withdraw it a after acceptance and without communication as required by the rules of acceptance, she in breach of the agreement and is therefore, liable under the law of contract. This entails that the company will succeed once it brings an action against her.

SOLUTION FOUR

(a) This question tests the candidates' knowledge of the rules of statutory interpretation.

The courts interpret statutes in order to discover Parliament's intention. In doing so, the courts apply certain rules, presumptions and extrinsic aids. Most statutes contain an interpretation section, whose definitions apply throughout the Act unless a contrary intention, express or implied, appears in a particular context.

The Rules of Interpretation
There are three main rules of statutory interpretation.

(1) The Literal Rule
This is the basic rule of statutory interpretation. This rule states that Parliament's intention must be found by interpreting the words used in their ordinary, literal or grammatical sense in their context. *Whitley v Chappell [1868].*

(2) The Golden Rule
Where it appears to the court that interpreting words according to their ordinary, literal or grammatical sense in their context would give rise to absurdity, repugnancy or inconsistency with the rest of the statute, the golden rule permits the judge to modify the literal rule so as to avoid such a result. See *Grey* v *Pearson* (1857); *Re Sigsworth* (1934).

(3) The Mischief Rule
The literal rule breaks down in the face of an ambiguity. In such a case the judge may apply the mischief rule (also known as the rule in *Heydon's* case (1584)). The judge takes into account the following considerations:

(i) What was the law before the Act was passed?
(ii) What was the mischief or defect for which the law had not provided?
(iii) What remedy did Parliament appoint?
(iv) What was the reason for the remedy?

In *Gorris* v *Scott* (1874), the plaintiff claimed in respect of the loss of his sheep, which were washed overboard and drowned while the defendant was engaged in carrying them by sea. The loss was due to the fact that, in breach of statutory duty to do so, no pens had been provided. The plaintiff based his claim on the fact that the loss had been caused by the breach of the statutory duty. However, it was held that the purpose of the relevant provision was not to prevent loss overboard but to minimise the spread of contagious diseases, and that therefore the claim did not fall within the mischief of the Act: *Smith* v *Hughes* (1960).

(b) Examples of invitation to treat are:

(i) Advertisements

(ii) Catalogues

(iii) Brochures

(iv) Company prospectuses

(v) Auctions

(vi) Tenders

(vii) Display of goods by the shelf

(viii) Display of goods by the window

SOLUTION FIVE

(a) (i) Transfer of property in goods and transfer of risk in goods are all implied terms in the Sales of Goods Act 1893, however, differ in several respects as follows; Transfer of property in goods entails the actual exchange of the rights and interests in the goods from one person to the other. The stage at which this may occur varies as it is subject to contractual terms between parties. At times property in goods may exchange hands immediately a sell or sale is conducted at times at a date determinable in future. On the contrary, transfer of risk in goods relates to the assigning of risk in goods from one person to the other. This may be before or after ownership has passed. Hence it is possible for risk to pass before the goods are in the hands of the owner.

(ii) The difference between a company and a partnership is that a company is an artificial legal person incorporated under the Companies Act, 2017, and has a separate legal identity distinct from its owners (shareholders). In contrast, a partnership is a business relationship between two or more persons who carry on business together with a view to making a profit. Unlike a company, a partnership does not have a separate legal personality from its partners, and the partners are generally liable for the debts and obligations of the business.

(b) Contents of a Partnership Agreement

A typical partnership agreement includes the following:

1. Name and Nature of the Business
    - The name of the partnership.
    - The type of business activities to be undertaken.
2. Details of the Partners
    - Names and addresses of all partners.
    - Date the partnership commenced.
3. Capital Contributions
    - Amount of capital contributed by each partner.
    - Procedures for additional capital contributions.
4. Profit and Loss Sharing Ratio
    - How profits and losses will be shared among the partners.
5. Roles and Responsibilities
    - Duties, powers, and responsibilities of each partner.
    - Authority to enter into contracts on behalf of the partnership.

6. Management and Decision-Making
    - Procedures for making business decisions.
    - Voting rights and dispute-resolution mechanisms.
7. Partners' Remuneration
    - Salaries, allowances, commissions, or drawings permitted to partners.
8. Banking Arrangements
    - Operation of bank accounts and signing authority.
9. Admission of New Partners
    - Conditions under which new partners may be admitted.
10. Retirement, Death, or Expulsion of a Partner
    - Procedures to be followed in such circumstances.
11. Withdrawal of Capital
    - Rules governing withdrawals by partners.
12. Books of Account and Audits
    - Maintenance of accounting records and financial reporting.
13. Dispute Resolution
    - Methods for resolving disagreements, such as mediation or arbitration.
14. Dissolution and Winding Up
    - Procedures for terminating the partnership and distributing assets.

The benefits of forming a partnership are:

1. More Capital

If there are two or more partners involved in the business, then it will be easier to collect capital for business operations. A prospective partner can have a wide range of network channels that will help your company to attract investors. The partnership can also help to borrow funds for financing your business. It will enhance your creditworthiness so that you can take loans easily for your business.

2. Business Opportunities

Partners in the business help you to divide your work. Sharing labor is one of the crucial advantages you get from partnership businesses. Having partners can encourage new business opportunities and decrease the workload. Less workload in business will pave a path for diversification and growth. It can even eliminate the negative aspects of opportunity costs.

3. Trust Among the Partners

Partnership in business helps you to build trust among your partners. The success of your business relies on the decision you make. So, if there is more than one proprietor, then it is important to trust their decisions and ideas as well. Hence, the partnership can encourage you to trust and value the decisions, vision, temperament of your partners, and can ultimately lead to success in business.

4. Shared Responsibility

Partnership in business will allow you to share profits and responsibilities with your partners. If the authority among the partners gets divided then, there will be a reduction in the workload. As mentioned before, a decrease in workload will save your time as well. There will be a chance of higher growth opportunities in the future.

5. Decision Making

Partnership business involves ideas, opinions, and decisions of all the partners. Partners share their ideas and help each other out when they need to. More partners mean more brains, which can ultimately help in decision making and problem-solving. If the partners work together and put their opinions together, then the business operations will execute more efficiently.

6. Tax Benefit

One of the key advantages of the partnership business is the tax treatment. Partnership businesses don't have to pay income tax. This type of business doesn't get taxed separately. The owners or the partners file the profit and loss of the company on their income tax return. In this way, companies don't get taxed separately. Also, this allows partners to deduct business losses from their tax returns.

7. Flexibility

The partnership business is a convenient form or a structure. It is more liberal than other businesses. They are not strictly regulated compared to other companies. There is complete freedom on how the company can be managed and financed. As partners only have right on making a business decision, hence it is more flexible in terms of management and running the businesses, as long as all the partners agree on each other.

8. Support

The partnership helps to ease your everyday frustration that might occur in a business. Partners being around could encourage you to work more effectively. You will feel relieved knowing the fact that your partners are also struggling and doing their best. Even at the times of celebration at the workplace, partners can make the moment more enjoyable. Partners can value as business companions.

9. New Ideas

Different people have different visions or perspective on a particular thing. Similarly, partners in businesses will also have different ideas and concepts with them. When partners work together, these ideas and perspectives get met and help you to have a different outlook on a particular thing. It will help you to develop border vision of your product and services, pricing, organizational decisions, and management, etc.

10. Balanced Life

As partners can ease your workload in business, it can help you to achieve a balanced life. In this way, your mental health will become more positive. You will not get stressed all the time. It will also allow you to take day offs when needed for refreshment. Eventually, partnership in business may help you to be mentally fit.

11. Collaboration

Partnership in business will also help you to use the resources of one of your partners'. In this way, you can cut off your expenses or outlay of the business. For instance, if you are planning to open a startup business with your partners, then you can use one of your partners' places at first. This condition can ultimately help your business to reduce rental expenses. Hence the resources can also be utilized properly.

12. Long Term Stability

Partnership in business means you are not only the one who is operating your business. When partners are together, then there can be vast coverage of innovative ideas, opinions, and analyses that can add value to the firm's operation. You will have access to the knowledge, resources, expertise due to which it can have a positive impact on your business performance. Lastly, partnership in business creates value for your company. When trusted partners are together, then your business is likely to achieve its long term goals and objectives. So, it would be a better decision if you plan to establish a business with your partners.

SOLUTION SIX

(a) This question is anchored on **sale by description** provided for under Section 13 of the Sale of Goods Act 1893. A sale by description occurs where words are used to identify the goods sold. When there is a sale by description, *there is an implied condition that the goods must correspond with the description*.

In this case, when Hellen ordered the phones, she asked for the iPhone 15, not iPhone 12. Thus, Moffat was in breach of the Sale of Goods Act because the goods he sent her were and not the ones agreed upon. In ***Beale v Taylor (1967)*** a sale of a car which was joined of two different models entitled the buyer to damages in the court of law. Further in ***Bowes v Shand (1877)*** it was held that you can't contract to sell peas and force the other party to receive beans. Thus, Hellen should go to court and sue for damages for breach of contract if he does not give her the agreed iPhone 15, the one she paid for. Further, if she wants, she can avoid the contract and seek for a refund.

(b) The differences between Tort and Contract are as follows:

(i) Liability in tort arises from a breach of duty primarily fixed by law whereas, liability in contract arises from breach of terms agreed by the parties.

(ii) Contract requires an agreement between the parties and tort does not.

(iii) Under the law of contract, the duties of the parties are agreed on by the parties while in tort they arise out of the primary imposition of the law.

(iv) In tort, the amount of damages may be higher e.g. punitive damages which may not be the case in the law of contract

END OF SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL ONE

DA 7: PRINCIPLES OF MANAGEMENT

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 sections:

   Section A: One (1) Compulsory question.

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

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A – COMPULSORY

Attempt all ten (10) multiple choice questions

QUESTION ONE

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

1.1 Which stakeholder is most concerned with dividends and profitability**?**

A. Employees.

B. Customers.

C. Shareholders.

D. Government.

(2 marks)

1.2 Which tool is used to analyze an organization's internal strengths and weaknesses?

A. PESTLE analysis.

B. SWOT analysis.

C. Porter's Five Forces.

D. Ansoff Matrix.

(2 marks)

1.3 Maslows motivation theory is also known as:

A. Theory X and Y

B. Needs Theory

C. Expectant Theory.

D. Equity Theory.

(2 marks)

1.4 The Reinforcement Theory by Skinner states that:

A. Behavior is driven by its consequences.

B. Behavior of employees must be coerced.

C. Behavior of employees follows Theory Y.

D. Behavior is driven by career.

(2 marks)

1.5 Which management function involves setting objectives and goals?

A. Organizing.
B. Leading.
C. Planning.
D. Controlling.

(2 marks)

1.6 Which theory focuses on efficiency, standardization, and productivity?

A. Human Relations Theory.
B. Systems Theory.
C. Scientific Management.
D. Contingency Theory.

(2 marks)

1.7 Which leadership style involves employee participation in decision-making?

A. Autocratic.
B. Laissez-faire.
C. Democratic.
D. Transactional.

(2 marks)

1.8 Which leadership theory suggests leaders are born, not made?

A. Behavioral theory.
B. Trait theory.
C. Situational theory.
D. Contingency theory.

(2 marks)

1.9 Hawthorne experiments by Elton Mayo are also known as:

A. Reward System theory.
B. Human Resource theory.

C. Needs theory.

D. Contingency theory.

(2 marks)

1.10 Recruitment is mainly concerned with:

A. Improving employee performance.

B. Selecting the best candidates.

C. Appraising employees.

D. Promoting staff.

(2 marks)

[Total: 20 Marks]

SECTION B

There are Five (5) questions in this section.

Attempt any FOUR (4) questions.

QUESTION TWO

Twanonka Mining Services company is redesigning and restructuring the organization by introducing new digital systems to improve efficiency and reduce costs. This change will affect the organizational structure by altering job roles, reporting relationships, and working methods for many employees. However, some staff are resisting the change, and limited and unclear communication from management has increased confusion within the workforce.

Required:

(a) Discuss two (2) reasons why employees of Twanonka Mining Services company are resisting change. (8 marks)

(b) State two (2) ways how managers can manage change effectively at Twanonka Mining Services. (6 marks)

(c) Explain three (3) benefits of effective change management. (6 marks)

[Total: 20 Marks]

QUESTION THREE

A public institution is experiencing low employee morale, poor communication, and frequent conflicts between supervisors and staff, and this has affected productivity. Employees complain that they receive instructions from multiple supervisors and are rarely involved in decision making especially those involved in projects assigned to them through strategic teams comprising staff from different departments.

Required:

(a) Identify three (3) groups stakeholders of a public institution. (9 marks)

(b) With the aid of a diagram, define a Matrix organization structure and give three disadvantages. (8 marks)

(c) Explain the purpose of Performance Evaluation. (3 marks)

[Total: 20 Marks]

QUESTION FOUR

Effective leadership is perceived differently across cultures. In the United States, leaders are often admired for their charisma. In contrast, people in Germany tend to be cautious of charismatic leadership due to historical associations. Scandinavian countries value leadership that is participative and based on shared decision making. In many Latin American countries, an authoritarian leadership style is preferred, while in few counties, leadership is often based on consultation and consensus.

Required:

(a) Describe the term leadership. (5 marks)

(b) List five (5) Characteristics of a Leader. (5 marks)

(c) State five (5) types of Leadership theories described in the passage above. (10 marks)

[Total: 20 Marks]

QUESTION FIVE

A Public Sector organization struggles with skills shortages, poor succession planning, and low employee commitment.

Required:

(a) Explain three (3) characteristics of a public sector organization. (12 marks)

(b) Evaluate three (3) key aspects of cultural change which an organization might encounter following a merger or acquisition. (6 marks)

(c) State two (2) advantages of Internal Recruitment. (2 marks)

[Total: 20 Marks]

QUESTION SIX

(a) Organisations are encouraged to engage managers that are capable of holding leadership positions in order to stop the inappropriate actions that may hinder the growth of an organisation. Boyzatis suggested key competences that lead to behaviour that meet job demands within the parameters of the organisation environment.

Required

Describe three (3) competences as suggested by Boyzatis that managers must consider. (12 marks)

(b) Employees feel demotivated due to lack of recognition of their efforts and contributions in the organisation by their fellow employees and managers.

Required:

What four (4) things should managers do to motivate employees through participation? (8 marks)

[Total 20 Marks]

END OF PAPER

DA7 PRINCIPLES OF MANAGEMENT

SUGGESTED SOLUTIONS

SOLUTION ONE

1.1 C

1.2 B

1.3 B

1.4 A

1.5 C

1.6 C

1.7 C

1.8 B

1.9 B

1.10 B

SOLUTION TWO

(a) Two reasons why employees of Twanonka Mining Services company are resisting change.

- Fear of job loss: Employees are worried that new technology may replace their roles, creating insecurity and resistance.
- Lack of training and communication: Poor communication and no training make employees feel unprepared and anxious about the changes.

(b) Two (2) ways how managers can manage change effectively

- Improved communication: Managers should clearly explain the reasons for change, benefits, and impact on employees to reduce uncertainty.
- Training and support: Providing training helps employees develop new skills and increases confidence in using new systems.

(c) Why effective change management is important for organisational success

- Effective change management reduces employee resistance,
- Maintains productivity
- Ensures new strategies are successfully implemented.
- Helps the organisation achieve its objectives and remain competitive.

SOLUTION THREE

(a) Identify **three (3)** groups stakeholders of a public institution

(i) Internal stakeholders. For example: employees and Management

(ii) Connected stakeholders, for example: suppliers, shareholders, bankers; customers

(iii) External stakeholders like other government agencies; professional bodies; interest groups.

(b) **Explain what is meant by a Matrix organization structure.**

A Matrix organizational structure is a type of structure where employees report to two or more managers at the same time, usually a functional manager (e.g., HR, Finance, Marketing) and a project or product manager.

Matrix Diagram For the Project

	Project 1 Manager	Project 2 Manager	Project 3 Manager
Production			
Marketing			
Finance			
HRM			
RD			

It combines features of both functional and project-based structures to improve flexibility, collaboration, and efficient use of resources.

Disadvantages

- Employees take orders from two Bosses
- Project managers' authority may me limited
- Confusion of among employees on loyalty.

(c) **Explain the purpose of Performance Evaluation.**

Performance evaluation is a systematic process used to assess an employee's job performance against established standards and objectives.

SOLUTION FOUR

(a) 'Leadership' is the process of influencing the behaviour of others towards the accomplishment of goals in a given situation.

'Leadership' is the ability to influence others and enthusiastically making them to achieve the desired results.

'Leadership' is a process by which a person influences others to accomplish an objective and directs the organization in a way that makes it more cohesive and coherent.

(b)

1. Inspires trust
2. 'Does the right thing'
3. Innovates and develops
4. long-term in outlook
5. Envisioning
6. Behaviour modelling
7. Involving
8. Promoting learning
9. Promotes Team-building
10. Leadership Produces
11. Tends to produce Change
12. Spend time and effort aligning people so that they understand and accept their visions and strategy

(c) **Types of leadership theories**

1. Great man theory
2. Trait theory
3. Behavioural theory
4. Transformational theory
5. Transactional theory
6. Path Goal theory

SOLUTION FIVE

(a) **Explain three (3) characteristics of a public sector organization**.

The primary objective of a public sector organisation is not (normally) to make profit. A public sector organisation has the following characteristics:

(i) Accountability: the senior Management is accountable to the government and to parliament.

(ii) Funding: the sector can obtain funds in three ways: (a) Raise Taxes; (b) make changes for their goods and services; (c) Borrowing.

(iii) Limited Resources: despite the potentially huge demand for public services, there are constraints on government expenditure. Resources are limited, and the demand for public services (for example Education) cannot always be met in full.

(b) **Critically evaluate three (3) key aspects of cultural change which an organization might encounter following a merger or acquisition.**

1. **Integration of Different Organizational Cultures**
   Employees from merging organizations may have different values, norms, and work practices. Aligning these cultures is critical to reduce conflicts, misunderstandings, and resistance, ensuring a cohesive work environment.
2. **Change in Leadership and Decision-Making Styles**
   New management may introduce different leadership approaches, communication patterns, and decision-making processes. Employees must adapt to new authority structures and expectations, which can affect morale and productivity.
3. **Adjustment of Employee Roles and Work Practices**
   Mergers often involve restructuring, role reassignments, and new workflows. Employees need to adapt to new responsibilities, processes, and performance expectations, which can challenge existing habits and comfort zones.

(c) **Identify two (2) advantages of Internal Recruitment.**

1. **Cost-Effective** – Filling vacancies internally reduces advertising, recruitment, and onboarding costs.
2. **Faster Recruitment Process** – Existing employees are already familiar with the organization, so selection and induction take less time.
3. **Motivates and Retains Employees** – Opportunities for promotion or transfer boost morale, commitment, and loyalty.
4. **Reduces Risk of Poor Fit** – Current employees' skills, performance, and cultural fit are already known, lowering the risk of hiring mistakes.
5. **Encourages Career Development** – Supports employee growth and succession planning, preparing staff for higher responsibilities.

SOLUTION SIX

(a) **Competences as suggested by Boyzatis that managers must consider:**

A person's competence is 'a capacity that the job holder should have, that meets the job demands within the parameters of the organisational environment, and that, in turn, brings about the desired results.' (Boyzatis).

(i) **Behavioral/personal competences** are underlying personal characteristics and behaviour required for successful performance, for example, 'ability to relate well with others.' Most jobs require people to be good communicators.

(ii) **Work-based/occupational competences** are expectations of workplace performance and the outputs and standards people in specific roles are expected to obtain.' For example, a competence in for a senior financial accountant in a company may be to 'produce financial and other statements to report to management'.

(iii) **Generic competences** can apply to all people in an organisation, these include:

Competence area	competence
Intellectual	• Strategic perspective • Analytical judgement • Planning and organising
Interpersonal	• Managing staff • Persuasiveness • Assertiveness and decisiveness • Interpersonal sensitivity • Oral communication
Adaptability	• Flexibility • Coping with change
Results	• Initiative • Motivation to achievement • Business sense

(b) The following are four (4) things managers should do to motivate employees through participation:

(i) Employees should only be involved in relevant decisions of a certain degree of importance otherwise if trivial they will not be motivated.

(ii) Participation should only be used for decisions of certain degree of importance.

(iii) Feedback on the outcome of the decisions must be provided to employees as soon as possible.

(iv) Participation must be genuine.

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

END OF SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 8: 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.

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

   Section A: There are two (2) compulsory questions.
   Section B: There are three (3) questions. Attempt any two (2) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A

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

Attempt BOTH questions.

QUESTION ONE

You are the Group Financial Controller of Polito Group and your Group Finance Director has provided you with the financial statements below to help you prepare consolidated financial statements for the year ending 31 March 2026.

