Zambia Institute of Chartered Accountants

TAXATION PROGRAMME EXAMINATIONS

CERTIFICATE LEVEL

C3: ACCOUNTANCY FOR TAX PRACTITIONERS

MONDAY 13 JUNE 2016

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 question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.

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

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

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

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

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

8. Present legible and tidy work.

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

Answer all questions in this paper.

QUESTION ONE

The following information relates to the incomplete records of Ben Zimba , a sole trader for the period 1 January to 31 December 2014

	1 January 2014	**31 December 2014**
	K'000	**K'000**
Inventory	4,800	3,800
Trade payables	4,200	4,600
Insurance prepaid	800	-
Insurance owing	-	480
Trade receivables	8,000	6,000
Loan (10%)	24,000	24,000
Loan interest owing	-	2,400
Motor vehicle at cost	-	45,000

OTHER DETAILS:

Bank summary	K'000	K'000
RECEIPTS		
Balance as 1 January 2014		20,000
Receivables		56,000
Cash sales banked		16,400
		92,400
PAYMENTS:		
Accounts payable	36,000	
Insurance	4,000	
Purchase of motor vehicle	45,000	
Stationery	8,400	
Electricity	4,000	
Dishonoured cheque (receivables)	2,800	
		(100,200)
Balance as at 31 December, 2014		(7,800)

Cash account

Receipts:

	K'000	K'000
Balance as at 1 January 2014		10,000
Cash sales		26,400
Accounts receivable		900
		37,300
Payments:		
Drawings	8,000	
Rates	1,000	
Water bills	1,400	
Cash banked	16,400	
		26,800
Balance as at 31 December 2014		10,500

Additional information

1. Bad debts written off amounted to K620,000.
2. Discount allowed to trade receivables and discounts received from trade payables were K240, 000 and K340, 000 respectively.
3. Goods taken from the business for private use at cost were K500,000. No entry has been made in the books of accounts.
4. Returns outwards amounted to K2,000,000.
5. Depreciation is charged at 20% on a straight line basis. A full year's depreciation is charged in the year of purchase, with none in the year of disposal.

Required:

(a) Calculate the capital at 1 January 2014. (3 marks)

(b) Prepare the statement of profit or loss for the year ended 31 December 2014. (11 marks)

(c) Prepare the Statement of Financial Position as at 31 December 2014. (6 marks)

[Total: 20 marks]

QUESTION TWO

ZED LTD prepares its financial statements to 31 December each year. At 1 January 2014, the following balances were extracted from its ledger accounts.

	K'm
Land (freehold) cost	4, 000
Building at cost	2, 000
Accumulated depreciation on building at 31.12.2013	840
Office machinery at cost	160
Accumulated for depreciation-office machinery	96
Revaluation surplus at 31.12.2013	240

The policy is to provide for depreciation as follows:

- Buildings - at 5% on cost.
- Office machinery- at 15% on straight line method.

A full year's depreciation is charged in the year of purchase, with none in the year of sale. During the year to December 2014, the following transactions took place:

(i) On 30th June 2014 office machinery was purchased for K27m. This was to replace old ones which were given in part exchange. Their agreed part exchange value was K4m. They had originally cost K19m, and their book value was K14m. The balance was paid in cash.

(ii) On 31st July 2014 office machinery which had cost K4m and a written down value of K2m was sold for cash K8m.

(iii) On 31st October 2014 an extension was made to the buildings costing K120m

(iv) On 31st December 2014 it was decided to revalue land upwards by K420m.

Required:

Prepare the following ledger accounts

(a)	Land account at cost	(2 marks)
(b)	Freehold building at cost	(2 marks)
(c)	Freehold building- Accumulated depreciation	(2 marks)
(d)	Office machinery-cost	(3 marks)
(e)	Office machinery - Accumulated for depreciation	(4 marks)
(f)	Office machinery disposal	(5 marks)
(g)	Revaluation reserves	(2 marks)

[Total: 20 marks]

QUESTION THREE

The trial balance of James Tembo failed to agree because the credit balances were more than the debit balances by K2,700,000. Consequently, the suspense account was opened. After some investigations the following errors were discovered as at 31 December 2014:

1. The sales day book total was posted to the sales ledger as K2,500,000 instead of K3,040,000.
2. Discount allowed of K2,100,000 was credited to discount received.
3. The purchases day book total K2,640,000 had been recorded properly in the ledger but posted to the payables control twice.
4. Repair for furniture K1,120,000 was debited to furniture account.
5. Cash receipts from a receivable amounting to K3,600,000 was debited in the cash book but not posted to the receivables ledger account

Required:

(a) State two (2 reasons for preparing the trial balance (2 marks)

(b) Explain two (2) errors that will be revealed by the trial balance. (2 marks)

(c) Explain two (2) errors that will **not** be revealed by the trial balance. (2 marks)

(d) Prepare:

(i) Journal entries to correct the above entries. (Narratives are not required) (8 marks)

(ii) Suspense account showing the correction of the errors. (3 marks)

(e) If the net profit calculated was K25,140,000 before errors were discovered, what could have been the corrected net profit after correction of the errors? (3 marks)

[Total: 20 marks]

QUESTION FOUR

The following trial balance was extracted from the books of Nzambi limited company, as at 31 March 2015

	Dr K'm	Cr K'm
Ordinary shares of K1 each		800
17.5% preference shares		200
Share premium		100
Revaluation reserve		135
Retained earnings at 1 April 2014		190
10% Loan notes, repayable 2018		250
Land at valuation	495	
Premises at cost	350	
- depreciation to 1 April 2014		20
Plant and machinery at cost	220	
- depreciation to 1 April 2014		30

Intangible assets	200	
Inventory at 1 April 2014	210	
Receivables	875	
Cash in hand	2	
Payables		318
Bank		90
Administration expenses	264	
Selling and distribution expenses	292	
Dividends paid	35	
Loan note interest	15	
Sales revenue		2,569
Purchases	1,745	
Carriage inwards	15	
Carriage outwards	18	
Returns outwards		34
	4,736	4,736

The following additional information at 31 March 2015 is available:

(1) A physical inventory check reveals inventory at cost of K194m.

(2) Prepaid administration expenses amount to K12m and prepaid selling and delivery expenses amount to K28m. Accrued administration expenses amount to K17m.

(3) The land is to be revalued at K550m.

(4) The premises are to be depreciated at 4% per annum straight line.

The plant and machinery is to be depreciated at 10% per annum straight line.

(5) Income tax of K40m is to be provided for the year.

(6) The preference shares are irredeemable preference shares.

(7) No ordinary share dividends was declared or paid during the year.

Required:

(a) Prepare the statement of profit or loss for the year ended 31 March 2015. (10 marks)

(b) Prepare a statement of financial position as at 31 March 2015. (10 marks)

[Total: 20 marks]

QUESTION FIVE

(a) Give three (3) advantages and three (3) disadvantages of a limited liability company. (6 marks)

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

(c) Mwapona Manufacturing Limited has an issued and paid up ordinary share capital of 1,000 shares with a nominal value of K260.

(i) The company wishes to raise additional capital for some expansion project and decides to make a rights issue of one for every four, at a price of K300.

Required:

Assuming that all shareholders take up their right, show the double entries for this transaction. (6 marks)

(ii) The directors propose a dividend of 5% at the year end.

Required:

State how much dividend is payable to the shareholders and how this dividend will be dealt with in the books of Mwapona Manufacturing Limited. (4 marks)

[Total: 20 marks]

END OF PAPER

JUNE 2016: ACCOUNTANCY FOR TAX PRACTITIONERS (C3)
SOLUTIONS

SOLUTION ONE

(a) Calculation of capital

	K'000
Bank	20,000
Cash	10,000
Inventory	4,800
Insurance prepaid	800
Receivables	8,000
	43,600
Payables	(4,200)
Loans	(24,000)
Capital at (1 January 2014)	15,400

(b) Income Statement for the year ended 31 December 2014

	K'000	K'000
Sales(w1)		81,360
Sales returns		(2,000)
Net Sales		79,360
Opening inventory	4,800	
Purchases[36,740 w2 -500]	36,240	
	41,040	
Closing inventory	(3,800)	
Cost of sales		(37,240)
Gross profit		42,120
Add: discount received		340
		42,460

LESS EXPENSES & LOSSES		
Discount allowed	240	
Depreciation: (m/veh 20% x 45,000)	9,000	
Bad debts	620	
Insurance (w3)	5,280	
Rates	1,000	
Loan interest(10%x24,000)	2,400	
Electricity	4,000	
Stationery	8,400	
Water bills	1,400	
TOTAL EXPENSES		(32,340)
NET PROFIT		10,120

