



TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C1: BUSINESS MANAGEMENT

TUESDAY 13 JUNE 2017

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

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**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **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.

**Attempt all five (5) questions**

**QUESTION ONE**

For effective team performance in an organization, managers are adopting the concept of diversity in Human Resource Management.

(a) **Required**

- (i) Explain the concept of managing diversity in human resource (6 marks)
- (ii) Give **four (4)** reasons that have caused diversity. (4 marks)

(b) Competition is a threat to any business organization as it affects profitability of an organization.

**Required:**

As a marketing officer, show how the marketing mix elements can be used to manage competition? (10 marks)

**[Total: 20 Marks]**

**QUESTION TWO**

(a) Discuss how a manager could apply hygiene factors of Herzberg's theory to motivate employees. (10 marks)

(b) State **four (4)** benefits of performance appraisal of employees to both the organisation and employees. (4 marks)

(c) Briefly explain three (3) interests that the government has in a business organisation as a stakeholder. (6 marks)

**[Total: 20 marks]**

**QUESTION THREE**

Peter Chibuye has been running a business of buying and selling beef and pork products as a sole trader, but is now considering partnering with someone in order to expand the business.

**Required:**

(a) Give any **four (4)** disadvantages of a sole trader business and any **four (4)** advantages of a partnership. (8 marks)

As a business expands from a sole trader to a partnership, Peter Chibuye recognises the nature of information flow and use of appropriate forms of communication in business.

**Required:**

- (b) Explain the following direction of information:
- (i) Downwards communication (3 marks)
  - (ii) Upwards communication (3 marks)
  - (iii) Lateral or horizontal communication (3 marks)
- (c) State any three (3) limitations of an interview as a selection method that the Partnership may encounter in the recruitment process. (3 marks)

**[Total: 20 Marks]**

**QUESTION FOUR**

Product life cycle (PLC) recognizes distinct stages in a product's sales history.

**Required:**

- (a) With the aid of a diagram describe the four (4) key stages in the product life cycle. (12 marks)
- (b) State any **four (4)** benefits of training to an employee (4 marks)

Trait theory suggests that there are certain personal qualities (traits) that are common to 'great leaders'.

**Required:**

- (c) Outline any four qualities essential in a leader suggested by trait theories. (4 marks)

**[Total: 20 Marks]**

**QUESTION FIVE**

The operation of an organization is affected by the general and uncontrollable external factors.

**Required:**

- (a) Explain PESTEL factors that influence decision making process in a business (12 marks)
- (b) Briefly explain the following:
- (i) Organisation structure (2 marks)
  - (ii) Limited liability (2 marks)
  - (iii) Centralization (2 marks)
  - (iv) Partnership deed (2 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## **JUNE 2017–BUSINESS MANAGEMENT(C1)**

### **SOLUTIONS**

#### **SOLUTION ONE**

##### **(a) (i) Diversity in Human Resource Management**

Diversity focuses on the multiplicity of differences among employees in the workplace. Individual differences are the basis of diversity among workers that need to be effectively managed for achievement of goals. Management of diversity of employees requires an effective action plan. The concept encompasses differences between individuals such as ethnic regions, age, gender, disability, family status, education, personality etc. which affect workplace relationship and achievement.

Management of diversity may involve the implementation of strategies of network of varied individuals integrated into a dynamic workforce.

##### **(ii) Reasons for diversity**

- Changing social attitudes
- Legislation that deals with equal opportunities
- Demographic changes in the workforce
- Increased globalisation
- Wider customer base

##### **(b) The Marketing Mix Elements.**

These are factors that are manipulated to formulate marketing strategies and decisions. The common factors are product, price, place and promotion, collectively called 4 Ps.

#### **PRODUCT**

As a marketing officer I will improve the existing product to improve sales by improving the quality, packaging, adding new features, producing safe and healthy products.

#### **PRICE**

By reducing the price of the products slightly below what competitors are offering. This can be done through discounts and flexible credit terms.

## **PLACE**

This involves the creation of more distribution channels to ensure that products are made readily available to the target markets. This could involve the engagement of more wholesalers and retailers for the distribution of goods.