The summarised statements of financial position for the three (3) entities as at 31 March 2026 are as follows:

Assets:	**Polito Ltd**	**Solitaire Ltd**	**Aston Ltd**
Non-current assets:	**K'000**	**K'000**	**K'000**
Property, plant and equipment	75,000	49,000	42,000
Investments	218,900		
Total non-current assets	293,900	49,000	42,000
Current assets:			
Inventories	25,000	22,000	12,000
Trade receivables	15,000	4,500	6,000
Cash and cash equivalents	4,000	2,000	1,500
Total current assets	44,000	28,500	19,500
Total assets	337,900	77,500	61,500
Equity and liabilities:			
Equity shares of K1 each	60,000	24,000	15,000
Share premium	88,000	0	0
Retained earnings:			
At 1 April 2025	36,500	36,000	35,000
For the year ended 31 March 2026	68,000	6,000	8,000
	252,500	66,000	58,000
Non-current liabilities:			
5% loan notes	29,000	4,000	400
Current liabilities:			
Trade payables	29,500	6,000	1,500
Contingent consideration	6,500	0	0
Current tax payable	20,400	1,500	1,600
Total current liabilities	56,400	7,500	3,100
Total equity and liabilities	337,900	77,500	61,500

The following information is relevant:

(1) On 1 April 2025, Polito Ltd (Polito) acquired 80% of equity shares of Solitaire Ltd (Solitaire) in a share exchange of three shares in Polito for every two shares acquired in Solitaire. The share price of Polito and Solitaire at the date of acquisition were K5.50 and K4.50 respectively. Polito agreed to pay a further amount on 1 April 2026 that was contingent upon the post-acquisition performance of Solitaire. At the date of acquisition, Polito assessed the fair value of the contingent consideration as K6.5 million, however, on 31 March 2026, it was probable that only K3.2 million would be paid (ignore discounting). Polito has recorded both the share exchange consideration and contingent consideration of K6.5 million.

(2) Also at the date of acquisition, Solitaire Ltd had an unrecorded deferred tax liability of K2 million which remained unchanged as at 31 March 2026.

(3) Polito's policy is to measure the Non-Controlling Interest (NCI) at fair value at the date of acquisition. The share price of Solitaire should be used for this purpose.

(4) On 1 October 2025, Polito acquired 40% of the equity shares of Aston Ltd (Aston) paying K7 in cash per share acquired and issuing at par K100 5% loan note for every 50 shares acquired in Aston. Both consideration have been recorded by Polito.

(5) At the date of acquisition, the fair values of Solitaire's property, plant and equipment were equal to their carrying amounts with the exception of Solitaire's factory which had a fair value of K4 million above its carrying amount. The remaining useful life of the factory on the acquisition date was 20 years. Straight line depreciation method is used. The fair value adjustment has not been recorded.

(6) In the post-acquisition period, Polito sold goods to Solitaire for K60 million (cost to Polito K50 million). K15 million of the goods sold remained in Solitaire's inventory at 31 March 2026.

(6) Polito's current account balance with Solitaire was K6.8 million at 31 March 2026. This did not agree with Solitaire's current account balance, due to goods in transit invoiced at K2.6 million (cost to Polito K1.9 million), which were dispatched on 26 March 2026 by Polito, and were received by Solitaire after the year end.

(8) Impairment tests were conducted on 31 March 2026, which revealed that the value of the investment in Aston was impaired by K1 million, and the goodwill of Solitaire was impaired by K30 million, due to poor trading performance.

(9) During the year to 31 March 2026, Polito spent K1.4 million training staff on the use of newly acquired equipment for the factory and this has been capitalised within property, plant and equipment.

Required:

Prepare the consolidated statement of financial position for Polito group for the year ended 31 March 2026. **[Total: 25 Marks]**

QUESTION TWO

You are the Finance Manager of Mukoyo Public Limited Company (Mukoyo), a listed company that manufactures traditional drinks for both local and international markets. Your Accountant has prepared the financial statements for the year ended 31 December 2025, as shown below.

Statement of profit or loss and other comprehensive income for the year ended 31 December 2025.

	K'000
Revenue	18,970
Cost of sales	(11,100)
Gross profit	7,870
Operating expenses	(1,250)
	6,620
Finance costs – loan notes	(60)
Investment income and gain on investments	200
Profit before tax	6,760
Income tax expense	(570)
Profit for the year	6,190

Statement of financial position as at 31 December 2025

	K'000
Non-current assets:	
Property, plant and equipment	12,800
Intangible assets – Development expenditure	1,350
Investments at fair value through profit or loss	1,500
	15,650
Current assets	
Inventory	4,800
Trade receivables	2,700
Bank	800
	8,300
Total assets	23,950
Equity and liabilities:	
Equity:	
Equity shares of K1 each	5,000
Share premium	2,100
Retained earnings	9,500
	16,600
Non-current liabilities:	
5% loan note	1,200
Environmental provision	1,620
Deferred tax	180
	3,000
Current liabilities:	
Trade payables	3,750
Current tax payable	600
	4,350
Total equity and liabilities	23,950

Other relevant information:

The Accountant did not take into account the following matters:

(1) Goods initially sold to a customer on credit for K2 million were returned as they were nearing the expiry date. These goods had been sold at a mark-up of 25%.

(2) Inventory includes damaged goods that cost K1.2 million, which can be sold at a selling price of K1 million through an agent. Upon sale, the agent will receive a sales commission of 10%.

(3) Property, plant and equipment were revalued at the end of the financial year by an independent valuation expert engaged by management. The expert valued the property, plant and equipment at K13 million.

(4) Development expenditure includes costs incurred on three new products being developed. One of these products has been abandoned following the introduction of a new law that prohibits the development and production of such a product. The development costs incurred to date on the abandoned product amount to K0.35 million.

(5) To improve its liquidity position, the company raised additional funds through the issue of equity shares on the Lusaka Securities Exchange. A total of 2 million equity shares were issued and fully subscribed for at K2 per share.

(6) The 5% loan note was issued on 1 January 2025 under the terms that provide for a premium on redemption on 31 December 2027. The loan note is deemed to have an effective interest rate of 8% per annum. Only the coupon paid and the nominal value of the loan note have been recognised by Mukoyo.

(7) The company has a legal obligation to restore the environment in December 2027. Environmental experts from the Zambia Environmental Management Agency (ZEMA) estimated the annual environmental provision at K0.5 million, and management of Mukoyo Public Limited Company has accepted this amount as the best estimate.

(8) An income tax assessment conducted on 31 December 2025 revealed that the estimated income tax liability for the year ended 31 December 2025 should be revised from K0.6 million to K0.8 million.

Required:

(a) Prepare the corrected statement of profit or loss and other comprehensive income for the year ended 31 December 2025. (12 marks)

(b) Prepare the corrected statement of financial position as at 31 December 2025. (13 marks)

[Total: 25 Marks]

SECTION B

There are THREE (3) questions in this section.

Attempt any two (2) questions.

QUESTION THREE

Mazuba Ltd (Mazuba) needs to raise finance for its new product development and has contacted NATSAVE bank for a bank loan to fund the new product development. NATSAVE has requested for the statement of cash flows in order to assess Mazuba's credit worthiness before the loan is approved and given.

The financial statements below relate to Mazuba Ltd as at 31 March 2026.

Statement of profit or loss and other comprehensive income for the year ended 31 March 2026.

	K'000
Revenue	31,150
Cost of sales	(26,500)
Gross profit	4,650
Distribution costs	(1,400
Administrative expenses	(1,000)
Profit from operations	2,250
Investment income	1,180
Finance costs	(900)
Profit before tax	2,530
Income tax expense	(800)
Profit for the year	1,730
Other comprehensive income:	
Gain on revaluation of property, plant and equipment	1,000
Total comprehensive income	2,730

Statements of financial position for Mazuba Co as at 31 March	**2026**	**2025**
Assets:	**K'000**	**K'000**
Non-current assets:		
Property, plant and equipment	2,780	1,350
Investments	3,000	3,500
Right-of-use asset	12,610	8,010
Development expenditure	2,900	1,600
Total non-current assets	21,290	14,460
Current assets		
Inventories	1,500	2,450
Trade receivables	2,400	1,800
Investments	1,430	460
Cash and cash equivalents	910	1,560
Total current assets	6,240	6,270
Total assets	27,530	20,730

Equity and liabilities:		
Equity:		
Equity shares of K1 each	8,000	4,900
Share premium	3,500	2,350
Retained earnings	4,010	3,380
Revaluation surplus	1,600	600
Total equity	17,110	11,230
Non-current liabilities		
6% loan notes	3,400	1,500
Lease liabilities	1,200	800
Deferred tax	860	1,370
Total non-current liabilities	5,460	3,670
Current liabilities		
Trade payables	2,840	3,620
Lease liabilities	180	120
Current tax	570	1,540
Loan note interest	50	10
Bank overdraft	1,320	540
Total current liabilities	4,960	5,830
Total equity and liabilities	27,530	20,730

Other relevant information:

(1) During the year ending 31 March 2026, Mazuba made a bonus issue of 1 for every 5 shares, using its retained earnings.

(2) The current asset investments are classified as high liquid cash equivalents.

(3) During the year ending 31 March 2026, items of property, plant and equipment with a carrying amount of K550,000 were sold for K565,000. Profit on the sale was netted off against cost of sales.

Depreciation expense for the year on property, plant and equipment was K148,000 and amortisation on development expenditure was K130,000. Both were included in cost of sales.

(4) Mazuba acquired the right-of-use asset during the year, which was initially measured at K4.52 million (equivalent to the initial lease liability). The depreciation on the right of use asset has been correctly calculated as K100,000 for the year. Lease payments are made in arrears on the last day of each accounting period.

(5) The trade receivables at 31 March 2026 include K600,000 interest receivable.

(6) Investment income of K1.18 million is made up of K420,000 dividends received, K160,000 interest received and K600,000 interest receivable.

(7) Mazuba Co paid dividends during the year ended 31 March 2026.

(8) Some non-current asset investments were sold at a loss of K200,000 during the year ending 31 March 2026. Mazuba did not purchase new investments during the year.

Required:

(a) Prepare the statement of cash flows for Mazuba for the year ended 31 March 2026 in compliance *with IAS 7 Statement of Cash Flows,* using the indirect method. (23 marks)

(b) Explain 'non-current asset held for sale' in accordance with *IFRS 5 Non-Current Assets Held for Sale and Discontinued Operation*. (2 marks)

[Total: 25 Marks]

QUESTION FOUR

You work for Copper Ridge Mining (CRM) as senior financial accountant. The following accounting matters have been provided to you by the Chief Financial Officer. You are required to guide your junior accountants, who recently joined your organisation. The financial year end in each scenario is 31 March 2026.

Issue one (1)

CRM operates a copper mine that is treated as a single Cash Generating Unit (CGU). As at 31 March 2026, the CGU carrying amount comprised the following assets:

	K'000
Equipment	60,000
Development expenditure	35,000
Goodwill	10,000
Net current assets	15,000
	120,000

During the year to 31 March 2026, global copper prices declined significantly, and the company experienced higher extraction costs due to deeper mining operations and declining equipment performance. Management performed an impairment test on 31 March 2026 which revealed that the fair value less costs of disposal of the CGU is K95 million and the value in use is K102 million.

Required:

(a) Using the information provided, explain three indicators of impairment of the CGU, in accordance with IAS 36, impairment of assets. (3 marks)

(b) Define 'recoverable amount' and determine the recoverable amount of the above CGU. (3 marks)

(c) Calculate the impairment loss of the above CGU (if any) and explain how it will be allocated to the assets in the CGU. (6 marks)

Issue two (2)

CRM purchased 100,000 shares in Precious Minerals Ltd (Precious) on 31 May 2025 for K9 per share. The investment resulted in CRM holding 5% of the entity's shares in Precious. CRM incurred transaction costs of K45,000, and will hold the investment for trading purposes. At the year end, CRM received dividends from this investment of K0.08 per share. Precious' shares were trading at K15 each on 31 March 2026.

Required:

Explain how CRM will account for this instrument at initial measurement and subsequent measurement. (6 marks)

Issue three (3)

CRM entered into a contract for the sale of a drilling machine as a package to Emerald Mining Ltd on 1 July 2025 for K80 million. Included in the package is a three-year servicing contract with a value of K24 million and installation fee of K1 million. The machine was installed on the date of sale.

Required:

Explain the accounting treatment of this transaction in accordance with IFRS *15 Revenue from Contracts with Customers*. (7 marks)

[Total: 25 Marks]

QUESTION FIVE

(a) You work as a management accountant for the TLC manufacturers and your Assistant Accountant has requested your guidance on the accounting matters below. He attended the Zambia Institute for Chartered Accountants (ZICA) workshop, where these matters were discussed, however, he did not fully understand them.

Accounting matters:

(1) I thought as a business, we ought to record the assets as soon as they are bought. At the workshop, the presenter talked about recognition criteria for assets, this confused me! (4 marks)

(2) The presenter went on to give an example of how transactions ought to be accounted for, based on the substance of the transaction and not the legal form, and cited leased assets being recognised by the lessee. This confused me even more. (4 marks)

(3) At the workshop, I was meant to understand that when assets are revalued upwards, leading to revaluation surplus, this is credited to profit and loss immediately. I thought revaluation loss is recognised separately under other comprehensive income and shown as a separate reserve in the statement of financial position? (4 marks)

(4) The presenter further elaborated on the treatment of finance cost on a loan that is borrowed from the bank for the purpose of financing the construction of an asset that necessarily takes long to get ready for use. He mentioned that such finance cost needs to be capitalised. I thought finance cost is normally an expense.
(4 marks)

(5) My understanding of tangible non-current assets is that they could be valued at either historic costs or fair value. I therefore do not understand why all our property, plant and equipment are carried at their historic cost including the land and buildings we purchased six (6) months ago.
(4 marks)

Required:

Using the conceptual framework and applicable IFRSs/IASs, provide the guidance required on the above transactions.

(b) Your company is considering investing in another entity as a way of diversifying its investment portfolio and expanding its sources of income. Management is currently evaluating the potential investment and assessing which of the two (2) entities, Crocs and Pumps would be a suitable buy.

The key financial ratios below relate to the two entities over a two-year period.

	Croc plc.		Pump Plc	
	2026	2025	2026	2025
Dividend per share	K0.80	K0.40	K0.60	K0.90
P/E ratio	8	9	16	14
Dividend yield	35%	32%	15%	15%
Dividend cover	5	4	2	3
Debt ratio	40%	46%	50%	45%
ROCE	55%	42%	48%	44%

Required:

Analyse and recommend which of the two entities, Crocs Plc or Pump Plc, would be the best investment option for your company to invest in. (5 marks)

[Total: 25 Marks]

END OF PAPER

DA8 FINANCIAL REPORTING

SUGGESTED SOLUTIONS

SOLUTION ONE

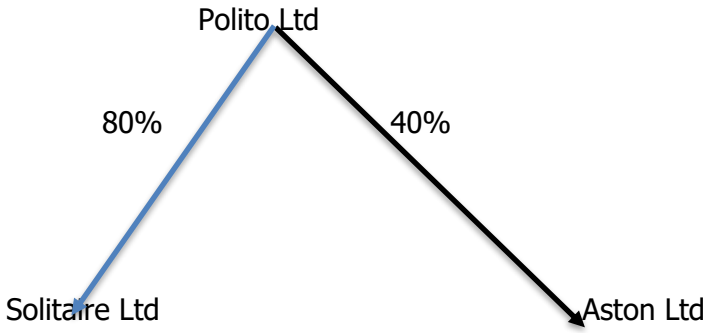
Polito Ltd Group consolidated statement of financial position as at 31 March 2026

	K'000
Assets:	
Non-current assets	
Property, plant and equipment (75,000+49,000+3,800 W3-1,400 W11)	126,400
Goodwill (W2)	94,500
Carrying amount of investment in Aston (W6)	54,600
Total non-current assets	275,500
Current assets	
Inventories (25,000+22,000+2,600W5-2,500W5-700W5)	46,400
Trade receivables (15,000+4,500-6,800 W5)	12,700
Cash and cash equivalents (4,000+2,000)	6,000
	65,100
Total assets	340,600
Equity and liabilities:	
Equity shares of K1 each	60,000
Share premium	88,000
Retained earnings (W10)	84,440
Equity attributable to owners of the parent	232,440
Non-controlling interest W9)	16,760
Total equity	249,200
Non-current liabilities	

5% loan notes (29,000+4,000)	33,000
Deferred tax liability	2,000
Total non-current liabilities	35,000
Current liabilities	
Trade payables (29,500+6,000+2,600-6,800)	31,300
Contingent consideration (W4)	3,200
Current tax payable (20,400+1,500)	21,900
Total current liabilities	56,400
Total equity and liabilities.	340,600

WORKINGS

(1) Group structure



(2) Goodwill on acquisition of Solitaire Ltd

	K'000
Purchase consideration:	
Share exchange (80%*24,000/2*3shares*K5.50)	158,400
Contingent consideration	6,500
Non controlling interest at acquisition (20%*24,000)*K4.5	21,600
	186,500
Less fair value of net assets of Solitaire at acquisition (W3)	(62,000)
Gross goodwill	124,500
Impairment loss	(30,000)
Net goodwill	94,500

(3) Net assets of Solitaire Ltd

	at acq	at Rep	m/ment
	K'000	K'000	K'000
Share capital	24,000	24,000	0
Retained earnings	36,000	42,000	6,000
FV adjustment:			
Factory	4,000	3,800	(200)
Deferred tax	(2,000)	(2,000)	0
	62,000	67,800	5,800

(4) Contingent consideration at reporting date

	K'000
Contingent consideration at acquisition date	6,500
Decrease	(3,300)
Contingent consideration c/f at reporting date	3,200

(5) Unrealized profit

	K'000	K'000
Sale by Polito to Solitaire		
Total profit earned (60,000-50,000)	10,000	
(i) Goods in inventory of S K15,000		
Unrealized profit (15,000/60,000*K10,000	2,500	
Adjusting entries:		
Dr group retained earnings	2,500	
Cr group inventory		2,500
Being unrealized profit in goods in inventory		
(ii) URP in goods in transit:		
(2,600-1,900)	700	
Adjusting entries:		
Dr group inventory	2,600	
Cr group payables		2,600
To record receipt of goods by Solitaire		
Dr group retained earnings	700	
Cr group inventory		700
To record unrealized profit in goods in inventory		
(iii) Intra group cancellation:		
Dr group payables	6,800	
Cr group receivables		6,800

As Polito recorded the goods dispatched to give it a receivable of K6.8 million, it means Solitaire had a payable of K4.2 million (K6.8-K2.6) before the recording of k2.6 million goods in transit. After the GITs are recorded, Solitaire's payable becomes at par with Polito at K6.8 million, hence the intra-group cancellation amount.

(6) Carrying amount of investment in Aston

	K'000
Cost of investment – cash (40%*15,000*K7)	42,000
-Loan (K100*(40)*15,000)	12,000
Impairment loss of investment	(1,000
Polito's share of Aston (40%*[6/12*8,000)/50}	1,600
Total	54,600

(7) Total investment reconciliation

	K'000
Cash consideration-Aston (W6)	42,000
Loan consideration – aston (w6)	12,000
Share exchange consideration – solitaire (W2)	158,400
Contingent consideration – Solitaire (W2)	6,500
	218,900

(8) Non controlling interest at reporting date

	K'000
NCI at acquisition(W2)	21,600
NCI share of post-acquisition retained earnings(20%*5,800)	1,160
NCI share of impairment loss of goodwill (20%*30,000)	(6,000)
	16,760

(9) Group retained earnings

	K'000
Polito	104,500
Polito's share of Solitaire Ltd (80%*5,800 W2)	4,640
Polito's share of Aston (40%*6/12*8,000)	1,600
Decrease in contingent consideration fair value	3,300
Group share of impairment loss of Goodwill ((80%*30,000)	(24,000)
Impairment loss of investment in Aston	(1,000)
Unrealized profit on sale of goods (2,500+700 W5)	(3,200)
Staff training costs	(1,400)
Total	84,440

(10) Staff training costs

Staff training costs on the use of the equipment need not be capitalized as the company (Polito) cannot have control over the mobility of employees who receive the training in terms of changing organizations they wish to work for with the newly acquired skills.

This needs to be eliminated from PPE and be recognized instead as an expense by the following double entry.