(b) Statement of financial position as at 31 December 2014

	COST K'000	DEP K'000	NBV K'000
Non-current assets			
Motor vehicle	45,000	(9,000)	36,000
Current assets			
Inventory		3,800	
Receivables		6,000	
Cash		10,500	
			20,300
TOTAL ASSETS			56,300
Equity & liabilities			
Equity			
Capital (part a)			15,400
Add: net profit			10,120
Less: drawings		(8,000+500)	(8,500)
Total equity			17,020
Non-current liabilities:			
10% loan			24,000
Current liabilities:			
Payables		4,600	
Insurance owing		480	
Loan interest		2,400	
Bank overdraft		7,800	
			15,280
TOTAL			56,300

WORKINGS

1)

Receivables control account

	K'000		K'000
Balance b/d	8,000	Cash	900
Dishonoured Cheque	2,800	Discount Allowed	240
Credit Sales (bal. figure)	54,960	Bank	56,000
		Bad Debts	620
		Sales returns	2,000
		Balance c/d	6,000
	65,760		65,760

TOTAL SALES:

	K'000
Credit sales	54960
Cash sales	26,400
	81,360

2)

Payables control account

	K'000		K'000
Bank	36,000	Balance b/d	4,200
Discount received	340	Purchases(Bal. figure)	36,740
Balance c/d	4,600		
	40,940		40,940

3)

Insurance account

	K'000		K'000
Balance b/d	800		
Bank	4,000	Income statement	5,280
Balance c/d	480	(bal.fig)	
	5,280		5,280

SOLUTION TWO

Land at cost account

	K'm		K'm
Balance b/d	4,000		
Revaluation	420	Balance c/d	4,420
	4,420		4,420

Freehold building at cost account

	K'm		K'm
Balance b/d	2,000		
Additions: cash	120	Balance c/d	2,120
	2,120		2,120

Freehold building accumulated depreciation account

	K'm		K'm
		Balance b/d	840
Balance c/d	946	Income statement (5% x 2,120)	106
	946		946

Office machinery at cost account

	K'm		K'm
Balance b/d	160	Disposal	19
Additions (23m +4)	27	Disposal	4
		Balance c/d	164
	187		187

Office machinery accumulated depreciation account

	K'm		K'm
Disposal (June) (19 – 14)	5	Balance b/d	96
Disposal (July)(4-2)	2		
Balance c/d	113.60	Inc. stmt charge (164 x15%)	24.6
	120.60		120.60

Office machinery disposal account

	K'm		K'm
Machinery: Cost	19	Accumulated dep.	5
Machinery: Cost	4	Accumulated dep.	2
		Cash (proceeds)	8
		Exchange value	4
		Loss on disposal (bal. fig)	4
	23		23

Revaluation reserve

	K'm		K'm
		Balance b/d	240
Balance c/d	660	Land	420
	660		660

SOLUTION THREE

(a) The trial balance is a list of all the debit balances and credit balances on the ledger accounts. The following are the main reasons for preparing a trial balance.

- The trial balance is used to check the accuracy of the double entries made in the ledger accounts. If the trial balance is not in balance, then an error has been made somewhere in the accounting process.
- The trial balance will also be used as a basis for the preparation of the final accounts namely the income statement and the statement of financial position.

(b) Errors that will be revealed by the trial balance

1) Single sided entry – a debit entry has been made but no corresponding credit entry or vice versa.
2) Debit and credit entries have been made but at different values.
3) Two entries have been made on the same side.
4) An incorrect addition in any individual account, i.e. miscasting.
5) Opening balance has not been brought down.
6) Extraction error – the balance in the trial balance is different from the balance in the relevant account.

(c) The following errors will not result in an unbalanced trial balance and therefore will not be revealed by the trial balance

1) Error of omission - A transaction has been completely omitted from the accounting records.
2) Error of commission - A transaction has been posted, i.e. recorded in the correct ledger but in the wrong account
3) Error of principle - A transaction has conceptually been recorded incorrectly.