## **PROMOTION**

This will involve creation of awareness to customers of the availability of products and the outlets. Promotion involves the activities such as sales promotion, advertising, personal selling and public relations.

## **SOLUTION TWO**

### **(a) Hygiene factors**

These are factors when present remove job dissatisfaction of employees. Examples are:

- i. Interpersonal relations
- ii. Company policy and administration
- iii. Working conditions
- iv. Salary
- v. Job security
- vi. Type of supervision

**Therefore, a manager can apply hygiene factors to motivate employees by:**

#### **(i) Inter-personal relations**

This can be done to motivate employees by interacting and relating well with subordinates.

#### **(ii) Company policy**

Developing policies that are fair and favorable to employees such as human resource policies on grievance, reward and so on.

#### **(iii) Working conditions**

Improving working conditions such as provision of safety clothing, health Services, accommodation, transport and so forth, to employees.

#### **(iv) Salary**

Paying employees a salary that enables to meet the food basket and save some money for investment.

#### **(v) Job security**

Employees must be offered employment contracts to sign that are permanent in nature and if it is a fixed term contract it must be of a

reasonable period to guarantee job security. Also company policies formulated must support job security.

**(ii) Type of supervision**

Managers must, to a larger degree, practice democratic type of leadership that involves the participation of all employees in decision making. This enables employees to contribute effectively towards the success of the organization.

**(b) Benefits of performance appraisal to organization and employees.**

- (i)** It enables the organization achieve its strategic goals.
- (ii)** It enables the organization to produce goods of high quality as per set standards.
- (iii)** It enables the organization to identify the training needs of its employees.
- (iv)** It motivates employees to work hard in order to achieve the given targets.
- (v)** Employees who have outstanding performance are rewarded in terms of salary increment, promotion and so on.

**(c) Interests of government in business organizations**

- (i)** Collection of tax revenue from business organizations through Zambia Revenue Authority (ZRA)
- (ii)** Ensuring that there is creation of employment by the private sector organization.
- (iii)** Ensuring that the business organizations comply with the various laws that govern business operations.

**SOLUTION THREE**

**a) Disadvantages of a sole trader**

- ✓ There is unlimited liability hence the owner is personally liable for the debts of the business.
- ✓ It is difficult for a sole trader to borrow.
- ✓ The survival of the business depends on the owner, therefore the death of the owner may lead to the death of the business.
- ✓ The sole trader may overwork himself or herself
- ✓ Wrong decisions can be made as there is no one to consult

✓ Limited capital for growth

### **Advantages of partnership business**

✓ It is fairly easy to set up

✓ There is combination of skills, knowledge and contacts

✓ There is possible continuity of a business compared to partnership

✓ The tasks of management can be shared

✓ More capital can be raised through capital contribution

#### **b) i) Downward communication**

This is the flow of information from superior to subordinates along the chain of command. It is useful for giving instructions, policy decisions, clarifying goals etc.

#### **ii) Upward communication**

This is the flow of information from subordinates to superiors. This provides management with feedback on performance and results from employees.

#### **iii) Lateral/ Horizontal communication**

This is the flow of information between people of the same rank in the same section or department, or in different section or department. These flows of information encourage coordination and provide emotional support.

### **c) Limitations of interviews**

✓ It's too brief to get to know the candidates in depth required to make an accurate prediction of work performance

✓ Incorrect assessment especially on qualitative factor such as motivation, honesty or integrity etc.