	'000	'000
Dr group retained earnings	K1,400	
Cr PPE		K1,400

SOLUTION TWO

(a) Statement of comprehensive income for the year ended 31 December 2025

		K'000
Sales revenue	18,970 - 2, 000 w1	16,970
Cost of sales	11,100 - 1,600 w1 + 300 w2	(9,800)
Gross profit		7,170
Operating expenses	1,250 + 350 w4 + 500 w7	(2,100)
		5,070
Finance costs - loan notes	60 + 36 w6	(96)
Investment income and gain on investments		200
Profit before tax		5,174
Income tax expense	570 + 200 w8	(770)
Profit for the year		4,404
Other comprehensive income		
Revaluation surplus	200 w3	200
Total comprehensive income for the year		4,604

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

		K'000
Non-current assets		
Property, plant and equipment	12,800 + 200 w3	13,000
Intangible assets – Development costs	1,350 - 350 w4	1,000
Investments at fair value through profit and loss		1,500
		15,500
Current assets		
Inventory	4,800 + 1,600 w1 - 300 w2	6,100
Trade receivables	2,700 - 2,000 w1	700
Bank	800 + 4,000 w5	4,800
		11,600
Total assets		27,100
Equity and liabilities		
Equity		
Equity shares of K1 each	5,000 + 2,000 w5	7,000
Share premium	2,100 + 2,000 w5	4,100
Retained earnings	9,500 - 6,190 + 4,404 (a)	7,714
Revaluation surplus	200 w3	200
		19,014
Non-current liabilities		
5% loan note	1,200 + 36 w6	1,236
Environmental provision	1,620 + 500 w7	2,120
Deferred tax		180
		3,536
Current liabilities		
Trade payables		3,750
Current tax payable	600 + 200 w8	800
		4,550
Total equity and liabilities		27,100

WORKINGS K'000

W1: Goods returned
Dr: (2,000) Sales Cr: (2,000) Receivables
Dr: 1,600 Inventory Cr: (1,600) Cost of sales [2,000 x 25/125 = 1,600]
Dr: (400) Retained earnings

W2: Inventory
Dr: 300 Cost of sales Cr: (300) Inventory
Dr: (300) Retained earnings
1,000 x 90% = 900 [1,200 – 900 = 300]

W3: Property, Plant and Equipment
Dr: 200 Property, Plant and Equipment Cr: 200 Revaluation surplus
13,000 – 12,800 = 200

W4: Development expenditure
Dr: 350 Operating expenses Cr: (350) Development expenditure
Dr: (350) Retained earnings

W5: Equity shares issued
Dr: 4,000 Bank Cr: 2,000 Equity shares Cr: 2,000 Share premium
2,000 x K2 = 4,000

W6: Loan notes
Dr: 36 Finance costs Cr: 36 Loan notes Dr: (36) Retained earnings
1,200 x 5% = 60 1,200 x 8% = 96 96 – 60 = 36

W7: Environmental provision
Dr: 500 Operating expenses Cr: 500 Environmental provision
Dr: (500) Retained earnings

W8: Income tax estimation
Dr: 200 Tax expenses Cr: 200 Tax payable Dr: (200) Retained earnings
800 – 600 = 200

W9: Retained earnings: Use any of the following
9,500 – 400 w1 – 300 w2 – 350 w4 – 36 w6 – 500 w7 – 200 w8 = 7,714

Or 9,500 – 6,190 + 4,404 (a) = 7,714

SOLUTION THREE

(a) Mazuba's statement of cash flows for the year ended 31 March 2026

		K'000
Cash flows from operating activities:		
Profit before tax		2,530
Adjust for:		
Depreciation expense (PPE)		148
Depreciation expense (ROUA)		100
Amortization of development expenditure		130
Profit on disposal of PPE (W3)		(15)
Loss on sale of NCA investment		200
Investment income		(1,180)
Finance cost		900
Cash from operations before working capital adjustments		2,813
Decrease in inventory (2,450-1,500)		950
Increase in trade receivables (2,400-600-1,800)		0
Decrease in payables (3,620-2,840)		(780)
Cash generated from operations		2,983)
Interest paid (W9)		(860)
Tax paid (W10)		(2,280)
Net cash outflow on operating activities		(157)
Cash flows from investing activities:		
Cash paid to purchase PPE (W3)	(1,128)	
Proceeds from sale of PPE (question note (3))	565	
Development expenditure	(1,430)	
Proceeds from sale of investments (W5)	300	
Interest received (W10)	160	
Dividends received	420	
Net cash outflow on investing activities		(1,113)
Cashflows from financing activities:		
Proceeds from the issue of shares (W1)	3,270	
Dividends paid (W6)	(120)	
Proceeds from the issue of loan notes (3,400-1,500)	1,900	
Lease rentals paid (4,060(W4)+180 direct costs)	(4,240)	
Net cash inflow from financing activities		810
Net decrease in cash and cash equivalent		(460)
Cash and cash equivalents at start (W2)		1,480
Cash and cash equivalents at end (W2)		1,020

(b) IFRS 5 non current assets held for sale and discontinued operations defines a non current asset held for sale as a non-current asset whose carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset must be available for immediate sale, a sale must be highly probable, and it is measured at the lower of carrying amount and fair value less costs to sale and is no longer depreciated.

WORKINGS

(1) Proceeds from the issue of shares:

	K'000	K'000/shares
	2026	2025

No of shares before bonus issue K4,900/K1		4,900 shares
No of bonus shares 4900/5*1		980 shares
Bonus share value (xK1)		980 shares
Proceeds: share capital	8,000	4,900
Share premium	3,500	2,350
	11,500	7,250
Less bonus value	(980)	-
	10,520	7,250
Proceeds for cash	3,270	

(2) Cash and cash equivalents at start and at end

cash and cash equivalents:

	2026	2025
	K'000	K'000
Investments	1430	460
cash and cash equivalents:	910	1,560
	-	
bank overdraft	1,320	-540
	1020	1480
decrease in cash and cash equivalents		460

(3) Cash paid to acquire property, plant and equipment

Property, plant and equipment

	Dr		Cr
Balance b/f	1,350	depreciation expense	148
Bank (bal fig)	1,128	Disposal	550
Revaluation increase	1,000		
		Balance c/f	2,780
	3478		3478

(4) Lease obligation account-lease rental paid

Lease liability account

	Dr		Cr
Bank (bal fig)	4,060	Balance b/f:	
Balance c/f:		non current	800
non current	1,200	current	120
current	180	ROUA	4,520
	5,440		5440

Calculation of Direct cost on ROUA:

ROUA account

	Dr		Cr
Balance b/f	8,010	Depreciation ROUA	100
Lease liability	4,520		
Direct costs (Bal)	180		
		Balance c/d	12,610
	12,710		12,710

Note: Direct costs are a cashflow hence added to the lease rental to give the total cash flow amount.

(5) Proceeds from sale of non current assets

	K'000
Carrying amounts (3,500-3,000)	500
Proceeds (bal figure)	300
Loss on sale	200

(6) Dividends paid:

Retained earnings account

	Dr		Cr
Bank (bal fig)	120	Balance b/f	3,380
Bonus issue	980	profit for the year	1,730
Balance c/f	4,010		
	5,110		5110

(7) Amount spent on development projects

Development expenditure account

	Dr		Cr
Balance b/f	1,600	amortization expense	130
Bank (bal fig)	1,430	Balance c/f	2,900
	3,030		3030

(8) Tax paid in the period:

Taxation payable account

	Dr		Cr
Bank (bal fig)	2,280	Balance b/f:	
balance c/f:		Deferred tax	1,370
deferred tax	860	Current tax	1,540
Current tax	570	profit/loss	800
	3,710		3710

(9) Interest paid in the period

Interest payable account

	Dr		Cr
bank	860	Balance b/f	10
balance c/f	50	profit/loss	900
	910		910

(10) Interest received:

Interest receivable account

	Dr		Cr
		Bank	160
profit/loss	760	Balance c/d	600
	760		600

SOLUTION FOUR

Issue one

(a) Indicators of impairment applicable to Copper Ridge Mining Ltd.

(i) Decline in global copper prices which reduces expected future cash flows from the mine.

(ii) Increase in extraction costs due to deeper mining operations which reduces profitability and expected net cash inflows.

(iii) Decline in performance of equipment that reduces output and hence cash inflows from the output.

(b) Recoverable amount is the higher of fair value less costs to sale and value in use. VIU Is the present value of future cash flows expected to be derived from an asset or cash generating unit. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In the CGU for CRM, the higher is the value in use of K102 million hence the recoverable amount.

(c) Calculation of impairment loss:

	K'000	K'000	K'000
Equipment	60,000	(5,053)	54,947
Development cost	35,000	(2,947)	32,053
Goodwill	10,000	(10,000)	0
	120,000		102,000
		18,000	

The impairment loss of the CGU is the difference between its carrying amount and the recoverable amount, that is K18 million (K120 million-K102 million)

- In this CGU, there is no specifically impaired asset hence of the K18 million, first K10 million is allocated to goodwill and the balance of k8 million to be allocated as follows on a prorate basis:
  To equipment K5.053 (K60m/K95m*K8m
  To development expenditure K2.947 (K35m/K95m*K8m)
- There will be no allocation of impairment to the net current assets as their carrying amounts are deemed equal to the recoverable amounts.
- After allocating the impairment loss of K18m, the individual assets in the CGU will be presented at the following amounts in the financial statements.

	K'000
Equipment	54,947
Development expenditure	32,053
Goodwill	0

Net assets	15,000

Issue two

As the instrument is held for trading by CRM, it will be classified as a fair value through profit or loss instrument. This entails that both the transaction costs and movement in fair value will be taken to the statement of profit or loss.

Initial measurement will be at the fair value on transaction date, that is K900,000.

At the date of reporting, the instrument will be recognized as a non current asset in the statement of financial position at its fair value of K1,500,000.

A fair value gain of K600,000 (K1,500,000-K900,000) will be credited to the statement of profit or loss for the year ended 31 March 2026, and the transaction costs will be debited.

Issue three

There are basically three performance obligations in the transaction namely:

(i) Supply of drilling machine – satisfaction of performance obligations is at a point in time. Therefore, revenue from sale of driller will be recognized in full on sale date. This is K55million (K80 million-K24million-K1 million).

(ii) Installation of drilling machine – satisfaction of performance obligation is equally at a point in time when installation is done. Therefore, revenue from installation will be recognized on sale date in full which is also installation date. K1 million is the amount.

(iii) Three-year servicing of drilling machine -the performance obligation is satisfied over time, that is over the three years. Therefore, the revenue from servicing contract will be recognized to the extent that the servicing has been performed for the customer. In the case of CRM, from sale date 1 July 2025 to reporting date of 31 March 2026 is 9 months. Therefore, 9 months out of 36 months of revenue will be recognized at K6,000,000 (9/36*K24 million. The balance of K18,000,000 will be recognized as deferred income being K8,000,000 current liability and the remainder of K10,416,667 (K24,000,000-K6,000,000-K8,000,000) as non current liability.

Total revenue in profit and loss will be K62,000,000. Deferred income in the statement of financial position will be non current liabilities K10,000,000 and current liability K8,000,000.

SOLUTION FIVE

(a) 1. Indeed, assets are not recognized as long as they are bought. The conceptual framework which is a frame of reference for financial reporting provides the following guidance on recognition of non current assets. That they need to satisfy the following before being recognized:

The Conceptual Framework requires an item to be recognized in the financial statements if:

(i) The item meets the definition of an element (asset, liability, income, expense, equity) and
(ii) Recognition of that element provides users of financial statements with information that is useful, that is,

- Relevant.
- A faithful representation

(iii) **Probable future economic benefits will flow to the entity.**
The asset must be expected to contribute to the entity's future cash flows through use, sale, or service.

Specifically, an asset that an entity may have purchased but is uncertain if economic benefits will flow to it may not be recognized. Similarly, an asset may be bought by an entity but entity lacks control over it may not be recognized, for example leased assets in the lessor's books.

2. Key reasons for recognizing a ROUA by Lessee
   (i) Control and economic benefits: If the lessee has exclusive right to use an asset for a period in return for consideration, it controls the use of that asset during the lease term. That control implies the lessee expects to obtain economic benefits from the use of the asset, which justifies recognizing the asset on the balance sheet.
   (ii) Faithful representation of resources and obligations: IFRS 16 requires that lease arrangements give rise to both a right to use an asset (a resource) and a corresponding liability for lease payments. Recognizing a ROUA and a lease liability provides a faithful view of the lessee's financial position—assets, rights, and obligations.
   (iii) Reflection of economic reality: Even though the lessee does not own the asset, the economic value generated during the lease term (through use, service, or productivity) is controlled by the lessee. Capitalizing the ROUA aligns financial reporting with the substance of the arrangement.

3. Revaluation surplus is usually recognized in the other comprehensive income especially if the revaluation surplus arises from first time revaluation or unless it reverses a prior deficit already recognized in profit and loss, in which case it goes to profit and loss to the extent of reversing that deficit.
Revaluation surplus recorded in equity (revaluation surplus) typically sits in OCI when the asset is revalued upward and there is no prior revaluation deficit to reverse.

   Any deficit on revaluation (downward adjustment) is recognized in profit and loss to the extent that it exceeds any existing revaluation surplus for that asset, and then the remainder may go to a revaluation deficit in equity (OCI) if applicable to the extent of previously recorded surpluses.

4. The presenter was right. IAS 23 Borrowing Costs describes the accounting treatment of borrowing costs that are incurred in connection with the borrowing of funds that are meant to finance the construction of a qualifying asset.
The standard requires borrowing costs incurred during the qualifying period to be capitalized (added to the cost of the asset). The qualifying period is a period when the three activities, namely: (i) borrowing costs are being incurred; (ii) works are ongoing of constructing; and (iii) expenditure on the project is taking place.

   Your perception of the treatment still applies but only over the period when the three conditions are not met, will the borrowing costs have to be expensed.

5. IAS 16 Property, Plant and Equipment provide the following guidance: The tangible non-current assets are to initially recognized using their historic cost regardless of their nature. This is the reason for Land and buildings recently acquired being shown at their historic cost. In subsequent reporting dates, the company may choose to revalue them every year, if their fair value changes frequently on the market. This choice is only available for subsequent measurement and not for initial measurement.

   Further, the company has throughout carried its plant at historic cost as it is rare for items of plant (especially) specialized plant to have an active market and hence the use of historic cost model as allowed by IAS 16.

(b) The Public seem to have more confidence in Pump Plc than Crocs Plc as Pump's P/E ratio in both years is greater than Croc's. This confidence entails that Pump would not struggle to raise finance through shares and will have more capacity to invest in many other portfolios. Croc's lower P/E ratio could suggest lower growth expectations or the shares maybe undervalued.

Further, the low dividend yield in both years for Pump Plc further confirms its commitment to invest 85% of the profits and only 15% is paid out as dividend.

The low-dividend yield will increase the returns for shareholders in the future for Pump and hence the healthy and wealthy of the company will be greatest than that of Croc. A 35% dividend yield is not sustainable

Some little worry for Pump Plc is that the company's size of profit compared to the dividends being paid is lower such that any drop of profit may make the entity not able to pay dividends. This is seen from the disappointing dividends cover of 3 and 2 in 2025 and 2026 respectively for Pump, compared to 4 and 5 in 2025 and 2026 respectively for Crocs.

ROCE is best for Crocs too in 2026 compared to 2025. This is evidence of improved profitability over the two years for Crocs. However, this is not conclusive with limited information on whether any of the two entities revalued their Non current assets or not; whether they purchased more non current assets or not, including disposal.

The higher and improved ROCE for crocs could be the reason for better dividend cover, high rate of dividend per share of K0.80 for crocs in 2026, compared to K0.60 for pump in 2026, as well as dividend yield.

Reduced debt ratio for Crocs entails reduced financial risk, while pump is increasing its financial risk.

Conclusion and recommendation

Investors looking for income growth may find Crocs more attractive. Pump is becoming highly geared. There is evidence of better use of capital in Crocs and hence hope for improved revenue and profits. Improved dividend cover and strong ROCE will all make the company Crocs more attractive.

For the investor that is futuristic, Pump could be a better choice with its high P/E ratio.

END OF SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 9: 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.

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

   Section A: There are two (2) compulsory questions.

   Section B: There are three (3) questions. Attempt any two (2) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A

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

Attempt BOTH questions.

QUESTION ONE

Choma Limited has been asked to quote a price for a one-off contract. Management have drawn up the following schedule:

	K
Contract price (cost plus 20%)	607,800
Costs:	
Materials: E (300 kg at K100/kg)	30,000
Materials: F (1,000 litres at K70/litre)	70,000
Materials: G (550 kg at K30/kg)	16,500
Labour:	
Department 1 (1,500 hours at K80/hour)	120,000
Department 2 (2,000 hours at K100/hour)	200,000
Overheads: absorbed on a budgeted labour hour basis	
(3,500 hours at K20/labour hour)	70,000
Total costs	506,500

The following is also relevant:

Material E The cost of K100 is the original purchase cost incurred some years ago. This material is no longer in use by the company, and if not used in the contract, then it would be sold for scrap at K30/kg.

Material F This is in continuous use by the business. K70 is the historic cost of the material, although current supplies are being purchased at K65.

Material G Choma Limited has 300 kg in inventory, and new supplies would cost K40/kg. If current inventories are not used for the contract then they would be used as a substitute for material Y in another production process costing K70/kg. 2 kg of G replaces 1 kg of Y.

Department 1: This department has spare labour capacity sufficient for the contract, and labour would be retained.

Department 2: This department is currently working at full capacity. Mike Limited could get the men to work overtime to complete the contract, paid at time and a half, or they could divert labour hours from the production of other units that currently average K30 contribution per labour hour. These are arbitrarily absorbed at a pre-determined rate. There will be no incremental costs incurred.

Apart from the one-off contract, Choma Limited has a routine and standard product line. The company planned to produce 1,000 units of the product during October 2025. The expected time to produce a unit of the product is five hours, and the budgeted fixed overhead is K200.

The standard fixed overhead cost per unit of the product has been 5 hours at K40 per hour. Actual fixed overhead expenditure in October 2025 turned out to be K204,500. The labour force manages to produce 1,100 units of the product in 5,400 hours of work.

Required:

(a) Calculate the minimum contract price that Choma Limited could accept to using relevant costing techniques. (10 marks)

(b) Calculate the following cost variances:

(i) The fixed overhead total variance (3 marks)

(ii) The fixed overhead expenditure variance (3 marks)

(iii) The fixed overhead volume variance (3 marks)

(iv) The fixed overhead volume efficiency variance (3 marks)

(v) The fixed overhead volume capacity variance (3 marks)

[Total: 25 Marks]

QUESTION TWO

Mbala Limited (M Ltd) is involved in the processing of sheet metal into products A, B and C using three processes: pressing, stretching, and rolling. Like many businesses, M Ltd faces tough price competition. The factory has 50 production lines, each of which contains the three processes: raw material for the sheet metal is first pressed, then stretched, and finally rolled. The processing capacity varies for each process, and the factory manager has provided the following data:

	Processing time per metre in hours		
	Product A	Product B	Product C
Pressing	0.50	0.50	0.40
Stretching	0.25	0.40	0.25
Rolling	0.50	0.40	0.25

The factory operates for 18 hours each day for five days per week. It is closed for only two weeks of the year for holidays, when maintenance is carried out. On average, one hour of labour is needed for each of the 225,000 hours of factory time. Labour is paid at K100 per hour.

The raw materials cost per metre is K30.0 for product A, K25.0 for product B and K18.0 for product C. Other factory costs (excluding labour and raw materials) are K18, 000,000 per year. Selling prices per metre are K70 for product A, K60 for product B and K27 for product C. ML carries very little inventory.

Required:

(a) Calculate the Throughput Accounting Ratio (TPAR) for each product assuming that the bottleneck process is fully utilized. (11 marks)

(b) Explain the following pricing strategies:

(i) Own label pricing
(ii) Premium pricing

(4 marks)

(c) M Ltd is considering launching a new product. It expects that the variable cost per unit will be K30. There are no specific fixed costs but general fixed costs are absorbed at a rate of K120 per unit.

Market research shows that if the selling price were to be K70 per unit, then demand would be 1,000 units per week.

However, for every K10 increase in selling price, there would be a reduction in demand of 100 units per week; and for every K10 reduction in selling price, there would be an increase in demand of 100 units per week.

Required:

Calculate the optimal selling price.

You may use the following price/demand and marginal revenue equations. If Price = a-bq, then Marginal Revenue = a-2bq. (4 marks)

(d) M Ltd has recently spent some time researching and developing a new product for which they are trying to establish a suitable price. Currently, they are using a cost-plus 20 per cent rate to set the selling price. The standard cost per unit has been estimated as follows:

		K
Direct materials:		
Material 1	(4 kg @ K25 /kg)	100
Material 2	(1 kg @ K70/kg)	70
Direct labour	(2 hours @ K65/hour)	130
Fixed overheads	(2 hours @ K35/hour)	70

Required:

Calculate two cost-plus prices using variable and full cost bases. (6 marks)

[Total: 25 Marks]

SECTION B

There are THREE (3) questions in this section.