4) Compensating errors - Two different errors may have been made which cancel each other out.
5. Error of original entry - The correct double entry has been made but with the wrong amount

6. Reversal of entries - The correct amount has been posted to the correct accounts but on the wrong side

(d) (i) . Journal entries

		Dr	Cr
		K'000	K'000
1)	Suspense	540	
	Sales		540
2)	Discount allowed	2,100	
	Discount received	2,100	
	Suspense		4,200
3)	Payables	2,640	
	Suspense		2,640
4)	Repairs to furniture	1,120	
	Furniture		1,120
5)	Suspense	3,600	
	Receivables ledger		3,600

Suspense account

	K'000		K'000
Trial balance difference	2,700	Discount allowed	2,100
Sales	540	Discount received	2,100
Receivables control	3,600	Payables	2,640
	6,840		6,840

(e) Statement of corrected net profit for the year ended 31 December 2014.

	K'000
Uncorrected net profit	25,140
Sales undercast	540
	25,680
Discount allowed	(2,100)
Discount received	(2,100)
Repairs	(1,120)
Corrected net profit	20,360

QUESTION FOUR

(a) **Income statement for the year ended to 31 March 2015**

		K'm	K'm
Sales			2,569
Less:	Cost of sales		
	Opening inventory	210	
	Purchases (1,745 + 15 – 34)	1,726	
	Closing inventory	(194)	
			1,742
Gross profit			827
Less	Expenses		
	Administration (264 – 12 + 17)	269	
	Selling and distribution (292 – 28)	264	
	Loan note interest (W2)	25	
	Carriage outwards	18	
	Depreciation(W1)	36	
			(612)
Net profit before tax			215
Income tax expense			(40)
Net profit for the year			175

(b) **Statement of financial position at 31 March 2015**

	Cost	Accumulated depreciation	Net book value
	K'm	K'm	K'm
Non-current assets			
Land (495 + 55)	550	-	550
Premises (Acc. Dep. =20 + 14 w1)*	350	*34	316
Plant and equipment (Acc. dep.30 +22 w1)**	220	**52	168
Patents and trade marks	200	-	200
	1320	86	1234

Current assets			
Inventory		194	
Receivables		875	
Prepayment (12 + 28)		40	
Cash		2	
			1,111
Total Assets			**2,345**
Equity and Liabilities			
Equity			
800m Ordinary K1 shares			800
200m 17.5% K1 Preference shares			200
			1,000
Share premium			100
Revaluation reserve (135 +55 rev. gain)			190
Retained earnings (190 b/d+ 175 – 35)			325
Non-current liabilities			1,615
10% Loan notes			250
Current liabilities			
Payables	318		
Bank overdraft	90		
Accruals (17 + 10 w2)	27		
Income tax	40		
			475
Total equity and liabilities			**2,345**

Workings

(W1) Depreciation

	Km
Premises 4% x K350m =	14
Plant and machinery 10 % x K220m	22
	36

(W2) Loan note interest

K250m@ 10% = K25m
K15m paid, so accrual for K10 m is needed.

SOLUTION FIVE

(a) Advantages of a limited liability company (ANY THREE)

(i) Limited liability of owners – once they contribute capital in full, shareholders are not personally liable for debts of company.

(ii) Easier to raise finance because of limited liability and generally can issue shares to many shareholders.

(iii) Separate legal entity – company continues to exist regardless of the identity of its owners.

(iv) Tax advantage – company taxed as separate entity from its owners.

(v) Transferability of shares – relatively easy to transfer from one owner to another.

Disadvantages of a limited liability company (ANY THREE)

(i) Have to publish annual financial statements, therefore, anyone including competitors can have access to performance of company, good or bad.

(ii) Have to comply with rigorous legal and accounting requirements.

(iii) Financial statements of larger companies have to be audited; time consuming and expensive.

(iv) Share issues are regulated by law.

(b) Difference between

Preference shares (ANY TWO)

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

Ordinary shares (ANY TWO)

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

(c) Rights issue

One for every four held

Current no. of shares	1000 x 1/4
Therefore, new shares issued	250

Issue price per share K300 x no of new shares = K75,000

Double entry:	Debit (K)	Credit (K)
Cash	75,000	
Ordinary share capital (250 x K260)		65,000
Share premium (250 x K40 premium)		10,000

Dividends proposed

Total no. of shares after rights issue	1000 + 250	= 1250 shares
Value of shares	1250 x K260	= K325,000
Dividend proposed	5% x K325,000	= K16,250

Disclosure:

Proposed dividends at the year-end not paid are not adjusted in the Statement of changes in equity.

They are simply disclosed by way of a note to the accounts.