✓ Inexperienced or unskilled interviewers may undermine the process

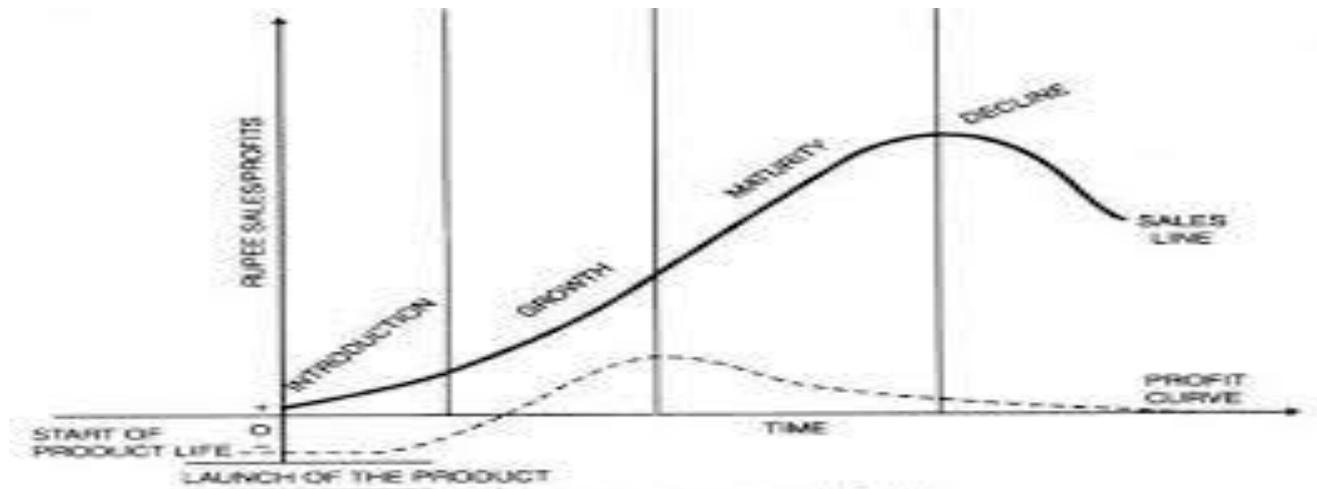
✓ The artificiality of the interviews may make a candidate uncomfortable

✓ Stereotyping

Any three.

## SOLUTION FOUR

### *Diagram showing stages of Product Life Cycle*



#### (a) **Stages of product life cycle**

##### 1. **Introduction stage**

This is the period of slow growth as a product is introduced in the market. Therefore, sales are low and profits are nonexistent in this stage because of heavy expenses of product introduced.

##### 2. **Growth stage**

Product gains acceptance and there is rapid increase in sales and profits. At this stage, competitors may be attracted to enter the industry because of increasing profits.

##### 3. **Maturity stage**

As production and competition increase, sales start to slow down. Therefore at this stage the market is saturated and profits are moderate.

##### 4. **Decline stage**

This is the period when sales starting falling and profits drop. This may be as a result of stiff completion, change in consumer tastes, values and beliefs.

#### (b) **BENEFITS OF TRAINING TO AN EMPLOYEE**

- It enhances the skills of an employee hence an employee becomes more attractive in the labor market
- -it improves employee competence leading to greater self- esteem and confidence
- it meets employee social needs and develops networks of contacts

- -training helps employees do their job better, thereby increasing job satisfaction and lead to possible promotion.

c) Qualities essential in a 'great leader' identified by traits theory are many and some include the following:

- ✓ drive , initiative , integrity ambition , dedication
- ✓energy , decisiveness , objectivity
- ✓fairness, human relations skills , foresight /visionary
- ✓emotional stability and so on.

**Any four of the traits listed above .Accept any other logical trait/quality of leadership.**

## **SOLUTION FIVE**

### **(a) PESTEL FACTORS**

#### **✓Political:**

✓Political factors are concerned with how government intervenes in the business environment through the enactment of laws that require organizations to comply i.e. government policy on privatization of state owned businesses and the stability of the political system.

#### **✓Economical**

This environment consists of the impact of economic variables on business such as interests rates, rate of inflation, foreign exchange rate, rates of taxation, employment levels etc.

#### **✓Social**

The organization operates in an environment that influence the behavior of employees, customers and other stake-holders. The factors that influence the social cultural environment includes the attitudes and values of customers, employees and general public. Influence of religion and religious beliefs, education background , impact of HIV/ AIDS and so forth

#### **✓Technological**

Advancement in technology has resulted into new methods of production, improved customer service through use of ICT e.g internet banking.