Attempt any two (2) questions.

QUESTION THREE

Gwembe Ltd manufactures a single product. It estimated its quarterly sales for the following year as follows:

Quarter	Sales (Units)
I	30,000
II	37,500
III	41,250
IV	45,000

The opening inventory of finished goods is 6,000 units and the company expects to maintain the closing inventory of finished goods at 12,250 units at the end of the year. The production pattern for each quarter is based on 80% of the current quarter's sales and 20% of the next quarter's sales. The company maintains this 20% of sales of next quarter as the closing inventory of the current quarter.

The opening inventory of raw materials at the beginning of the year is 10,000 kg and the closing inventory at the end of the year is required to be maintained at 5,000 kg. Each unit of finished output requires 2 kg of raw materials. The company proposes to purchase the entire annual requirement of raw materials in the first three quarters in the proportion and at the prices given below:

Quarter	Purchase of raw materials % to total annual requirement in quantity	Price per kg (K)
I	30%	2
II	50%	3
III	20%	4

Required:

Prepare the following budgets for the following year on quarterly basis:

(a) (i) Production budget (in units). (5 marks)

(ii) Raw material usage budget (in quantity). (5 marks)

(iii) Raw material purchase budget (in quantity and value). (5 marks)

(b) Explain **FIVE** (5) objectives of budgeting. (5 marks)

(c) Explain the following types of budgets

(i) Incremental budgets. (2 marks)

(ii) Zero-based budgets. (3 marks)

[Total: 25 Marks]

QUESTION FOUR

Siavonga Ltd (S Ltd) is a company engaged solely in the manufacture of footwear. Current sales are direct to retailers, but in recent years, there has been a steady decline in output because of increased foreign competition. In the last trading year (2025), the accounting report indicated that the company produced the lowest profit for 10 years. The forecast for 2026 indicates that the present deterioration in profits is likely to continue. The company considers that a profit of K800, 000 should be achieved to provide an adequate return on capital. The managing director has asked that a review be made of the present pricing and marketing policies. The marketing director has completed this review and passed the proposals onto you for evaluation and recommendation, together with the income statement for the year ending 31st December 2025.

S Ltd

Income statement for the year ending 31 December 2025

	(K'000)	(K'000)	(K'000)
Sales revenue (100,000 units @ K100)			10,000
Factory cost of goods sold:			
Direct materials	1,000		
Direct labour	3,500		
Variable factory overheads	600		
Fixed factory overheads	2,200	7,300	
Administration overhead		1,400	
Selling and distribution overhead:			
Sales commission (2% of sales)	200		
Delivery costs (variable per unit sold)	500		
Fixed selling and distribution costs.	400	1,100	9,800
Profit			200

The information to be submitted to the Managing Director includes the following two proposals:

(i) To proceed based on analyses of market research studies, which indicate that the demand for the footwear is such that a 10 percent reduction in selling price would increase demand by 40 percent.

(ii) To proceed based on a view by the marketing director that a 10 percent price reduction, together with a national advertising campaign costing K300,000, may increase sales to the maximum capacity of 160,000 pairs of footwear.

Required:

(a) Calculate the break-even sales value.

(8 marks)

(b) Prepare a financial evaluation of proposal (i) and a calculation of the number of units S Ltd would require to sell at K90 each to earn the target profit of K800, 000.

(5 marks)

(c) Undertake a financial evaluation of the second proposal.

(3 marks)

(d) It is vital that the management accountant understands the decision making process so that he or she can supply the appropriate type of information. Planning and control form part of the decision making process.

Required:

Explain the role of the management accountant in:

(i) Planning

(3 marks)

(ii) Control

(3 marks)

(e) In relation to the role of the management accountant in control, **explain** the usefulness of the planning and operational variances to a company such as S Ltd.

(3 marks)

[Total: 25 Marks]

QUESTION FIVE

Mufulira Ltd (M Ltd) buys raw materials from suppliers that allow the company 2.5 months credit. The raw materials remain in inventory for one month, and it takes the company 2 months to produce the goods. The goods are sold within a couple of days of production being completed, and customers take on average 1.5 months to pay.

M Ltd has an inventory management policy that involves ordering 50,000 units when the inventory level falls to 15,000 units. Forecast demand to meet production requirements during the next year is 310,000 units. It is assumed that a 50-week year applies and that demand is constant throughout the year. Orders are received two (2) weeks after being placed with the supplier.

M Ltd can alternatively make these items of inventory in order to meet the forecast demand rather than buying them from a supplier. The decision to make the items of inventory is financially viable, but management is keen to understand the qualitative factors that must be considered to reach the final decision.

The recent operating statement of M Ltd indicates that the material price variance was K500,100 adverse and the usage variance was K765,234 adverse. The labour rate as well as labour efficiency variances were equally unfavourable and off the budgeted parameters. Consequently, the procurement officer and production manager were questioned in a recent executive management meeting to explain why these variances have constantly been adverse over the last 12 months, thereby affecting quarterly reported profits.

Required:

(a) Calculate M Ltd's cash operating cycle. (4 marks)

(b) Calculate the reorder level for the item of inventory. (3 marks)

(c) Explain the meaning of the "economic order quantity" (2 marks)

(d) Explain five (5) reasons for holding inventory. (5 marks)

(e) Explain why there is need to consider qualitative factors before arriving at the final decision in a make or buy decision. (5 marks)

(f) Explain **TWO** (2) causes of each of the following variances:

(i) Material price (2 marks)

(ii) Material usage (2 marks)

(iii) Labour rate (2 marks)

[Total: 25 Marks]

END OF PAPER

DA 9 MANAGEMENT ACCOUNTING

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) Calculation of the minimum contract price

Relevant cost statement

		K
Material E	1	9,000
Material F	2	65,000
Material G	3	20,500
Department 1	4	-
Department 2	5	260,000
Overheads	6	-
Minimum contract price		**354,500**

Notes:

1. The historic cost of K100 is not relevant as it is sunk. The relevant cost is the opportunity cost relating to lost scrap proceeds = 300 × K30 = K9,000.

2. Again, the historic cost is irrelevant as it is a sunk cost. Since the material is in continuous use in the business the relevant cost will be the current replacement cost of the material = 1,000 × K65. = K65,000.

3. Since there is only 300 kg in inventory, 250 kg would need to be purchased at the current replacement cost = 250 × K40 =K10,000. If the inventory of 300 kg is not used for the contract it would be used to replace material Y in an alternative production process. Therefore, the relevant cost for the inventory of 300 kg is = 300 × (K70/2) = K10,500 bearing in mind the 2 for 1 substitution.

   Total relevant cost for material G = K10,000 + K10,500 = K20,500

4. Since there is spare capacity in this department there is no relevant cost.

5. For this department the two alternatives need to be considered:

   Cost of working overtime = 2,000 × K100 × 1·5 = K300,000

Cost of diverting labour = 2,000 × (K100 + K30) = K260,000

It would be cheaper to divert the labour from the other production processes so the relevant cost for department 2 is K260,000.

6. Since the overheads are absorbed and there is no mention of the overheads actually increasing as a direct result of the contract there is no relevant cost for overheads.

(b) Calculation of cost variances:-

(i) The fixed overhead total variance

	K
Fixed overhead incurred	204,500
Fixed overhead absorbed (1,100 units x K200 per unit)	220,000
Fixed overhead total variance	15,500 (F)

(ii) The fixed overhead expenditure variance

	K
Budgeted fixed overhead expenditure	200,000
Actual fixed overhead expenditure	204,500
Fixed overhead expenditure variance (A)	4,500

(iii) The fixed overhead volume variance

	K
Actual production at standard rate (1,100 x K200 per unit)	220,000
Budgeted production at standard rate (1,000 x K200 per unit)	200,000
Fixed overhead volume variance	20,000(F)

(iv) The fixed overhead volume efficiency variance

1,100 units of product E should take (x5 hrs.)	5,500 hrs.
but did take	5,400 hrs.
Fixed overhead volume efficiency variance in hours (F)	100 hrs

Valued standard fixed overhead absorption rate per hour	x K40
Fixed overhead volume efficiency variance in	K4,000 (F)

(v) The fixed overhead volume capacity variance

Budgeted hours of work	5,000 hrs
Actual hours of work	5,400 hrs
Fixed overhead volume capacity variance	400 hrs (F)
standard fixed overhead absorption rate per hour	x K40
Fixed overhead volume capacity variance in K	K16,000 (F)

SOLUTION TWO

(a) Calculation of Throughput Accounting Ratio (TPAR) for each product

Product	A	B	C
Selling price (K)	70	60	27
Raw materials (K)	30	25	18
Throughput contribution	40	35	9
Processing time in hours	0.5	0.5	0.4
Throughput per bottleneck hour (K)	80	70	22.5
Fixed cost per hour (K) (W)	180	180	180
TPAR	**0.44**	**0.39**	**0.13**

Working = Total fixed costs = K18,000,000 + K22,500,000

= K40,500,000/225,000

= K180/hour

(b)

Pricing strategies

(i) **Own label pricing**

Many supermarkets and multiple retail stores sell their 'own label' products, often at a much lower price than established brands.

Own label (or private label) pricing is a strategy where retailers price their exclusive, store-branded products lower than national brands—typically 10-25% less—to attract cost-conscious shoppers while enjoying higher profit margins..

The key aspects of Own Label pricing include:

- **Higher Margins:** Despite lower retail prices, retailers enjoy higher margins due to lower marketing and distribution costs.
- **Strategic Flexibility:** Own labels are not constrained by manufacturer pricing, enabling independent price changes and promotion planning.
- **Driver for Loyalty:** Competitive pricing on owned products drives customer loyalty and fills lower price-point gaps in the market.

Examples include grocery chains offering their own brand of cereal or canned goods alongside national alternatives, often with the retailer's "value" option appearing as the cheapest alternative on the shelf. Own label products in Shoprite include 'Rite' brands such as margarine, toilet and facial tissues, macaroni, etc. Pick and Pay also has own label products such as cooking oil, sugar, toilet tissues, etc.

(ii) **Premium pricing**

This involves making a product appear different through product differentiation so as to justify a premium price. Premium pricing is pricing above competition on a permanent basis. This entails establishing a brand name based on one of the following: quality, reliability, robustness, durability, after-sales service or extended warranties. In order to establish brand loyalty, heavy advertising is required to sustain a premium price. Big organisations like Trade Kings, Coca Cola, Levi (clothing) and Mars (for chocolates) spend a lot of money on advertising to maintain their brands.

(c) Optimal selling price

$P = a - bq$
$70 = a - (10/100) \times 1{,}000$
$70 = a - 100$
$70 + 100 = a$
a = 170

$P = 170 - 0.1q$
$MR = 170 - 0.2q$

Optimal quantity = MR = MC; $170 - 0.2q = 30$
$170 - 30 = 0.2q$
$140 = 0.2q$
$Q = 140/0.2$ **= 700 units**

Optimal price = $P = 170 - 0.1q$
$170 - 0.1 \times 700$
$= 170 - 70$
= K100

(d) Calculation of cost-plus prices

1. **Variable cost basis:**

	K
Direct materials:	
Material 1	100
Material 2	70
Direct labour	130
Variable costs	300
Profit @ 20%	60
Selling Price	**360**

2. Full cost basis

	K
Variable costs as per variable cost basis	300
Fixed costs	70
Full costs	370
Profit (20% x K370)	74
Selling price	444

SOLUTION THREE

(a) (i) *Production budget (in units).*

Quarter	I	II	III	IV	Total
	Units	Units	Units	Units	Units
Sales	30,000	37,500	41,250	45,000	153,750
Production in current*	24,000	30,000	33,000	36,000	
Production next quarter**	7,500	8,250	9,000	12,250	
Total Production***	31,500	38,250	42,000	48,250	160,000

Workings

* 80% of the sales of the current quarter.

** 20% of the sales of the next quarter

	Units
*** Sales in 4 quarters	153,750
Add: Closing balance	12,250
	166,000
Less: Opening balance	(6,000)
Total number of units to be produced in the next year	160,000

(ii) *Raw material usage budget (in quantity).*

Quarters	I	II	III	IV	Total
Production (units)	31,500	38,250	42,000	48,250	160,000
Kg per unit	2	2	2	2	0
Materials required	63,000	76,500	84,000	96,500	320,000

(iii) *Raw material purchase budget (in quantity and value).*

In Quantity

	Qty (kg)
Raw material required for production	320,000
Add: Closing balance of raw material	5,000
	325,000
Less: Opening balance	(10,000)
Material to be purchased (in kgs)	**315,000**

In Value

Quarters	% of annual requirement	Qty of material	K per kg	Amount (K)
I	30	94,500 (315,000 kg. × 30%)	2	189,000
II	50	157,500 (315,000 kg. × 50%)	3	472,500
III	20	63,000 (315,000 kg. × 20%)	4	252,000
Total		315,000		913,500

(b) Description of the objectives of budgeting

S/N	Objective	Commentary
1	Ensure the achievement of the organization's objectives	Objectives are set for the organisation as a whole, and for individual departments and operations within the organisation. Quantified expressions of these objectives are then drawn up as targets to be achieved within the timescale of the budget plan
2	Compel planning	This is probably the most important feature of a budgetary planning and control system. Planning forces management to look ahead, to set out detailed plans for achieving the targets for each department, operation, and (ideally) each

		manager, and to anticipate problems. It thus prevents management from relying on ad hoc or un coordinated planning, which may be detrimental to the performance of the organisation. It also helps managers to foresee potential threats or opportunities, so that they may take action now to avoid or minimise the effect of the threats and to take full advantage of the opportunities.
3	Communicate ideas and plans	A formal system is necessary to ensure that each person affected by the plans is aware of what they are supposed to be doing. Communication might be one-way, with managers giving orders to subordinates, or there might be a two-way dialogue and exchange of ideas.
4	Co-ordinate 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. This concept of co-ordination implies, for example, that the purchasing department should base its budget on production requirements and that the production budget should, in turn, be based on sales expectations. Although straightforward in concept, co-ordination is remarkably difficult to achieve, and there is often 'sub-optimality' and conflict between departmental plans in the budget, so that the efforts of each department are not fully integrated into a combined plan to achieve the company's best targets.
5	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.

6	Establish a system of control	A budget is a yardstick against which actual performance is monitored 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.
7	Motivate employees to improve their performance	The interest and commitment of employees can be retained via a system of feedback on actual results, which lets them know how well or badly they are performing. The identification of controllable reasons for departures from budget with managers responsible provides an incentive for improving future performance.
8	Provide a framework for authorization	Once the budget has been agreed by the directors and senior managers, it acts as an authorization for each budget holder to incur the costs included in the budget centre's budget. As long as the expenditure is included in the formalized budget, the budget holder can carry out day-to-day operations without needing to seek separate authorization for each item of expenditure.
9	Provide a basis for performance evaluation	As well as providing a yardstick for control by comparison, the monitoring of actual results compared with the budget can provide a basis for evaluating the performance of the budget holder. As a result of this evaluation, the manager might be rewarded, perhaps with a financial bonus or promotion. Alternatively, the evaluation process might highlight the need for more investment in staff development and training.

(c) Explanation of types of budgets.

(i) *Incremental budgets*

These are budgets in which existing operations and current budget allowances for existing activities are taken as the starting point for preparing the next annual budget. Usually, a percentage is added to existing budget allowances. This encourages budget slack.

(ii) *Zero-based budgets*

This is an approach to budgeting in which projected expenditure for existing activities starts from base zero rather than last year's budget, forcing managers to justify all budget expenditure, also known as priority-based budgeting. This approach to budgeting does not allow business to continue as usual but ensures that budget holders critically examine the activities that will be undertaken in the next budget period. It avoids wasteful expenditure which is a common feature of incremental budgets.

SOLUTION FOUR

(a) Calculation of break-even sales value

Notes & workings

1. Determination of fixed costs

	K'000
Fixed factory overheads	2,200
Administration overhead	1,400
Fixed selling and distribution costs.	400
	4,000

2. Determination of the contribution per pair

		K
Selling price		100
Less variable costs		
Direct materials	10	
Direct labour	35	
Variable factory overheads	6	
Sales commission (2% of sales)	2	
Delivery costs (variable per unit sold)	5	(58)
Contribution per unit		42

Breakeven point in units = K4,000,000/K42 per pair

= 95,238 units

Breakeven point in sales value = 95,238 pairs x K100 per pair

= **K9,523,800**

Or K4,000,000 ÷ (42/100) = K9,523,810

(b) Financial evaluation of proposal (i) and a calculation of the number of units S Ltd would require to sell at K90 each to earn the target profit of K800,000.

		K
Selling price (K100- K10)		90
Less variable costs		
Direct materials	10	
Direct labour	35	
Variable factory overheads	6	
Sales commission (2% of sales)	1.8	
Delivery costs (variable per unit sold)	5	(57.8)
Contribution per unit		32.2

	K
Evaluation	
Total contribution (140,000 pairs x K32.2)	4,508,000
Less fixed costs	(4,000,000)
Profit	508,000

: . No. of pairs required to earn the target profit.

$$\frac{\text{Required Contribution}}{\text{Contribution per unit}}$$

$$\frac{\text{K4,000,000 + K800,000}}{\text{K32.2}}$$

149,063 pairs

(c) Financial evaluation of proposal (ii) of the second proposal.

	K
Total contribution (160,000 pairs x K32.2)	5,152,000
Less: fixed costs (K4,000,000 + K300,000)	(4,300,000)
Profit	**852,000**

The second proposal will produce a higher profit compared to the first proposal.

(d) (i) **Role in Planning**

Planning involves setting objectives and determining the resources needed to reach them. Planning therefore forces management to think ahead systematically in both the short term and long term. Long- term planning, also known as corporate planning, involves selecting appropriate strategies so as to prepare a long term plan to attain the organisation's objectives.

The long term plan serves as the long term framework for the organisation as a whole but for operational purposes, it is necessary to convert the corporate plan into a series of short term plans, usually covering one year, which relate to sections, functions or departments.

Detailed aspects of planning include:

- **Budgeting & Forecasting**: management accountants lead the creation of annual budgets and rolling forecasts, translating strategic goals into detailed financial plans for sales, production, and capital investments.
- **Strategic Modeling**: management accountants use techniques like **Cost-Volume-Profit (CVP) analysis** and break-even calculations to model different business scenarios, helping management understand the financial viability of new products or market expansions.
- **Resource Allocation**: By analyzing past performance and future trends, management accountants advise on the most efficient way to distribute limited resources across departments.

(ii) **Role in Control**

Control involves monitoring actual performance and taking corrective action to align with the original plan. An established organisation should have a system of management reporting that produces control information in a specific format at regular intervals. Smaller organisations may rely on informal information flows or ad hoc reports produced as required.

Detailed aspects of control include:

- **Variance Analysis**: The management accountant compares actual revenue and expenses against budgeted figures to identify deviations. They investigate *why* these differences occurred to help managers fix inefficiencies.
- **Performance Measurement**: the management accountant develop and track **Key Performance Indicators (KPIs)** that allow managers to evaluate whether specific departments or projects are meeting their targets.
- **Management by Exception**: management accountant directs management's attention only to "exceptional" points—significant deviations from the plan—so busy leaders can focus on critical problem areas rather than every minor detail.
- **Internal Control**: They establish financial procedures and safeguards to protect assets from waste or misuse, ensuring that all spending is authorized and aligned with company policies.

(e) Explanation of usefulness of planning and operational variances

Planning and operational variances are useful for the following reasons:

(i) They permit actual results to be compared to realistic up-to-date standards

(ii) The importance of planning is emphasized – poor forecasting is highlighted

(iii) Operational staff may be more motivated by the feedback information, as their performance is judged against realistic standards.

(iv) The system is more likely to provide more useful information for management.

SOLUTION FIVE

		Months
(a)	Cash operating cycle.	
	Average time raw materials remain in inventory	1.0
	Time taken to produce goods	2.0
	Time taken by customers to pay for goods	1.5
		4.5
	Less: time taken to pay suppliers	(2.5)
	Cash operating cycle	2.0

(b) Calculation of the re-order level

Maximum demand x maximum lead time
310,000 units x 2 weeks
620,000 units

(c) Meaning of "economic order quantity"

The economic order quantity (EOQ) is the order quantity which minimizes inventory costs, that I.e. the holding and ordering costs. The EOQ can be calculated using a table, graph or formula.

(d) Five (5) reasons for holding inventory.

To ensure sufficient goods are available to meet expected demand.

(i) To provide a buffer between processes.
(ii) To meet any future shortages.
(iii) To take advantage of bulk purchasing discounts.
(iv) To absorb seasonal fluctuations and any variations in usage and demand.
(v) To allow production processes to flow smoothly and efficiently .
(vi) As a deliberate investment policy, especially in times of inflation or possible shortages.

(e) Need to consider qualitative factors before arriving at the final decision in a make or buy decision.

Before management can make a final decision on whether they will manufacture a product in-house, or source it from external suppliers, a number of non-financial factors should be considered. The main issues are as follows.

(i) **Control.** When a product is manufactured in-house, the company has control over quality, delivery times, reliability and price stability. By outsourcing, the company becomes dependent on an external supplier, despite having no influence in the external company.

(ii) **Customer perception**. Customers may attach importance to producing goods or services in-house, such as providing local call centre services, and in situations where customers are making a concerted effort to support local businesses.

(iii) **Opportunity cost**. A business can prevent the underutilization of employee skills by outsourcing low skilled tasks and reallocating staff to more specialised activities.

(f) Cause of each of the following variances

(i) Material price

- The actual price of the material could have increased whilst the standard rate per kg would have remained constant.
- Failure to deploy appropriate purchasing methods, which can result in higher actual price.
- A change in the material standard.

(ii) Material usage

- Use of defective materials during the production of the product
- Excessive waste in the usage of materials may result in an adverse usage variance
- Theft and pilferage of materials.
- Stricter quality control.

(iii) Labour Rate

- Increases of wage rate probably because trade unions negotiated for better conditions of service than was indicated in the standard cost card.
- Increase in wage rate because of using highly skilled labor.

END OF SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 10: 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.

2. This paper is divided into TWO sections:

   Section A: There are two (2) compulsory questions.
   Section B: There are three (3) questions. Attempt any two (2) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

10. A Taxation table is provided from page 2 to page 6 of the question paper.

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

Taxation Table

Income Tax

Standard personal income tax rates

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

Income from farming for individuals

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

Company Income Tax rates

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

Capital allowances

Implements, plant and machinery and commercial vehicles:

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

Non-commercial vehicles

Wear and tear allowance	20%

Industrial buildings:

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

Low cost housing **(Cost up to K100,000)**

Wear and tear allowance	10%
Initial allowance	10%

Commercial buildings:

Wear and tear allowance	2%

Farming allowances

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

Presumptive Taxes

Turnover Tax

Annual turnover	
First K30,000	0%
K30,001 to K5,000,000	5%

Tax on rental income

Annual Rental income band	**Taxable amount**	
K1 to K30,000	First K30,000	0%
K30,001 to K800,000	Next K770,000	4%
Above K800,000		16%

Presumptive Tax for transporters

Seating capacity	**Tax per annum**	**Tax per quarter**
	K	K
Less than 12 passengers and taxis	1,296	324
From 12 to 17 passengers	2,592	648
From 18 to 21 passengers	5,184	1,296
From 22 to 35 passengers	7,776	1,944
From 36 to 49 passengers	10,368	2,592

Property Transfer Tax

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

Value Added Tax

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

Customs and Excise duties on used motor vehicles

Motor vehicles for the transport of ten or more persons, including the driver	**Aged 2 to 5 years**		**Aged over 5 years**	
	Customs duty	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Sitting capacity of 10 but not exceeding 14 persons including the driver	20,090	25,112	10,045	12,556
Sitting capacity exceeding 14 but not exceeding 32 persons	43,984	0	15,639	0

Sitting capacity of 33 but not exceeding 44 persons	97,742	0	21,992	0
Sitting capacity exceeding 44 persons	122,177	0	48,871	0

Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Aged 2 to 5 years**		**Aged over 5 years**	
	Customs duty	**Excise duty**	**Customs duty**	**Excise duty**
	K	K	K	K
Sedans				
Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,145	15,726	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
Hatchbacks				
Cylinder capacity not exceeding 1000 cc	12,097	10,484	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,129	13,979	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,996	22,095	9,518	12,373
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,695	24,304	11,897	15,466
Cylinder capacity exceeding 3000 cc	22,095	28,723	13,597	17,676
Station wagons				
Cylinder capacity not exceeding 1000 cc	14,113	12,231	8,065	6,989
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	18,144	15,725	9,678	8,387
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	18,695	24,304	10,198	13,256
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	20,395	26,514	11,897	15,466
Cylinder capacity exceeding 3000 cc	25,494	33,142	13,597	17,676
SUVs				
Cylinder capacity not exceeding 1000 cc	17,598	15,252	10,559	9,151
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	20,463	17,735	12,278	10,641
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	23,794	30,933	14,277	18,560
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	27,193	35,351	17,540	22,802
Cylinder capacity exceeding 3000 cc	32,292	41,980	20,395	26,514

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

	K	K	K	K
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	24,777	10,737	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	29,732	12,884	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	34,687	15,031	19,821	8,589
Double cabs				
GVW not exceeding 3 tonnes	34,687	15,031	27,254	11,810
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	38,156	16,534	29,980	12,991
Panel vans				
GVW not exceeding 1.0 tonne	15,089	6,539	8,622	3,736
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	17,344	7,516	9,911	4,295
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	19,821	8,589	17,344	7,516
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	24,777	10,737	19,821	8,589
Trucks				
GVW up to 2 tonnes	15,715	12,048	7,246	5,556
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	17,461	13,387	8,731	6,694
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	27,938	21,419	10,477	8,032
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	34,923	26,774	13,271	10,174
GVW exceeding 20 tonnes	58,645	0	21,992	0

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

Surtax

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

Customs and Excise on New Motor vehicles

Duty rates on:

1. **Motor cars and other motor vehicles (including station wagons) principally designed for the transport of less than ten persons, including the driver:**

   Customs Duty:

Percentage of Value for Duty Purposes	30%
Minimum Specific Customs Duty	K6,000

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	
Cylinder capacity of 1500 cc and less	20%
Cylinder Capacity of more than 1500 cc	30%

2. Pick-ups and trucks/lorries with gross weight not exceeding 20 tones:

Customs Duty

Percentage of Value for Duty Purposes	15%
Minimum specific Customs Duty	K6,000

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	10%

3. Buses/coaches for the transport of more than ten persons

Customs Duty:

Percentage of Value for Duty Purposes	15%
Minimum Specific Customs Duty	K6,000

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	
Seating Capacity of 16 persons and less	25%
Seating Capacity of 16 persons and more	0%

4. **Trucks/lorries with gross weight exceeding 20 tonnes**

Customs Duty:

Percentage of Value for Duty Purposes	15%

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

SECTION A

There are TWO (2) questions in this section.

Attempt BOTH questions.

QUESTION ONE

Kalundu Plc is a Zambia resident company which is engaged in retailing. The company listed its shares on the Lusaka Securities Exchange (LuSE) in January 2026, when it offered 35% of the equity shares to the indigenous Zambians. The company prepares its financial statements to 31 December each year.

The company has produced the following summarised statement of profit or loss for the year ended 31 December 2026:

	Notes	K
Gross profit		2,345,000
Operating expenses		
Depreciation		295,600
Legal and professional fees	(1)	187,400
Bad debts	(2)	124,200
Repairs and maintenance	(3)	65,500
Rates of business premises		45,700
Other operating expenses	(4)	364,000
		(1,082,400)
		1,262,600
Other income		
Profit on sale of assets	(5)	65,000
Bank interest received	(6)	76,500
Royalties received	(7)	212,500
Profit before taxation		1,616,600

The following additional information is available:

Note 1 – Legal and professional fees
The legal expenses are as follows:

	K
Accountancy and Audit fees	23,400
Legal fees in connection with issue of share capital	36,800
Legal fees in connection with breach of health and safety regulations	85,300
Legal fees in connection with defending title to business premises	41,900
	187,400

Note 2 – Bad debts
The figure for bad debts has been arrived at as follows:

	K
Trade debts written off	85,400
Decrease in specific bad debt provision	(28,900)
Increase in general bad debt provision	92,500
Loans to former employees written off now recovered	(24,800)
	124,200

Note 3 –-Repairs and maintenance
The figure for repairs and maintenance includes K36,500 incurred on repainting the office premises and K29,000 incurred on purchase of land, where a new retail outlet of the company will soon be constructed. The remainder of the repairs and maintenance are all allowable for tax purposes.

Note 4 – Other operating expenses
The figure for other operating expenses includes K42,600 for entertaining potential suppliers, K54,300 for entertaining staff and a donation of K28,000 to the Zambia Amateur Sports Association for the sponsorship of the race. The association is an approved public benefit organisation.

Note 5 – Profit on sale of assets
The profit was made on sale of the following assets (refer to note 12):

(1) The delivery van was sold during the year for K185,000. It had an income tax value of K225,000 at 1 January 2026 and an original cost of K300,000.

(2) Old office furniture was sold during the year for K65,000. It had an income tax value of K45,000 at 1 January 2026. The furniture was acquired at a cost of K60,000.

Note 6- Bank interest
The net amount of bank interest received is shown. Withholding tax had been deducted at source.

Note 7- Royalties received
The net amount of royalties received is shown. Withholding tax had been deducted at source.

Note 8- Persons living with disabilities
The company has employed one (1) person living with disabilities who has been working as a computer expert on a full time basis at an annual salary of K240,000.

Note 9 – Directors accommodation
The company provided free residential accommodation to two (2) Directors in company owned houses for which they do not pay rent. The total annual emoluments of each Director are K600,000.

Note 10 – Provisional income tax
The provisional income tax paid by the company for the tax year 2026 amounted to K265,000.

Note 11 - Buildings
The company bought a new building a year ago from a builder for K950,000. This figure includes K80,000 for land, K190,000 for an engineering drawing office, K125,000 for staff canteen, K170,000 for administrative office and K385,000 for the factory.

Note 12 – Implements, plant and machinery
On 1 January 2026, the company held the following assets:

Asset	**Income tax value b/f**	**Original cost**
	K	**K**
Delivery van	225,000	300,000
Old office furniture	45,000	60,000
Light truck	150,000	300,000

The company acquired the following assets during the year ended 31 December 2026:

Date	**Asset acquired**	**Cost**
		K'000
10 March 2026	Purchased a New office furniture	105,000
15 June 2026	Purchased a Toyota Prado (3,200 cc)	600,000
30 August 2026	Purchased Office equipment	240,000

The Toyota Prado car was acquired specifically for the Finance Director as a personal to holder car. It has been agreed with The Commissioner General that the private use of the car is 25%.

Required:

(a) Calculate the capital allowance claimable by Kalundu Plc for the tax year 2026 on:

(i) Buildings (5 marks)

(ii) Implements, plant and machinery (6 marks)

(b) Calculate the taxable business profit for Kalundu Plc for the tax year 2026. (8 marks)

(c) Calculate the company income tax payable by Kalundu Plc for the tax year 2026. (6 marks)

[Total: 25 Marks]

QUESTION TWO

Mr Shakantu was employed as Finance Manager at Shanel Plc for 25 years. On 31 July 2026, Mr Shakantu resigned from employment. During the tax year 2026, Mr Shakantu was entitled to an annual salary of K750,000.

His contract of employment additionally provided for the following:

Monthly housing allowance	K3,750
Annual entertainment allowance	K14,400
Annual transport allowance	10% of annual basic salary.

On 1 May 2026, he received a labour day award amounting to K14,000 in cash. He was also paid a funeral grant, when he lost his child, amounting to K12,750 in June 2026. In addition, the company made the following payments on his behalf up to the date of resignation:

(1) The company paid S4G Security company an amount of K2,500 per month for security fees for Mr Shakantu's residence.

(2) Telephone bills incurred by Mr Shakantu of K525 per month.

(3) Electricity bills for his residence amounting to K1,800 per month.

(4) General maintenance costs of K1,425 per month for maintenance of his residence.

On resignation, he was paid the following:

	K
Leave pay	37,500
Pension refund	1,011,265
Repatriation pay	44,195

The following deductions and payments were made from his gross earnings during the tax year 2026:

	K
Trade Union contributions	18,000
Life assurance premiums	27,000
School children educational fees	16,875
Subscriptions to ZICA	5,250
PAYE deducted from his salary	173,250
NAPSA Contributions	17,890
NHIMA Contributions	4,375

During the year ended 31 December 2026, he also received the following other income:

	K
Bank interest (gross)	8,500
Royalties (net)	12,750
Consultancy fees (net)	34,000

Required:

(a) Explain each of the following factors used by ZRA to distinguish employees from
independent self-employed persons.

(i) Work performance (2 marks)
(ii) Place of wok (2 marks)
(iii) Exclusivity (2 marks)

(b) Calculate the income tax payable by Mr Shakantu for the tax year 2026. You should indicate by the use of zero (0) any employment benefits that are not taxable.

(19 marks)

[Total: 25 Marks]

SECTION B

There are THREE (3) questions in this Section.

Attempt any TWO (2) questions.

QUESTION THREE

(a) Income tax in Zambia is levied on individuals, companies, trusts and other bodies of persons resident in Zambia.

Required:
State any six (6) categories of persons who are exempt from tax in Zambia.
(6 marks)

(b) Turnover Tax is a type of presumptive tax which is chargeable on certain types of persons in Zambia.

Required:

(i) Explain any three (3) types of persons who are liable to turnover tax in Zambia.
(3 marks)

(ii) Explain the tax treatment of buildings, implements, plant and machinery held by a person who is chargeable to turnover tax for capital allowances purposes.
(2 marks)

(iii) Explain the tax treatment of losses suffered by a person who is chargeable to turnover tax. (2 marks)

(c) Muchinka, a Zambian resident, entered into the following capital transactions during the year ended 31 December 2026:

(1) She sold a motor vehicle for K110,000. The motor vehicle was acquired in 2015 at a cost of K121,000. The open market value of the motor vehicle as at the date of sale was determined to be K90,000.

(2) She sold a piece of land for K230,000. The land was acquired in 2016 at a cost of K30,000. The open market value of this land was K260,000 as determined by the Government Valuations Department.

(3) She sold copyrights, to publish her book, for K300,000. The copyrights were acquired at a cost of K40,000 in 2018. The market value of the copyrights was K280,000 as determined by the Zambia Revenue Authority.

(4) She gifted a one-bedroomed house to her first born daughter. The house was constructed at a cost of K400,000 in 2022. The open market value of the house was determined to be K792,000 by the Government Valuations Department.

(5) She gifted a residential plot to her nephew. The plot was acquired at a cost of K60,000 in 2021. The open market value of the plot was K105,000 as at the date of transfer.

(6) She sold an artisanal mining licence for K200,000. She acquired the licence at a cost of K4,000 in 2019. The value of the licence was K150,000 as determined by the Zambia Revenue Authority.

Required:

(i) Explain the property transfer tax implications arising from transferring property to a member of the immediate family. (2 marks)

(ii) Explain the property transfer tax implications of each of the above transactions. Your answer should include a computation of the amount of property transfer tax payable on each transaction. (10 marks)

[Total: 25 Marks]

QUESTION FOUR

Mambwe and Chilambwe are in partnership sharing profits and losses in the ratio of 2:1 respectively after allowing for annual partnership salaries of K205,000 for Mambwe and K125,000 for Chilambwe. The partnership accounts are prepared annually to 31 December. For the year ended 31 December 2026, the partnership's statement of profit or loss showed a net loss as per accounts of K618,070. This figure was after taking into account the following items:

(1) Salaries and wages which included employee's salaries of K866,000, employer's NAPSA contributions of K43,300, staff refreshments of K85,000, loans to employees written of K301,500, and partners salaries of K330,000.

(2) Legal and professional fees which included legal fees for the recovery of amounts owed by customers of K35,000, premium of K300,000 paid on a 50-year lease of business premises, fees on drafting employees service contracts of K68,000 and advertising expenses of K45,000.

(3) Gifts and entertainment expenses which included gifts of business t-shirts bearing the business name to customers amounting to K150 per customer totalling K15,000, entertainment expenses for partners amounting to K26,500 and donations to approved public benefit organisations amounting to K18,000.

(4) Miscellaneous expenses which included repairs of business assets amounting to K36,000, increase in general provision of K56,000, increase in specific provision for bad debts of K37,500 and utility bills for partners' private residences amounting to K38,400.

(5) Provisional income tax paid by Mambwe and Chilambwe during the year of K44,460 and K27,210 respectively.

(6) Profit on disposal of a Mitsubishi Canter delivery van of K25,000. The van was acquired two years ago at a cost of K190,000 and was sold on 1 January 2026 for K230,000.

Additional information:

(1) The partners withdrew some goods from the business for personal and family use. The total cost of the goods withdrawn was K67,500. The partnership makes a margin of 25% on all sales of these types of goods. The partners reimbursed the full cost of the drawn goods.

(2) At 1 January 2026, the partnership held office equipment with an income tax value of K187,500 (original cost of K250,000) and general plant with an income tax value of K40,000 (original cost of K160,000).

(3) On 1 March 2026, the partners bought their own private motor vehicles, which they used partly for business purposes during the year. Mambwe purchased a Toyota Fortuner SUV at a cost of K900,000, whilst Chilambwe bought a Ford Ranger Double cab van at a cost of K850,000. It has been agreed with the Commissioner General that Mambwe had private use of 25% of his motor vehicle, while Chilambwe's private use of his van was 40%.

(4) The motor vehicle running expenses for Mambwe and Chilambwe's motor vehicles during the year amounted to K36,000 and K30,000 respectively. The motor vehicle running expenses were paid for by each partner and were not included in the statement of profit or loss for the year ended 31 December 2026.

Required:

(a) Compute:

(i) Capital allowances claimable in tax year 2026 (3 marks)

(ii) The final taxable partnership profit for the tax year 2026. (8½ marks)

(b) Compute the final taxable income for each partner and the income tax payable by each partner for the tax year 2026. (13½ marks)

[Total: 25 Marks]

QUESTION FIVE

(a) In July 2026, Mrs. Chabi imported a second hand 1600 cc Nissan Tiida sedan car, which was manufactured in 2022 from Japan at a price of $3,575 Free on board. Insurance charges and freight charges paid for the car amounted to $185 and $3,440 respectively. Port charges at the port of Dar es Salaam amounted to $400. The delivery cost of the vehicle from Dar es Salaam to Nakonde Border amounted to $1,750. The transport cost from Nakonde Border to Lusaka was $147. The Value for Duty Purposes of the motor vehicle was determined to be K113,914 for import Value Added Tax (VAT) purposes only.

The exchange rate quotation as agreed to by the commissioner General at the border was K27.85 per US$.

Required:

(i) Calculate Value for Duty Purposes. (4 marks)

(ii) Calculate the total import taxes clearly showing Customs duty, Excise duty and Import VAT (Value Added Tax). (4 marks)

(iii) Explain any five (5) methods that can be used to establish the VDP of goods that are locally manufactured in Zambia. (5 marks)

(b) Lewis Mulele is a hardware trader who was registered for VAT in December 2023. During the month of August 2026, his transactions were as follows:

(1) Sales amounting to K348,950 which was made up of exempt sales of 20%, Zero rated sales of 5% and the balance was for standard rated sales out of which 2% was made to unregistered customers.

(2) Purchases amounting to K97,340 out of which 8% was exempt supplies and 4% were zero-rated. The balance was for standard rated supplies which included supplies bought from un-registered suppliers of 3%.

(3) General (overheads) expenses (VAT inclusive) comprising of the following:

	K
Entertainment expenses of employees	2,100
Entertainment expenses of suppliers	1,910
Entertainment expenses of customers	1,900
Diesel	5,115
Petrol	3,850
Other general expenses	13,370

(4) Motor van was acquired at a cost of K97,780 (VAT inclusive). The motor van is used to make both taxable and exempt supplies.

(5) Unless stated otherwise all the above figures are exclusive of VAT.

Required:

Compute the Value Added Tax (VAT) payable by Lewis Mulele for the month of August 2026. You should show in your computation using a zero (0) all items on which VAT is not chargeable or recoverable.

(12 marks)

[Total: 25 Marks]

END OF PAPER

DA 10 – TAXATION

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) KALUNDU PLC

COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR 2026

(i) Buildings

	K
Total cost	950,000
Less cost of land	(80,000)
Construction cost	870,000
10% X K870,000	87,000

The cost of administrative office (K385,000) is more than 10% of construction and will therefore not qualify for industrial buildings capital allowances.