#### **✓Ecological**

These factors deal with environmental protection i.e. companies are looking for ways to develop their businesses that protect the environment and to ensure long term sustainability by going green.

✓ **Legal**

This involves the formulation of laws by the government that governs the operations of the business. There are many laws and regulations that affect business such as company law, employment law, health and safety laws, tax laws, environmental laws, law of contract and so forth

(b)

i. **Organization Structure**

Mintzberg defines an organization structure as the total sum of the ways an organization uses to divide its labor into distinct tasks and achieves co-ordination among them.

ii) **Limited liability**

This means that the liability of the owner of the business is limited to the amount invested in the business. Therefore is not personally liable for the debts of the business.

iii) **Centralization**

This is the extent to which people have to refer decisions upwards to their superiors. It is an arrangement where decision making authority is concentrated at the top.

iv) **Partnership Deed**

This is a legal document signed by the partners at the start of business. It clearly spells out the duties, rights, penalties and general functions of partners towards the business. This document in short regulates the way the business is run and it is a point of reference should there be a dispute in the course of running business.

**END OF SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C2: ECONOMICS & FINANCIAL MATHEMATICS

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MONDAY 12 JUNE 2017

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

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9. Formulae are provided in a separate booklet.
10. Graph paper (if required) is provided at the end of the answer booklet.

## **ATTEMPT ALL FIVE (5) QUESTIONS**

### **QUESTION ONE**

- (a) The two main categories of taxes in Zambia are direct taxes and indirect taxes.
- (i) Differentiate between indirect taxes and direct taxes with emphasis on who bears the tax burden in each case. (4 marks)
  - (ii) Give **two (2)** examples for each category of taxes in Zambia. (2 marks)
- (b) Briefly discuss any four (4) factors that influence the level of household consumption in the economy. (8 marks)
- (c) Explain any three (3) measures used by the Zambian central bank to control the growth of money supply. (6 marks)

**[Total: 20 marks]**

### **QUESTION TWO**

- (a) Fiscal stabilization is defined as the government use of its fiscal policy in order to stabilize the economy. Define the following concepts related to economic stabilization policies:
- (i) Output gap (2 marks)
  - (ii) Expansionary gap (2 marks)
  - (iii) Recessionary gap (2 marks)
- (b) Many developing countries have very large and increasing external debts. State and briefly explain any three (3) reasons why it is especially difficult for developing countries to repay loans. (6 marks)
- (c) In international trade, given two countries A and B, justify why the two (2) countries should go ahead trading when country A has a lower opportunity cost than country B in the production of good X and country B has a lower opportunity cost than country A in the production of good Y. (4 marks)
- (d) The Common Market for Eastern and Southern Africa (COMESA) offers its members and partners a wide range of benefits. List down any four (4) benefits that COMESA offers to its members. (4 marks)

**[Total: 20 Marks]**

### **QUESTION THREE**

- (a) A random sample of eight drivers insured with a company and having similar auto insurance policies was selected. The following table lists their driving experience (in years) and monthly auto insurance premiums (in Kwacha).

Driving Experience (X)	5	2	12	9	15	6	25	16
Monthly Auto Insurance Premium (Y)	64	87	50	71	44	56	42	60

- (i) Find the least squared regression line. (8 marks)
- (ii) Interpret the meaning of the values of  $\alpha$  and  $\beta$  calculated in part (i) above. (3 marks)
- (iii) Calculate the coefficient of correlation. (4 marks)
- (b) Total reserves of a non-renewable resource are 250 million tonnes. Annual consumption, currently at 20 million tonnes per year, is expected to rise by 2% a year. After how many years will stocks be exhausted? (5 marks)

**[Total: 20 Marks]**

### **QUESTION FOUR**

- (a) What is a bond? (2 marks)
- (b) Define the following terms related to a bond:
- (i) Face Value (2 marks)
- (ii) Redemption date (2 marks)
- (c) A K1,000 bond that pays interest at 12% is redeemable at par at the end of ten (10) years. Calculate the purchase price to yield 10% compounded semi-annually. (8 marks)
- (d) At a rate of 8% the net present value is K1,400 and a rate of 12% net present value is a loss of K700. Find the internal rate of returns (IRR). (6 marks)

**[Total: 20 Marks]**

### **QUESTION FIVE**

(a) When a new machine is functioning properly, 3% of the item produced are defective. Assuming the number of items follow the binomial distribution find the following probabilities if six items are picked at random.

- (i) No defectives (2 marks)
- (ii) Exactly one defective (2 marks)
- (iii) Two defective (2 marks)
- (iv) At least two defectives. (2 marks)

(b) Let  $X$  be a random variable denoting the percentage change in the cost of living in the following year in Zambia. If  $X$  is normally distributed as:

$$N(9,81).$$

Find  $P(5 \leq X \leq 10)$  (4 marks)

(c) An insurance agent finds that on following up an enquiry the probability of making a sale is 0.4 . If on a particular day the agent has two independent enquiries, what is the probability that he will sell:

- (i) Insurance to both enquiries? (2 marks)
- (ii) Exactly one policy? (3 marks)
- (iii) At least one policy? (3 marks)

**[Total: 20 Marks]**

**END OF PAPER**

**JUNE 2017- ECONOMICS & FINANCIAL MATHEMATICS (C2)**

## SOLUTIONS

### SOLUTION ONE

- (a)
- (i) Direct taxes are those taxes imposed on the income or capital of individuals or companies. The incidence and burden of direct taxes are the same since the person on whom the tax is levied i.e. the person earning the income bears the burden of the tax. Indirect taxes are those imposed on expenditure. The incidence and burden of indirect taxes vary as the tax is levied on the person consuming the product but may also be partly borne by the seller depending on the price elasticity of demand.
  - (ii) Examples of direct taxes in Zambia include personal income tax, company tax, property transfer tax, mineral royalty tax, presumptive tax, and withholding tax. Examples of indirect taxes in Zambia are value added tax (VAT), customs duty, and excise duty.
- (b) There are a number of **factors** influencing the level of household consumption.
- (i) **Level of income and changes in injections into the circular flow of income.** Consumption will depend to a large extent on the present incomes of households. A rise in national income leads to corresponding rises in the incomes of households. This in turn will lead to an increase in consumption.
  - (ii) **Taxation.** If the level of taxation were to rise, the amount available for consumption will fall.
  - (iii) **Changes in the distribution of income.** Households with high incomes tend to have smaller MPCs than households on lower incomes. If there is a redistribution of wealth from high income households to low income households we expect an overall rise in consumption.
  - (iv) **Changes in price expectations.** If prices of certain goods are expected to rise, there will be a tendency for households to bring forward expenditure on these goods, reducing their savings if necessary.
  - (v) The **level of consumer confidence.** Consumption spending will fall sharply if consumer confidence falls. This may happen if households anticipate recession and job losses. Unfortunately by cutting back on their spending households will deepen the recession and help to bring about the job losses they fear.
  - (vi) The **welfare of the population.** In general higher consumption expenditure suggests higher welfare because it indicates that households are enjoying a greater amount of goods and services.
  - (vii) The **rate of interest.** When the rate of interest is high, consumers voluntarily curtail their spending to save more, and when the rate of interest is low, consumers are induced to spend more. There is an inverse relationship between the rate of interest and consumption.
- (c) There are several measures available to the Zambian central bank to control the growth of money supply. Many of these measures aim to influence the ability of the commercial banks to create bank deposits.

Firstly, there **open market operations**. This involves the sale of government securities on the open market by Bank of Zambia. Buyers pay for these securities with cheques drawn on their accounts with commercial banks. Bank of Zambia settles the claims against the commercial banks operational deposits which they are obliged to keep at the Central bank. This reduces the commercial banks' liquidity and their ability to create new bank deposits, curtailing any growth in money supply.

Secondly, government could raise **interest rates** thereby reducing the demand for money due to the rise in the cost of borrowing. Commercial banks will have fewer customers wishing to take out loans and so less money is created.