	K
Engineering drawing office	
Wear and tear allowance (K190,000 X 5%)	9,500
Staff Canteen	
Wear and tear allowance (K125,000 X 5%)	6,250
Administrative office	
Wear and tear allowance (K170,000 X 2%)	3,400
Factory	
Wear and tear allowance (K385,000 X 5%)	19,250
Total	38,400

(ii) **Implements, plant and machinery**

Old office furniture

	K	K
ITV b/f	45,000	
Disposal proceeds (restricted to cost)	(60,000)	
Balancing charge		(15,000)
New office furniture		
Wear and tear allowance (K105,000 X 25%)		26,250
Light truck		
Wear and tear allowance (K300,000 X 25%)		75,000
Toyota Prado		
Wear and tear allowance (K600,000 X 20%)		120,000
Office equipment		
Wear and tear allowance (K240,000 X 25%)		60,000
Delivery van		
ITV b/f	225,000	
Disposal proceeds	(185,000)	
Balancing allowance		40,000
Total		306,250

(b) KALUNDU PLC

COMPUTATION OF TAXABLE BUSINESS PROFIT FOR THE TAX YEAR 2026

	K	K
Profit before taxation		1,616,600
½		
Add:		
Depreciation	295,600	
Legal fees- issue of share capital	36,800	
Legal fees- breach of health and safety regulations	85,300	
Increase in general provision	92,500	
Land	29,000	
Entertaining potential suppliers	42,600	
Free accommodation (K1,200,000 x 2 x 37%)	444,000	
Personal to holder car	57,600	
		1,083,400
	2,700,000	
Less:		
Profit on disposal of assets	65,000	
Bank interest received	76,500	
Royalties received	212,500	
Loan to former employee written now recovered	24,800	
Persons living with disabilities allowance	2,500	
Capital allowances:		
Buildings	38,400	
Implements, plant & machinery	306,250	
		(725,950)
Tax adjusted business profit		1,974,050

(c) KALUNDU PLC

COMPUTATION OF COMPANY INCOME TAX FOR THE TAX YEAR 2026

	K
Tax adjusted business profit	1,974,050
Add:	
Bank interest (K76,500 X 100/85)	90,000
Royalties (K212,500 X 100/85)	250,000
Taxable income	2,314,050
Company income tax (30% -2%-5%=23% x 2,314,050)	532,232
Less:	
Provisional tax	(265,000)
WHT –Bank interest (K90,000 X 15%)	(13,500)
WHT – Royalties (K250,000 X 15%)	(37,500)
Final company income tax payable	216,232

SOLUTION TWO

(a) (i) Work performance

Employees must perform the duties assigned to them themselves, while self-employed may hire other people to perform the work for them.

(ii) Place of work

Employees will normally be told where the duties are to be performed from. This is normally at the employer's premises or at the premises of the client. Self-employed persons will perform the duties at a place of their choice.

(iii) Exclusivity

Employees normally work for one employer. A self-employed person will normally work for a number of clients.

(2 marks for each valid explanation up to a maximum of 6 marks)

(b) MR SHAKANTU

COMPUTATION OF TAXABLE INCOME FOR THE TAX YEAR 2026

	K	K
Earned income		
Salary (K750,000 x 7/12)		437,500
Housing allowance (K3,750 x 7)		26,250
Entertain allow (K14,000 x 7/12)		8,400
Transport (K437,500 x 10%)		43,750
Labour day award		0
Funeral grant		0
Security bills (K2,500 x 7)		17,500
Telephone bills (K525 x 7)		3,675
Electricity bills (K1,800 x 7)		12,600
General maintenance (K1,425 x 7)		9,975
Pension refund		0
Repatriation pay		0
Leave pay		37,500
		597,150
Investment income		
Royalties (K12,750 x 100/85)	15,000	
Consultancy (K34,000 x 100/85)	40,000	
		55,000
		652,150
Less:		
Professional subscription		(5,250)
Taxable income		646,900
Income tax		
First K61,200 x 0%		0
Next K24,000 x 20%		4,800
Next K25,200 x 30%		7,560
Excess: K536,500 x 37%		198,505

Income tax liability	210,865
Less:	
PAYE	(173,250)
WHT – royalties (K15,000 x 15%)	(2,250)
WHT – consul (K40,000 x 15%)	(6,000)
Income tax payable	29,365

SOLUTION THREE

(a) Five (5) categories of persons who are exempt from tax in Zambia.

(1) The Republican President on the Income received as President

(2) The Income of Chiefs received from the government

(3) Local Authorities

(4) Approved Funds

(5) Commonwealth Development Corporation

(6) Club, Society or association organised and operated only for social welfare or recreation, and improvement etc., if its income may not be received in any way by a member or shareholder.

(7) Registered trade Unions

(8) Political parties registered as a statutory society under the societies Act

(9) Other Persons listed in Part III of the second schedule of the Income Tax Act

(b) (i) **Persons who are liable to turn over tax include:**

(1) Any person carrying on business with an annual turnover of K5,000,000 Or less.

(2) Any person whose income consists of amounts, which are subjected to withholding tax, where withholding tax is not the final tax.

(3) Any person carrying on service business in the gig economy (i.e. digital platforms)

(ii) **Tax treatment of assets for capital allowances purposes**

If a tax payer who pays turnover tax has assets such as buildings, implements, plant and machinery on which capital allowances are claimed, then the assets are written down notionally for the purposes of computing the income tax values of such assets only. The allowances computed are not deductible from the turnover in arriving at the taxable amount.

(iii) **Tax treatment of losses**

The tax loss suffered by a person chargeable to turnover tax cannot be carried forward to be offset against the future profits as turnover tax is chargeable on gross turnover. The opportunity to carry forward losses under turnover tax is lost.

(c) (i) A member of the immediate family includes a spouse, biological child, step child and duly adopted child. The realized value of transfers of property to members of the immediate family is deemed to be the actual proceeds received. Where the transferor did not receive any consideration, the transfer is deemed to have a realized value of nil, hence no property transfer tax is charged.

(ii) The following are the property transfer tax implications:

(1) There will be no property transfer tax to be charged on the transfer of motor vehicle as the motor vehicle falls outside the definition of property.

(2) There will be property transfer tax to be charged on the transfer of land. Property transfer tax is charged at a rate of 8% on the realized value. In this case the realized value is K260,000.

PTT = K260,000 x 8% = K20,800.

(3) There will be property transfer tax to be charged on the transfer of copyrights at a rate of 8% on the realised value. The realized value is K300,000 which is the higher of the open market value.

PTT = K300,000 x 8% = K24,000.

(4) There will be no property transfer tax to be charged on the transfer of property to her daughter. This is because the realized value of this transfer is nil as there was no consideration received and the property was transferred to a member of the immediate family.

(5) There will be property transfer tax to be charged on the transfer of a plot even though there was no consideration received. This is because a nephew does not qualify to be a member of the immediate family. Therefore, PTT will be charged at a rate of 8% on the realized value which is K105,000.

PTT = K105,000 x 8% = K8,400.

(6) There will be property transfer tax to be paid on the transfer of artisanal mining licence. PTT will be charged at a rate of 10% on the realized value of the licence.

PTT = K200,000 x 10% = K20,000.

SOLUTION FOUR

(a) (i) COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR 2026

Delivery van	K	K
ITV b/f K190,000 - (K190,000 x 25% x 2)	95,000	
Proceeds restricted to cost	190,000	
	(95,000)	(95,000)
Office equipment		
Wear & tear allowance		
(K250,000 x 25%)		62,500
General plant		
Wear & tear allowance		40,000
(K160,000 x 25%)		
Net capital allowances		7,500

(a) (ii) COMPUTATION OF FINAL TAXABLE PARTNERSHIP PROFIT FOR THE TAX YEAR 2026

	K	K
Net loss as per accounts		(618,070)
Add:		
Staff refreshments	85,000	
Employee loans written off	301,500	
Partner's salaries	330,000	
Premium paid		
(300,000 -(300,000/50yrs)	294,000	
Gifts to customers		
(15,000/150 x K50)	5,000	
Entertaining partners	26,500	
Increase in general provision	56,000	
Utility bills for partner's residence	38,400	
Provisional income tax (K44,460 +K27,210)	71,670	
Goods for personal use (K67,500 x25/75)	22,500	
		1,230,570
		612,500
Less Profit on sale of delivery van		(25,000)
Add net capital allowances (a) (i)		(7,500)
Final taxable profit		580,000

(b) ALLOCATION OF PROFITS AND COMPUTATION OF INCOME TAX PAYABLE

	Total	Mambwe	Chilambwe
	K	K	K
Salaries	330,000	205,000	125,000
Balance 2:1	250,000	166,667	83,333

Total	580,000	371667	208,333
Less capital allowances on:			
Mambwe's Fortuner (K900,000 x 20% x 75%)	(135,000)	(135,000)	
Chilambwe's Ford Ranger (K850,000 x 20% x 60%)	(102,000)		(102,000)
Motor running expenses for			
- Mambwe (K36,000 x 75%)	(27,000)	(27,000)	
- Chilambwe (K30,000 x 60%)	(18,000)		(18,000)
	348,000	209,667	88,333
Income Tax			
On first K61,200 x 0%		0	0
On next K24,000 x 20%		4,800	4,800
On Balance for Chilambwe (K3,133 x 30%)			940
On next K25,200 x 30%		7,560	
On balance for Mabwe (K99,267) x 37%		36,729	
Income tax payable		49,089	5,740
Less provisional income tax		(44,460)	(27,210)
Income tax payable/(refundable)		4,629	(21,470)

SOLUTION FIVE

(a) Import taxes and excise duty

(i) Calculation of VDP:

	$
FOB price	3,575
Insurance charges	185
freight charges	3,440
Port charges	400
Delivery to Nakonde	1,750
	9,350
Translated	at K27.85/$
VDP	K260,398

(ii) Import Duties:

Details	Computation	Amount	Import taxes
VDP		260,398	
Customs duty	Specific	18,695	18,695
		279,093	
Excise duty	Specific	24,304	24,304
		303,397	
VAT	K113,914 x 16%	18,226	18,226
		321,623	61,225

(iii) Five (5) Methods that can be used to determine VDP for goods manufactured in Zambia are as follows:

(1) The price at which a licensed manufacturer of excisable goods offers the goods for sale on the open market.

(2) The lowest price at which identical goods in the same quantity (or almost the same quantities) are sold within Zambia by another licensed manufacturer in the open market.

(3) The lowest price at which identical goods in different quantities are sold within Zambia by another licensed manufacturer in the open market.

(4) The lowest price at which similar goods in the same quantity (or almost the same quantities) are sold within Zambia by another licensed manufacturer in the open market.

(5) The lowest price at which similar goods in different quantities are sold within Zambia by another licensed manufacturer in the open market.

(6) The price at which the goods would fetch, less profit and other costs beyond the manufacturing level.

(7) The computed value comprising the cost of production, profit and other costs to the manufacturing level.

(b) Lewis VAT payable for the month of August 2026:

Output VAT:	VAT	K
Sales: K348,950		
Exempt sales	0	
Zero rated	0	
Standard rated (K348,950 x 75% x 16%)	41,874	
		41,874
Input VAT:		
Exempt purchases		
Zero-rated purchases	0	
Standard rated registered	0	
K97,340 x 88% x 97% x 16%)	13,294	
Standard rated unregistered 3%	0	
Overheads (13,370x 4/29 x 80/100)	1,475	
Entertaining employees	0	
Entertaining customers	0	
Entertainment suppliers	0	
Motor van (97,780 x 4/29) x 80%	10,790	
Diesel (5,115 x 4/29 x 90 x 80%)	508	
Petrol	0	
Total Input		(26,067)
VAT payable		15,807

END OF SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 11: PRINCIPLES OF AUDITING

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: There are two (2) compulsory questions.
   Section B: There are three (3) questions. Attempt any two (2) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A

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

QUESTION ONE

You are the Audit Supervisor of Bwacha & Co. and you will lead the audit of Mbuya Insurance Corporation Plc. Mbuya is a Lusaka-based, publicly listed company providing insurance services across Zambia. Its financial year ends on 30 September 2025, and the projected profit before tax is K575 million with total assets of K1.36 billion. Your Audit Manager had a meeting with the Finance Director of Mbuya Insurance Corporation Plc and has given you the meeting notes below.

Meeting notes

The company distributes its insurance products through brokers as well as through its proprietary digital platform. This platform was upgraded during the year at a cost of K19 million. In February, Mbuya Insurance Corporation Plc entered into an agreement to purchase a new claims processing centre in Ndola at a total cost of K52 million. Legal formalities are expected to be concluded before year-end. The company financed this acquisition through the issuance of K80 million irredeemable preference shares.

During the year, the Finance Director changed the amortisation period for intangible assets such as policy administration software from three (3) to five (5) years, citing improved durability. Additionally, a revised payment arrangement was agreed with a major corporate client experiencing financial difficulties, who owes K21 million in overdue premiums. To boost sales of insurance, a new bonus scheme tied to policy sales was introduced in January 2025 for the company's sales agents. Since then, there has been a sharp rise in new policies issued, especially through newly recruited agents. Many new policyholders were granted flexible premium payment terms to encourage sign-ups, resulting in a 6% increase in gross written premiums.

Several new insurance products were launched during the year. While most were well received, one (1) of the products – "MaxCover Asset Plan" – has faced complaints, with a key client, Kafue Holdings Ltd, threatening legal action, claiming misleading policy terms and inadequate disclosures.

Mbuya Insurance Corporation Plc's receivables balance increased considerably during the year, and the year-end balance is K104 million compared to K63 million last year. The receivables age analysis shows a significant increase in receivables outstanding for more than two (2) months. The Finance Director has agreed with the Engagement Partner that a receivables confirmation is not going to be carried out since several customers complained last year about the inconvenience involved in responding. Your audit team, will therefore, be required to perform alternative procedures to confirm the existence and valuation of trade receivables.

Mbuya Insurance Corporation Plc's Finance Director wants to release the company's financial results earlier than the previous years and has requested that the audit should be completed under a tighter timeframe. The board also plans to declare a final dividend upon completion

of the audit. One (1) of Mbuya Insurance Corporation Plc's Non-Executive Directors (NEDs) recently resigned, and the Finance Director asked if a partner from Bwacha & Co, could assist in recruiting a replacement. In addition to the statutory audit, Bwacha & Co. provides tax compliance services and some tax advisory support to Mbuya Insurance Corporation Plc.

The Finance Director has proposed that this year's audit fee should be based on the company's profit before tax. At present, 20% of last year's audit fee remains unpaid, but management is confident that this fee will be paid, since for the last seven (7) years, audit fees have been paid on time. The Audit Manager has emphasised that in planning the audit of Mbuya Insurance Corporation Plc, the concept of materiality is essential and that during the audit, your audit team will use statistical sampling methods to select items for testing.

Required:

(a) (i) Explain the meaning of materiality in auditing. (1 mark)

(ii) Explain the meaning of sampling in auditing. (1 marks)

(b) Explain five (5) audit risks, and explain the auditor's response to each risk. (10 marks)

(c) Explain four (4) ethical threats that may affect the independence of Bwacha & Co.'s audit of Mbuya Insurance Corporation Plc; and for each threat, suggest an appropriate safeguard. (8 marks)

(d) (i) Describe two (2) substantive procedures, other than third party confirmations, that should be performed to obtain sufficient appropriate evidence to confirm existence of trade receivables. (2 marks)

(ii) Describe three (3) substantive procedures, other than third party confirmations, that should be performed to obtain sufficient appropriate evidence to confirm valuation of trade receivables. (3 marks)

[Total: 25 Marks]

QUESTION TWO

You are the Audit Supervisor of Masuku & Co. and you will lead the audit of Zambezi Leisure. Zambezi Leisure operates a chain of hotels, lodges, and resorts in key tourist and business destinations. The group provides a wide range of services, including accommodation, conferencing, events, and guided tours. Its financial year ends on 30 September 2025. Your Audit Manager had a meeting with the Finance Director of Zambezi Leisure and has given you the notes below.

Meeting notes

Guests can make room and service bookings through Zambezi Leisure's online reservation platform, where full payment is required at the time of booking. However, the website is not integrated with the hotel Property Management System (PMS), which manages real-time room availability. As a result, the company cannot verify availability of rooms at the time of booking.

Reservations are processed manually by front desk staff at individual locations, but confirmation procedures are not standardized, and in many cases, guest confirmations are not obtained. Over the past year, Zambezi Leisure has received several complaints from guests who either experienced long delays or never received the services they paid for.

Investigations revealed that while bookings were correctly entered into the online system, they were not consistently forwarded to the respective hotel branches for fulfilment. Corporate clients, such as government institutions, Non-Governmental Organisations, and large companies, are offered credit facilities after undergoing credit assessments. These checks and credit limit settings are conducted by the Accounts Receivable Clerks. Bulk bookings from these clients are typically made through the corporate sales team, which also independently determines the discount levels offered, without oversight or authorization from Finance Director or senior management.

Zambezi Leisure sources housekeeping supplies, kitchen equipment, and guest amenities from various suppliers across the country and the region. Due to recent staff turnover in the accounts payables department, supplier statement reconciliations have not been performed for several months. Additionally, changes to supplier information in the accounting system, such as banking details, are made by both accounts clerks and their supervisors, with no requirement for independent review or approval.

In the last six (6) months, Zambezi Leisure invested significantly in upgrading IT infrastructure and kitchen equipment at several hotels. While the new assets were procured through properly approved requisitions by hotel Operations Managers, many older items, now obsolete, remain physically stored and are still reflected in the company's fixed asset register. There is no formal process to evaluate or dispose of surplus equipment.

In light of these developments, Zambezi Leisure's Finance Director requested your firm to consider conducting a review of the financial statements instead of an audit. This way the company may save on audit fees. He is also exploring the possibility of establishing an internal audit function and wants to understand how this might affect the scope and procedures of the external audit. As Audit Supervisor you have asked the audit team members to perform specific tasks at both interim and final audit stages.

Required:

(a) In relation to the internal controls of Zambezi Leisure:

(i) Explain five (5) deficiencies in the internal control environment. (5 marks)

(ii) Recommend a control activity to address each of the deficiencies explained in (i) above. (5 marks)

(iii) Describe a test of control that Masuku & Co would perform to assess the operating effectiveness of each recommended control. (5 marks)

(b) Describe five (5) substantive audit procedures you would perform at the year-end in relation to plant and equipment. (5 marks)

(c) Explain the level of assurance provided by an external audit compared to that provided by a review engagement. (2 marks)

(d) Explain:

(i) One (1) task that can be performed at the interim audit stage of an audit, (1 mark)

(ii) Two (2) tasks that can be performed at final audit stage. (2 marks)

[Total: 25 Marks]

SECTION B

There are THREE (3) questions in this section.

Attempt any TWO (2) questions.

QUESTION THREE

Umoyo Care Ltd, your audit client, is a pharmaceutical company based in Lusaka. Umoyo Care Ltd manufactures and distributes medical products nationwide. The company's financial year ends on 30 September 2025, and the year-end audit is underway. You are the Audit Supervisor, and your Audit Manager has requested your audit team to focus on the audit matters below.

Inventory:
Umoyo Care Ltd holds various types of inventories, including raw materials, work-in-progress, and finished goods. Most finished goods are stored in a central warehouse, while some are kept at regional depots. The year-end stock count was conducted on 28 September 2025. During the stock count, the audit team noted differences between physical counts and system records. Some items were nearing expiration, and several imported raw materials involved complex costing. Your audit team attended the inventory count, and you need to confirm the substantive procedures performed to address key assertions like existence, valuation, and completeness.

Going Concern:
Umoyo Care Ltd has been experiencing a decline in revenue due to competition pressures and delays in securing regulatory approvals for new products. Liquidity issues have become apparent, with current liabilities exceeding current assets by a significant amount. Key suppliers have begun withdrawing credit terms, while there have been recent instances of late salary payments to employees, with some employees even planning to go on strike.

In addition, the company is involved in a legal dispute with a former supplier over unpaid invoices, and management is currently seeking additional financing from lenders, with no formal commitments secured. Critical maintenance of manufacturing equipment has been postponed due to financial constraints, potentially affecting future production capacity. Management of Umoyo Care Ltd is confident that the company is a going concern, but your Audit Manager is sceptical about the going concern ability of Umoyo Care Ltd.

Fraud:
During the audit for the year ended 30 September 2025, the audit team identified unusual cash withdrawals made by the Finance Officer. Several transactions lacked proper documentation, and some appeared altered, though they were recorded as reimbursements for medical supplies. These issues suggested potential fraud and highlighted weaknesses in internal controls over cash management.

Non-compliance
The audit team also found that Umoyo Care Ltd had not filed statutory returns with the National Pensions Authority and the Zambia Revenue Authority for over a year. This non-compliance could expose the organization to penalties and reputational risk. Management explained that the delay was due to operational pressures and staffing shortages.

Required:

(a) Describe three (3) substantive audit procedures the auditor should perform during the inventory count. (6 marks)

(b) Using the information provided, explain four (4) potential indicators that may suggest Umoyo Care Ltd may not be a going concern. (4 marks)

(c) Describe five (5) substantive audit procedures the auditor should perform to assess whether Umoyo Care Ltd is a going concern or not. (5 marks)

(d) Explain two (2) responsibilities of management and three (3) responsibilities of auditors regarding fraud in accordance with the provisions of ISA 240 *The auditor's responsibilities relating to fraud in an audit of financial statements*. (5 marks)

(e) Explain two (2) responsibilities of management and three (3) responsibilities auditors regarding non-compliance with laws and regulations according to ISA 250 *Consideration of laws and regulations in an audit of financial statements.* (5 marks)

[Total: 25 Marks]

QUESTION FOUR

You are an Audit Supervisor at Mulamu & Associates, a registered audit firm. You are assigned to lead the external audit of Zam-Phones Ltd, a client in the mobile phone manufacturing industry. The year-end is 30 September 2025. You have received the notes and observations below from your Audit Manager ahead of fieldwork and audit execution.

Notes and observations

Zam-Phones Ltd recently changed auditors following a formal appointment process during the year. Your role will require you to ensure that the firm's appointment complied with the relevant provisions of the Companies Act and that it is able to carry out its audit duties without restriction. You are required to brief the audit team on the responsibilities and statutory rights of the auditors.

The firm issued an engagement letter before commencing the audit, and management accepted the terms. You are required to ensure that the audit team fully understands what should be included in the engagement letter and why it is a key part of our compliance and planning process. The audit team should maintain proper documentation throughout the audit and ensure that each section of the audit file meets the required standards.

Towards the end of the audit, written representations from Zam-Phones Ltd's management should be obtained. This is standard but ensure the team is clear on how the written representations fit into the evidence-gathering process. While it provides certain confirmations, remind the team of the extent of relevance and reliability of the written representations from management.

Payroll is one (1) of Zam-Phones Ltd.'s largest expense lines, and it is processed through an integrated payroll and finance system. There are over three hundred (300) employees,

including assembly, support, and administrative staff, across various locations. The client has submitted payroll schedules for review. Internal audit flagged some weaknesses earlier this year, including inconsistent approval controls and data entry errors. You need to design and lead the substantive testing procedures in this area to ensure they cover key assertions and respond to identified risks.

Zam-Phones Ltd reported a significant increase in revenue in the final week of the year end, driven by a last-minute sales promotion. The audit team identified several risks: some sales invoices were raised before goods were dispatched, suggesting potential issues with cut-off and occurrence; certain dispatch notes had no matching invoices, raising completeness concerns; invoice errors such as incorrect VAT and duplicates affected accuracy; and revenue from corporate clients and bundled telecom services was misclassified, impacting presentation**.**

You should ensure that the team performs relevant substantive procedures to address these risks across completeness, occurrence, cut-off, accuracy, and presentation/classification assertions.

Required:

(a) (i) Explain how auditors are appointed in a company such as Zam-Phones Ltd. (3 marks)

(ii) Explain three (3) statutory rights of auditors. (3 marks)

(b) (i) Explain four (4) reasons for maintaining audit documentation. (4 marks)

(ii) State four (4) typical contents of an audit engagement letter. (4 marks)

(c) Explain the adequacy and reliability of management representations as audit evidence. (3 marks)

(d) Describe four (4) substantive audit procedures the auditor should perform in relation to the audit of payroll costs. (4 marks)

(e) Describe four (4) substantive audit procedures the auditor should perform in relation to the audit of revenue. (4 marks)

[Total: 25 Marks]

QUESTION FIVE

(a) You are the Audit Supervisor leading the audit of Kalima Minerals Plc, a Zambian copper mining company operating on the Copperbelt Province. Following the completion of audit fieldwork, your Audit Manager has requested you to assess several key audit matters for the year ended 30 September 2025.

Kalima Minerals Plc operates without any Non-Executive or independent directors on its Board. The Board is composed of entirely executive directors. There is no internal audit function or Audit Committee in place. The Managing Director (MD) has overriding authority on procurement and strategic decisions, with no independent oversight. The Finance Director alone prepares the financial statements, which are not reviewed internally before submission for audit. These issues raise concerns about a lack of accountability, poor stewardship, and increased risk of misstatement due to management override of internal controls.

Required:

(i) Explain the meaning of accountability and stewardship using the information on Kalima Minerals Plc. (4 marks)

(ii) Explain four (4) corporate governance weaknesses at Kalima Minerals Plc. (4 marks)

(b) You are Audit Manager in Turner & Associates and you are responsible for the audit of the financial statements of Mubanga Plc for the year ended 30 September 2025.
The reporting timetable of Mubanga Plc is tight and management would wish that the audit is finalised and completed by mid-October.

Mubanga Plc has an internal audit department headed by the Chief Internal Auditor. The department undertakes various audits including financial audits, risk and internal control evaluations. Senior Internal Auditors are assigned tasks and they are responsible for supervising the Audit Assistants and reviewing their work.

You held a pre-audit meeting with the Finance Director who informed you that the Board of Directors decided that the audit team may rely on the work of internal audit as well as seek direct assistance if necessary. The decision was made in view of the tight repotting timetable and it was felt that through this, the audit should be completed within the expected period.

Additional information

(1) Mubanga Plc is computerised and operates an integrated management and accounting system for its operations.
(2) The company is in the manufacturing of electric water pumps. The company gives a one (1) year warranty on all the equipment that it sells. A provision for warranty of K5.2 million is included in the statement of financial positon for the year under review.

You are in agreement with the proposal that the audit team should use the work of Internal Audit where possible and seek direct assistance of Internal Audit if necessary. You would like the audit team to also use Computer Assisted Audit Techniques (CAATs) during the audit. Specifically, you want the team to use audit software which will result in more work being done, leading to a reduction in sampling risk. The Audit Senior assigned to this audit requires your guidance regarding tasks that the audit team may not assign to Internal Audit staff in seeking direct assistance. Further, you are required to assess the possibility of relying on the work of Internal Audit and explain the matters that should be considered during the assessment.

Required:

(i) Explain two (2) matters that the external auditors should consider before deciding to use the work of Internal Audit. (2 marks)

(ii) Explain three (3) tasks that the external auditors are prohibited from seeking direct assistance of Internal Audit according to ISA 610(Revised) *Using the work of internal auditors*. (3 marks)

(iii) Explain three (3) possible uses of audit software in the audit of the financial statements of Mubanga Plc. (6 marks)

(iv) Explain three (3) substantive audit procedures for the warranty provision in the financial statements of Mubanga Plc. (6 marks)

[Total: 25 Marks]

DA 11 PRINCIPLES OF AUDITING

SUGGESTED SOLUTIONS:

SOLUTION ONE

(a) **Meaning of materiality and sampling in auditing:**

(i) **Materiality** - Misstatements or omissions are material if individually or in aggregate, could reasonably be expected to influence the economic decisions of users of the financial statements.

(ii) **Sampling** -Sampling means the auditor selects and tests less than 100% of the items in the population to obtain audit evidence about the whole population.

(b) **Audit risks and auditors' responses:**

S/N	Audit risk	Audit response
1	Capitalisation of K19 million digital platform upgrade may not meet asset recognition criteria, leading to overstated assets, if revenue expenditure is capitalised.	Review the nature of the expenditure to confirm it meets IAS 38 criteria for capitalisation; test for appropriate classification and valuation.
2	The issuance of irredeemable preference shares to fund the Ndola property may not be accounted for correctly, e.g., classification and disclosures.	Evaluate or assess the classification as equity or liability under IAS 32; review terms of issue and related classification and disclosures.
3	Delays in legal formalities for the Ndola claims centre could affect asset recognition. Assets may be overstated if the asset is recognised before control over the asset is transferred.	Obtain legal confirmation; assess whether control over the asset has been transferred to determine if the asset should be recognised.
4	Flexible premium terms to new policyholders may affect revenue recognition accuracy. Revenue may be materially misstated.	Test for correct revenue recognition under IFRS 15; ensure policies are recognised when coverage begins and not upon sale.
5	Pressure to complete the audit early could lead to inadequate evidence obtained and compromise quality of the audit. This may increase detection risk.	Discuss with the Finance Director that adequate time will be needed to perform a quality audit, allocate additional audit resources, and prioritise risk areas during planning.
6	Changing the useful life of intangible assets from 3 years to 5 years may lead to an understatement of amortisation and overstatement of assets.	Discuss with management or the Finance Director the basis of increasing the useful life to assess the reasonableness of the basis or assumptions.
7	Kafue Holdings Ltd is threatening legal action. Liabilities may be understated if the	Enquiry from the legal counsel or lawyers of Mbuya to obtain their advice on the matter

	provision is not provided for or if it is understated.	and the probability of the action materializing.
8	K21 million in overdue premiums, which is material (2% of assets and 4% of revenue), there is a risk that receivables may be overstated, and bad debts understated.	Obtain the revised payment agreement and review it to verify if the customer has agreed to pay this amount and the payment timeframe agreed.
9	Receivables have increased from K63 million to K104 million. There is a risk that receivables may be overstated, and irrecoverable debts understated.	Discuss with the Finance Director the cause of the increase in receivables and seek correspondence or documents from receivables confirming their debts, such as acknowledgement letters.
10	There is a risk of non-compliance with listing requirements which could have implications for the going concern of the company and an understatement of provisions in the case of penalties that may require to be paid.	Apply professional scepticism and look out for any evidence of non-compliance with listing requirements. Read minutes of board and management meeting for any such.

(c) **Ethical threats and possible safeguards:**

S/N	Ethical Threat	Possible Safeguard
1	20% of last year's audit fee remains unpaid, creating a self-interest threat. Errors in the financial statements may not be reported. This may lead to self-interest threat.	Ensure outstanding fees are settled before continuing with the current audit; assess whether the firm can remain objective.
2	Long-standing relationship between Bwacha & Co and Mbuya management. Errors in the financial statements may not be reported. This can lead to familiarity threat.	Rotate key audit team members; perform independent quality reviews of the engagement.
3	Involvement in decision-making regarding Non-Executive Director (NED) recruitment may impair objectivity and independence and can lead to advocacy threat and a self interest threat.	The audit firm should not participate in client management decisions; provide only general Human Resources (HR) guidance if necessary. E.g. shortlisting of suitable applicants.
4	Providing tax compliance and advisory services while auditing the same entity. Errors in the tax computations may not be reported. This can also lead to self-review threat.	Ensure separate teams for audit and non-audit services; avoid any tax advice affecting audited figures such as computation of tax numbers.
5	Contingency fees compromise the auditor's objectivity and professionalism due to direct financial incentive, because higher profits will mean higher audit fees. This can lead to self-interest threat.	Contingency fees are prohibited by (e.g., IESBA Code of Ethics, IFAC, IAASB). Audit fees should be based on work involved, complexity, resources and time, so this should be declined politely.

(d) **Substantive audit procedures for receivables:**

(i) **Existence of receivables:**

1. Confirm subsequent receipts by tracing amounts received after year-end to the ledger and bank statements and confirm they relate to the balances at the period end.

2. Review supporting documents like invoices, delivery notes, and sales orders to confirm valid sales.
3. Perform an analytical review by comparing receivable balances with prior periods to identify unusual changes.

(ii) **Valuation of receivables:**

1. Examine the aged receivables report to identify overdue or long-outstanding balances for allowance for irrecoverable debts.
2. Assess the allowance for receivables provision by reviewing management's assumptions and customer payment history.
3. Verify post-year-end collections to confirm the recoverability of outstanding amounts.
4. Review receivables correspondence for evidence of disputes or credit issues that may affect collection.
5. Test sales cut-off to ensure sales and receivables are recorded in the correct accounting period.
6. Review credit notes issued after year-end to identify any adjustments that may indicate overstatement of year-end receivables.

SOLUTION TWO

(a) **Internal controls of Zambezi Leisure Group:**

	(i)	**(ii)**	**(iii)**
S/N	**Deficiencies**	**Recommendations**	**Test of Control**
1	Lack of integration between the online reservation platform and the PMS leading to overbookings and poor reputation and customer experience.	Integrate an online booking system with the PMS for real-time room availability validation.	Review booking logs and PMS records to confirm bookings are only accepted when availability is confirmed.
2	Absence of a standardized guest confirmation system increases the risk of bookings not being fulfilled, leading to loss of revenue.	Require mandatory guest confirmation via automated emails/SMS with tracking.	Inspect a sample of bookings for confirmation email/SMS evidence.
3	Sales team independently authorising discounts without oversight may result in revenue leakage and loss of income and funds.	Introduce discount approval procedures involving senior finance officials (e.g. Finance Director) or management sign-off above certain thresholds.	Examine documentation for a sample of discount transactions to verify appropriate approval. E.g. Finance Director's signature.
4	Inadequate segregation of duties in supplier master file changes increases the risk of fraud or errors. Fake supplier payments can be made.	Implement maker-checker control for changes in supplier master file (Only senior staff should change and approve changes) and restrict access.	For a sample of changes made confirm that the appropriate approvals have been made and no one person can decide to make amendments to master file without approval.
5	Infrequent or absent supplier statement reconciliations increase the risk of undetected overpayments or omitted liabilities.	Reinstate monthly supplier statement reconciliations and follow-up processes. These should be reviewed and approved or signed off by senior officials.	Inspect supplier reconciliations for a sample of months and verify resolution of discrepancies, appropriate reviews and approvals.
6	Booking data not forwarded to the branch on a timely and consistent manner leads to service delivery failures, leading to loss of revenue.	Implement automated alerts to ensure booking data is forwarded to relevant hotel branches.	Test system-generated alerts and confirm branch acknowledgment of incoming bookings.
7	There is no system in place regarding disposal of surplus equipment. This could lead to fraudulent disposal of	Put in place systems on the disposal of surplus equipment including authorisation controls.	Confirm that controls for disposal of equipment are put in place and for a sample of disposals after

	equipment resulting in a loss for the company.		controls are put in place confirm that the necessary authorisation is obtained.
8	Currently credit limits are set by the Accounts Receivable Clerks who are also responsible for account reconcilliations. Further, the clerks are junior to undertake this task and there is no suggestion that the limits are authorised by a senior person.	Credit limits should be made by a senior person and approved appropriately.	For a sample to accounts receivables whose credit limits have been changed confirm approved as per policy once in place.

(b) **Substantive audit procedures performed at the year-end in relation to property and equipment:**

1. Agree additions to invoices, and purchase orders, to verify ownership and review board or management minutes to verify approval.
2. Conduct physical inspection (assets verification) of a sample of assets to confirm existence and condition.
3. Review calculations of depreciation and confirm alignment with accounting policy and asset useful lives.
4. Recalculate depreciation and carrying value to verify accuracy.
5. Verify disposals by inspecting sale agreements, proceeds received, and adjustments to the asset register.
6. Assess whether any idle, damaged, or obsolete assets should be impaired or derecognised.
7. Review repairs and maintenance accounts to ensure capital expenditures are not misclassified.
8. Confirm year-end balances with the fixed asset register and general ledger.

(c) **Level of assurance provided by an external audit compared to that provided by a review engagement:**

1. External audit provides reasonable assurance through detailed substantive and control testing, allowing auditors to conclude whether the financial statements are free from material misstatement. The opinion issued is in a positive form stating whether or not the subject matters shows a true and fair view. A reasonable assurance is a high but not absolute level of assurance.

2. Review engagements provide limited assurance based primarily on inquiry and analytical procedures, resulting in a lower level of assurance for users of the financial statements. The opinion is given in a negative manner with the auditor stating that nothing has come to their attention to suggest financial statements do not show q true and fair view.

(d) **Tasks performed by Masuku & Co during the interim and final audits:**

(i) Audit tasks at interim audit:

- Assessing risks and gaining an understanding of the entity
- Recording Zambezi Leisure Group's system of internal controls
- The external auditor can also evaluate the design of internal controls in Zambia Leisure Group.
- A limited amount of substantive procedures can be done on transactions to the date of the interim audit.

(ii) tasks performed at final audit:

- Performing substantive audit procedures in order to verify account balances in the statement of financial position and amounts in the statement of financial position.
- Masuku & Co. can also obtain third party confirmations
- The auditor can also perform analytical procedures of financial statements.
- External auditors can also review subsequent events.

SOLUTION THREE

(a) **Substantive audit procedures – During inventory count:**

1. Observe physical stock count to ensure proper counting procedures are followed.
2. Perform test counts and compare with inventory records to verify accuracy.
3. Inspect inventory conditions for signs of damage, expiry, or obsolescence.
4. Review cut-off procedures to ensure correct inclusion of goods received/shipped around year-end.
5. Confirm whether the count was properly carried out and can be relied upon as a basis for determining inventory value.
6. Gain an impression of the value of existing inventory and judge whether figure of inventory appearing in financial statements is reasonable.
7. Confirm inventory held on behalf of third parties is separately identified and accounted for so that inventory is not overstated.

(b) **Going Concern problems indicators:**

1. Decline in revenue due to competition and regulatory delays, which may lead to cash flow problems.
2. Current liabilities exceed current assets, indicating liquidity risk.
3. Delayed salary payments, suggesting cash flow problems.
4. Key suppliers are tightening credit terms, indicating loss of confidence. Cash on delivery will put pressure cash flow.
5. Postponed equipment maintenance, risking production capacity/business continuity.
6. No confirmed financing, despite ongoing efforts to secure funds, which may lead to financial difficulties.

(c) **Substantive audit procedures – Going Concern assessment:**

1. Review management's cash flow forecasts for at least 12 months after year-end to assess whether they are consistent with management accounts.
2. Test assumptions used in forecasts for reasonableness and consistency.
3. Examine correspondence with lenders to confirm availability of funding.
4. Assess mitigating plans (e.g., alternative funding, revenue mobilisation strategies) for feasibility.
5. Review minutes of board meetings for decisions affecting the going concern.
6. Inspect post-year-end transactions for signs of financial improvement or distress.
7. Review the budgets and management accounts to assess the future plans of the entity.
8. Obtain written management representation regarding the going concern of the company.
9. Evaluate or review the adequacy of financial statement disclosures on going concern uncertainty.

(d) **Responsibilities regarding fraud:**

Management's responsibilities:

1. Design, implement, and maintain effective internal controls to prevent and detect fraud.
2. Establish and promote an ethical culture and tone at the top that discourages fraudulent behaviour.
3. Identify and assess fraud risks within the organization and respond appropriately.

Auditors' responsibilities:

1. Assess the risk of material misstatement in the financial statements due to fraud.
2. Maintain professional skepticism throughout the audit.
3. Design and perform audit procedures responsive to identified fraud risks.
4. Obtain sufficient appropriate audit evidence regarding identified risks.
5. Communicate any identified or suspected fraud to management and those charged with governance as appropriate.

(e) **Responsibilities regarding Non-Compliance with Laws and Regulations:**

Management's responsibilities

1. Ensure the entity complies with all applicable laws and regulations.
2. Establish procedures to monitor ongoing compliance and detect any breaches.
3. Take corrective action promptly when non-compliance is identified.
4. Put in place internal controls that will ensure compliance with laws and regulations.
5. Monitor the legal environment for new laws relevant or changes to existing laws.

Auditors' responsibilities

1. Obtain an understanding of the legal and regulatory framework relevant to the entity.
2. Assess the impact (direct or indirect) of non-compliance on the financial statements.
3. Obtain sufficient appropriate evidence about compliance with laws and regulations that affect the financial statements.
4. Report appropriately on identified non-compliance to appropriate levels of management, those charged with governance.
5. If required by law, get legal advice and report to the appropriate external authorities taking into consideration the ethical principles of confidentiality.

SOLUTION FOUR

(a) **Auditor appointment and statutory rights**

(i) How auditors are appointed in a company such as Zam-Phones Limited:

1. Appointment at AGM: Auditors are appointed by shareholders at the Annual General Meeting (AGM) in accordance with the Companies Act of Zambia.
2. Board Recommendation: The Board of Directors may recommend an auditor for shareholder approval.
3. Filing with PACRA: The company must notify PACRA of the auditor's appointment within the statutory timeline.
4. Casual Vacancy: If an auditor resigns or is removed mid-year, the directors may appoint a replacement, subject to shareholder confirmation at the next AGM.

(ii) Statutory rights of auditors:

1. Right to Access Records: Auditors have the right to access all books, records, and documents of the company at any time.
2. Right to Information: They may request explanations and information from directors or officers as necessary for the audit.
3. Right to attend general meetings: Auditors can attend any general meeting and receive notices of such meetings.
4. Right to be Heard: Auditors have the right to speak at general meetings on matters affecting the audit or their duties.

(b) **Audit documentation and engagement letter**

(i) Reasons for maintaining audit documentation:

1. Evidence of work performed: It serves as proof that audit procedures were properly performed.
2. Supports audit opinion: Provides the basis for the auditor's conclusions and opinion.
3. Facilitates supervision and review: Helps in quality control and review by senior auditors or regulators.
4. Provides continuity: Useful in future audits as reference material.
5. Accountability: Helps to hold audit team members accountable.
6. Legal defence: Acts as evidence if the audit process is legally challenged
7. There are auditing standards that specify the documentation requirements for particular areas. Documentation of work done complies with such a requirement.

(ii) Typical contents of an audit engagement letter:

1. Objective and scope of the Audit: A Clear statement of the audit scope and objectives.
2. Management's responsibilities: Acknowledgement of the company's duty to prepare financial statements.
3. Auditors' responsibilities: Auditors will perform the audit in accordance with the applicable International standards in auditing. (ISAs).
4. Applicable financial reporting framework: Framework to be used during the audit (e.g., IFRS).
5. Audit fees: The basis for calculating audit fees.
6. Form of reports to be issued: The type of audit report to be issued.

(c) **Adequacy and reliability of management representations**

1. Secondary source of evidence: Management representations are not a substitute for other substantive procedures.
2. Used to confirm other evidence: Useful when corroborating other evidence obtained.
3. Written format adds reliability: Written and signed representations are more reliable than oral assurances.
4. Assessed based on integrity of management: Reliability depends on the auditor's assessment of management's honesty and competence.
5. Limited in risky areas: Not sufficient on their own for high-risk or material areas.

(d) **Substantive procedures relevant to audit of payroll costs:**

1. Recalculate Payroll: Independently verify payroll calculations for a sample of employees to verify accuracy.
2. Agree payroll to HR Records: Match payroll entries to employee contracts or HR files to verify accuracy.
3. Test cut-off: Verify payroll expenses are recorded in the correct period.
4. Review payroll reconciliations: Inspect monthly reconciliations between payroll records and the general ledger to verify completeness and accuracy.
5. Substantive analytical review: Perform reasonableness tests (e.g., compare payroll costs to prior year or headcount changes) to assess reasonableness.
6. Recalculate the amounts of PAYE and NAPSA deductions in order to confirm if the correct percentages were applied so that accuracy is confirmed.
7. Test for ghost employees: Review for non-existent employees through physical verification or interviews to confirm if they are bornafide employees.
8. For a sample of overtime, recalculate using HR overtime rates to verify accuracy.

(e) **Four substantive audit procedures relevant for the audit of revenue:**

1. Trace recorded sales to delivery notes and customer orders to confirm that revenue transactions actually occurred.
2. Match invoices near year-end to dispatch records to test the accuracy of the cut-off and ensure revenue was recognized in the correct period.
3. Review post-year-end dispatches for unrecorded invoices to check the completeness of revenue.

4. Recalculate invoice amounts and check for duplicates to verify the accuracy of revenue entries.
5. Inspect general ledger revenue classifications to ensure proper presentation of corporate and retail sales.
6. Examine bundled contract allocations to confirm the appropriate split between hardware and service revenue.
7. Perform an analytical review of revenue trends to identify any unusual patterns or anomalies that may indicate misstatements.

SOLUTION FIVE

(a) (i) **Meaning of accountability and stewardship:**

1. **Accountability:** Management must be accountable to shareholders for the use of resources and performance.
2. **Stewardship:** Management is entrusted with safeguarding the company's assets and operational efficiency.

(ii) Corporate governance weaknesses at Kalima Minerals Plc.

1. The lack of Non-Executive Directors results in a lack of independent oversight over strategic decisions, increasing the risk of biased management actions.

2. The lack of an Audit Committee means there is inadequate oversight of the company's financial reporting and internal control systems.
3. The absence of an internal audit department reduces the company's ability to detect fraud and internal control weaknesses in a timely manner.
4. The Managing Director's excessive concentration of authority raises the risk of management override and unethical conduct without sufficient checks and balances.

(b) (i) **Matters that should be considered in deciding to use work of internal audit:**

1. There is need to consider whether the work of the internal audit department is properly planned, performed, supervised, reviewed and documented to ensure and efficient audit.
2. Whether sufficient appropriate evidence is obtained to enable appropriate conclusions to be drawn.
3. Whether the conclusions reached on internal audit assignments are appropriate and consistent with the results of the work performed.
4. Whether the work of internal audit is documented supervised and reviewed as expected.

(ii) **Tasks prohibited from seeking direct assistance of internal audit:**

1. Work that involves making significant judgements such as accounting estimates.
2. Work that is assessed as high risk such as determining warranty provisions where bias may be at play.
3. Any work to do with work which the internal audit department was involved. For example, assessing the reliability of internal controls that they designed.
4. Work related to decisions regarding the internal audit function which will help in deciding whether to rely on the work or seek direct assistance.

(iii) **Uses of audit software in an audit:**

1. Performing calculations and comparisons in analytical procedures.
2. Extracting samples for testing such as selecting a sample of sales invoices that will be subject to tests of detail.

3. Scanning files to check completeness of document processing or select unusual items.
4. Comparing data elements in different files for agreement such as prices on sales invoices to the authorised prices on the master file.
5. Re-performing calculations such as totalling the sales ledger.
6. Preparing documents such as producing the receivables' confirmation letters.

(iv) **Substantive audit procedures for warranty provision:**

1. Review post year end events to the date of the audit report on whether they provide evidence regarding the accounting estimate.
2. Test how management made the accounting estimate and evaluate for reasonableness.
3. Develop a point estimate or a range to evaluate management's point estimate.
4. Review draft financial statements and obtain evidence regarding correctness of disclosures.
5. Obtain written representations from management whether management believes significant assumptions used are reasonable.

END OF SOLUTIONS

DIPLOMA IN ACCOUNTANCY PROGRAMME EXAMINATIONS

LEVEL TWO

DA 12: GOVERNANCE AND COMPANY 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: There are two (2) compulsory questions.
   Section B: There are three (3) questions. Attempt any two (2) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

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

SECTION A

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

Attempt both questions.

QUESTION ONE

Mukuba Manufacturing Plc is a public company incorporated in Zambia and listed on the Lusaka Securities Exchange (LuSE). The company manufactures electrical cables and employs over 300 workers.

The Board of Directors is made up of seven members. The Chairperson is also the Chief Executive Officer (CEO**)** of the company. Three (3) Directors are close relatives of the Chairperson. The Board rarely holds meetings, and major decisions are often made by the Chairperson without consulting other Directors.

The company does not have an Audit Committee, and financial statements are prepared late and sometimes not shared with shareholders during the Annual General Meeting (AGM). Minority shareholders have complained that they are not given adequate information about the company's performance.

In addition, senior management frequently awards supply contracts to companies owned by Board members without disclosure to shareholders. Internal controls are weak, and there is no internal audit department.

Required:

(a) Identify four (4) principles of good corporate governance that are not being followed by Mukuba Manufacturing Plc. (4 marks)

(b) Explain the roles of the Board of Directors in ensuring good corporate governance in a Zambian company. (5 marks)

(c) Advise Mukuba Manufacturing Plc on measures it should take to improve its corporate governance practices. (12 marks)

(d) State two (2) possible consequences of poor corporate governance to the company and the Zambian economy. (4 marks)

[Total: 25 Marks]

QUESTION TWO

(a) Bruce is an agent who deals in registration of businesses. He managed to have one of his companies registered, but before he was issued with the certificate of incorporation, he decided to order wine to celebrate the company to be formed in the name of the company. Now the suppliers are claiming for their payment for the wine they supplied to him before the company was incorporated.

Required:

(i) Advise the owners of the company on Bruce's liability. (5 marks)

(ii) Explain to Bruce how he can avoid this liability. (5 marks)

(b) Distinguish between share capital and loan capital. (5 marks)

(c) Illustrate the two (2) ways through which lifting of the veil of incorporation can be done. (10 marks)

[Total: 25 Marks]

SECTION B

There are THREE (3) questions in this section.

Attempt any two (2) questions.

QUESTION THREE

Chilanga Steel Limited is a company incorporated in Zambia under the Companies Act No. 10 of 2017. The company manufactures construction materials and intends to expand its operations.

The company's current capital structure is as follows:

- 1,000,000 ordinary shares fully paid
- 200,000 10% preference shares
- K10 million secured bank loan (debenture secured by a floating charge over company assets)

Due to expansion plans, the board of directors proposes to:

1. Issue additional ordinary shares to existing shareholders.
2. Issue new shares to an external investor without offering them first to existing members.
3. Declare dividends despite declining profits.
4. Convert part of the company's reserves into bonus shares.
5. Obtain a long-term loan secured by a fixed charge over company land.
6. Remove the Managing Director without following procedures in the Articles of Association.

Minority shareholders are concerned about dilution of their shareholding and possible mismanagement and are in your office for guidance.

Required:

(a) Explain the different types of share capital a company may issue under Zambian law and their characteristics. (10 marks)

(b) Discuss the legal rules governing the issue of shares, including pre-emptive rights of shareholders. (6 marks)

(c) Explain the difference between fixed and floating charges and their legal implications in the event of insolvency. (4 marks)

(d) Advise on the legality of declaring dividends and issuing bonus shares in the circumstances described above. (5 marks)

[Total: 25 Marks]

QUESTION FOUR

Kafue Agro Processing Limited is a private company incorporated under the Companies Act of Zambia. The company processes and supplies maize meal to various parts of the country.

The company has five (5) Directors. Mr. Tembo, the Managing Director, makes most of the decisions without consulting the Board. He signs major contracts on behalf of the company without Board approval and rarely discloses financial information to other directors.

One of the Directors, Ms. Phiri, discovered that Mr. Tembo used company funds to purchase a vehicle for his personal use. When questioned, Mr. Tembo claimed that as Managing Director, he has full discretionary authority to use company resources as he sees fit.

In addition, the company has failed to file annual returns with PACRA for two (2) consecutive years, and statutory financial statements have not been prepared.

Required:

(a) State four (4) roles of Directors in a Zambian company. (4 marks)

(b) Advise whether Mr. Tembo acted within his powers as a director or not. (5 marks)

(c) Explain which duties of directors have been breached in this scenario. (8 marks)

(d) Outline the possible consequences to the company and the directors for failing to comply with statutory requirements. (8 marks)

[Total: 25 Marks]

QUESTION FIVE

(a) Briefly explain what is meant by the following;

(i) Winding up.

(ii) Voluntary Winding up.

(iii)Compulsory Winding up.

(10 marks)

(b) "*A company is an artificial person. Therefore, it cannot die but can cease to exist by being dissolved and struck off the register of companies*."

In light of the above statement, explain the procedure for dissolution by striking off the register. (15 marks)

[Total: 25 Marks]

END OF PAPER

DA 12 GOVERNANCE AND COMPANY LAW

SUGGESTED SOLUTIONS

SOLUTION ONE

(a) **Principles of good corporate governance not being followed**

Mukuba Manufacturing Plc has failed to adhere to the following principles of good corporate governance:

1. **Accountability** – The Board does not properly account to shareholders, as financial statements are delayed and not adequately presented at the AGM.
2. **Transparency** – There is lack of openness in decision-making, especially in awarding contracts to companies owned by Board members without disclosure.
3. **Independence** – The Chairperson also acts as CEO, and several directors are close relatives, compromising independent judgment.
4. **Fairness and equity** – Minority shareholders are denied adequate information, which affects their rights and fair treatment.

(b) **Roles of the Board of Directors in ensuring good corporate governance**

The Board of Directors plays a critical role in promoting good corporate governance in a Zambian company. Its roles include:

1. **Providing strategic direction** and overseeing management performance.
2. **Ensuring accountability** by safeguarding shareholders' interests.
3. **Establishing effective internal controls** and risk management systems.
4. **Ensuring compliance** with the Companies Act of Zambia, LuSE rules, and other regulatory requirements.
5. **Appointing and supervising senior management**, including the CEO.
6. **Promoting ethical conduct** and preventing conflicts of interest.

(c) **Measures to improve corporate governance at Mukuba Manufacturing Plc**

Mukuba Manufacturing Plc should take the following measures to improve corporate governance:

1. Separate the roles of **Chairperson and CEO** to enhance checks and balances.
2. Appoint **independent non-executive directors** to strengthen Board independence.
3. Establish an **audit committee** made up mainly of independent directors.
4. Ensure **timely preparation and disclosure** of financial statements to shareholders.
5. Introduce strong **internal control systems** and an internal audit function.
6. Require **full disclosure of conflicts of interest** and related-party transactions.
7. Hold regular and properly constituted **Board meetings**.
8. Protect the rights of **minority shareholders** by providing adequate information.

(d) **Consequences of poor corporate governance**

Poor corporate governance may result in:

1. **Loss of investor confidence**, leading to reduced investment and share value.
2. **Financial mismanagement and fraud**, which can cause business failure.
3. **Legal sanctions and penalties** from regulators such as PACRA and LuSE.
4. **Negative impact on the Zambian economy**, including job losses and reduced tax revenue.

SOLUTION TWO

(a) (i) Bruce is known as a promoter. A promoter is an individual who takes all the necessary steps to have the company registered. Promoters usually incur expenses in formation of a company. The type of contract that Bruce entered into is known as a pre-incorporation contract. Since the company was not yet duly registered, Bruce will incur personal liability on the contract.

(ii) However, this liability can be avoided in the following ways:

- The contract can remain a draft until the company is formed
- If the contract has to be finalized before incorporation it must contain a clause that personal liability of promoters is to cease if the company, when formed, enters a new contract on identical terms.

(b) The main difference between share capital and loan capital is that loan capital is the money that an organization borrows from financial institutions and pays back with interest, while share capital is the money that an organization realizes after selling shares to shareholders and dividends are paid out to the shareholders.

(c) Lifting of the veil of incorporation can be done in two main ways:

- By the judiciary-a judge can use a tactic to counter fraud, sharp practice, oppression and illegality.

By statute-there are a number of ways through which the veil can be lifted by statute, the common one being where the number of members falls below the statutory requirement for more than six months.

SOLUTION THREE

(a) **Types of Share Capital and Their Characteristics**

Under Zambian company law, a company may issue different classes of shares:

1. Ordinary Shares

- Carry voting rights.
- Entitled to dividends after preference shareholders.
- Participate in surplus assets on winding up.
- Most common form of equity capital.

2. Preference Shares

- Entitled to a fixed dividend (e.g., 10%).
- Have priority over ordinary shares in dividend payment and capital repayment.
- Usually have limited or no voting rights (unless dividends are in arrears).
- May be cumulative or non-cumulative.

3. Redeemable Shares

- Issued on condition that the company may redeem them in the future.
- Must comply with statutory requirements regarding capital maintenance.

4. Bonus Shares

- Issued to existing shareholders from company reserves.
- Do not involve receipt of new cash.
- Increase issued share capital by capitalising profits.

5. Rights Shares

- Offered to existing shareholders in proportion to their current holdings.
- Protect shareholders from dilution.

(b) **Legal Rules Governing Issue of Shares (Including Pre-emptive Rights)**

1. Authority to Issue Shares

Directors must have authority under the Articles of Association or by shareholder resolution.

2. Pre-emptive Rights

Under the Companies Act:

- Existing shareholders have the right of first refusal when new shares are issued.
- Shares must first be offered to existing shareholders proportionally.
- This prevents dilution of ownership.
- The right may be waived by shareholders through a special resolution.

In the scenario:

- Issuing shares to an external investor without first offering them to existing members may breach pre-emptive rights unless properly waived.

3. Proper Purpose Doctrine

Directors must issue shares for a proper purpose (e.g., raising capital), not to dilute minority shareholders.

Minority shareholders may challenge the issue if done in bad faith.

(c) **Difference Between Fixed and Floating Charges**

Both are forms of security for company borrowing.

1. Fixed Charge

- Attaches to specific assets (e.g., land or buildings).
- Company cannot dispose of the asset without lender's consent.
- Takes priority over floating charges in insolvency.

Example: Proposed long-term loan secured over company land.

2. Floating Charge

- Covers a class of assets (e.g., stock, receivables).
- Company may use and dispose of assets in ordinary course of business.
- Crystallises into a fixed charge upon certain events (e.g., insolvency).

Example: Existing debenture secured by floating charge.

3. Legal Implication in Insolvency

- Fixed charge holders are paid first from proceeds of secured assets.
- Floating charge holders rank after fixed charge holders and certain preferential creditors.

(d) **Legality of Declaring Dividends and Issuing Bonus Shares**

1. Declaration of Dividends

Dividends may only be declared:

- Out of distributable profits.
- If the company satisfies the solvency test.
- If the company remains able to pay its debts as they fall due.

If profits are declining, declaring dividends may:

- Breach capital maintenance principles.

- Amount to unlawful distribution.
- Expose directors to personal liability.

2. Issue of Bonus Shares

Bonus shares are lawful if:

- There are sufficient reserves.
- Proper board and shareholder approval is obtained.
- The company remains solvent after capitalisation.

SOLUTION FOUR

Model Answers: Role of Directors (Zambian Context)

(a) **Roles of directors in a Zambian company**

The roles of directors in a Zambian company include the following:

1. **Providing strategic direction** to the company and setting business objectives.
2. **Managing and supervising company affairs** either directly or through appointed management.
3. **Safeguarding company assets** and ensuring resources are used properly.
4. **Ensuring compliance** with the Companies Act and other statutory requirements.
5. **Preparing and approving financial statements** for the company.
6. **Acting in the best interests of the company and shareholders**.
7. **Ensuring proper corporate governance** and ethical conduct.
8. **Representing the company** in contracts and legal matters.

(b) **Whether Mr. Tembo acted within his powers**

Mr. Tembo did not act within his powers as a director. Although a Managing Director has authority to manage day-to-day operations, major decisions and contracts require **Board approval**. Using company funds for personal purposes without authorization is an abuse of power. Therefore, Mr. Tembo acted **outside his authority** and contrary to the law.

(c) **Duties of directors breached in the scenario**

The following duties of directors were breached by Mr. Tembo:

1. **Duty to act in good faith** and in the best interests of the company.
2. **Duty to avoid misuse of company property** for personal benefit.
3. **Duty to exercise reasonable care, skill, and diligence**.
4. **Duty to act within powers** granted by the company's constitution and the Companies Act.
5. **Duty of transparency and accountability** to fellow directors.
6. **Duty to ensure proper financial records** are kept and prepared.

(d) **Possible consequences of non-compliance with statutory requirements**

Failure to comply with statutory requirements may result in:

1. **Penalties and fines** imposed by PACRA on the company and directors.
2. **Disqualification of directors** from holding office.
3. **Legal action** against directors for breach of duty.
4. **Reputational damage** to the company.
5. **Loss of investor and creditor confidence**.
6. **Possible winding-up of the company** in serious cases.

SOLUTION FIVE

(a) (i) Winding up means the closure of a company where it ceases to exist. This is done by the striking off the register of companies at the companies' registration office (PACRA). Winding up is deemed to commence at the time of the presentation of the petition for winding up which is after the passing of a resolution authorizing the said winding up.

(ii) **voluntary winding up**

Where members have passed a special resolution for voluntary winding up but the directors of the company fail to submit a declaration of solvency and the accompanying statements before the passing on of the resolution, the winding up automatically becomes a creditors' voluntary winding up. The creditors here are the ones who push for the winding up. A meeting of the company's creditors must be convened within 14 days of the members' meeting. The creditors would be provided with a list of the company's creditors.

(iii) Compulsory winding up is when a company is dissolved through a court order for failing to pay debts among other reasons. This is an insolvency and liquidation procedure. The liquidator is normally an officer of the court.

(b) The procedure for dissolving a company by striking off the register is stipulated under section 317 of the Companies Act. According to this section, in the event that the Registrar has reasonable cause to believe that a company is not carrying on business or is not in operation, he may send to the company by registered post a letter requesting confirmation. Should the registrar not receive a satisfactory response from the company within 1 month of the date of sending the letter he will publish a notice in the Government Gazette, that at the expiration of three months from the date of publication of the notice, the company will be dissolved unless cause is shown to the contrary.

Another way this may be done is by ordinary resolution. In this case, via its members, a company makes a resolution to request the Registrar to strike it off the register. The company lodges with the registrar a copy of the resolution, summary accounts, and a statutory declaration of two or more directors showing what deposition the company has made of its assets and that the company has no debts or liabilities. The registrar shall cause to be published in the Gazette a notice to the effect that at the expiration of three months from the date of that notice, unless cause is shown to the contrary, the company will be dissolved. It should be noted that the Registrar has the discretion to the strike off.

END OF SUGGESTED SOLUTIONS