Thirdly, government could use **direct quantitative controls** to control the supply of money. It stipulates the levels of liquid reserves commercial banks must keep, thereby reducing the monetary base which could be used for lending purposes. Bank of Zambia can even ask commercial banks for special deposits. These are a proportion of commercial banks' liabilities which must be deposited at Bank of Zambia and which cannot be used for money creation purposes.

Finally, government can control the money supply by prudent use of its own **budgetary policy**. By restricting or eliminating the Public Sector Borrowing Requirement (PSBR), it will reduce the need to finance such government borrowing whose means can lead to increase in money supply.

## **SOLUTION TWO**

- (a)
  - (i) Output gap: The difference between the economy's actual output and its potential output at a point in time.
  - (ii) Expansionary gap: a positive output gap which occurs when actual output exceeds potential output.
  - (iii) Recessionary gap: a negative output which occurs when actual output is below potential output.
- (b) Reasons why it is especially different for developing countries to repay loans:
  - (i) Loans are almost always paid in hard currencies; most loans to the developing countries have to be repaid in hard currencies because they are stable which means their value does not change very much. Developing countries have soft currencies, they go down in value. Therefore, when the value of a developing countries' currency goes down the cost of the country's debt also rises. It takes more of the country's own currency to pay back the same amount of hard currency.
  - (ii) The value of a country's exports goes down: the value of the commodities that a developing country exports can go down by large amounts. This makes it much difficult for the country to raise foreign exchange to be able to pay for foreign debt.

- (iii) Refinancing loans get countries into even more troubles: refinancing is when more money is borrowed to pay off earlier loans. In theory, refinancing is a measure to help developing countries with their debt problems and sometimes it does this. However, it does not make good sense to take on new debts in order to service existing debts. If this happens, the result is that countries get deeper and deeper into debt.
- (iv) Countries with perpetual budget deficits. This makes it hard to service external debt as the country contends with domestic programmes to finance
- (c) If country A has a lower opportunity cost in the production of good X and country B has a lower opportunity cost in the production of good Y, this gives a scenario of two countries with country A having a comparative advantage in the production of X and country B having a comparative advantage in the production of Y. This means to produce 1 unit of good X, country A will spend less and to produce 1 unit of good Y, country B will spend less. So country A should specialize and export X and country B should specialize and export Y for their mutual benefit.
- (d) COMESA offers its members and partners a wide range of benefits which include:
  - (i) A wider, harmonized and more competitive market.
  - (ii) Greater industrial productivity and competitiveness.
  - (iii) Increased agricultural production and food security.
  - (iv) A more rational exploitation of natural resources.
  - (v) A more harmonized monetary, banking and financial policies.
  - (vi) More reliable transport and communication infrastructure.

**SOLUTION THREE**

a) Let  $X = \text{Experience}$  and  $Y = \text{Premium}$

X	Y	XY	$X^2$	$Y^2$
5	64	320	25	4096
2	87	174	4	7569
12	50	600	144	2500
9	71	639	81	5041
15	44	660	225	1936
6	56	336	36	3136
25	42	1050	625	1764
16	60	960	256	3600
$\sum X = 90$	$\sum Y = 474$	$\sum XY = 4739$	$\sum X^2 = 1396$	$\sum Y^2 = 27706$

Therefore,

$$\beta = \frac{n \sum XY - \sum X \sum Y}{n \sum X^2 - (\sum X)^2} = \frac{8 \times 4739 - 90 \times 474}{8 \times 1396 - (90)^2} = \frac{-593.5}{383.5} = -1.5476$$

and

$$\alpha = \bar{Y} - \beta \bar{X} = \frac{474}{8} + 1.5476 \left( \frac{90}{8} \right) = 59.25 + 17.4105 = 76.66$$

Hence, the least-squares regression line is

$$y = \alpha + \beta x = 76.66 - 1.5476x$$

(ii) The value of  $\alpha = 76.66$  gives the value of  $\hat{y}$  for  $x = 0$ ; that is, it gives the monthly auto insurance premium for a driver with no driving experience. However, we should not attach much importance to this statement because the sample contains drivers with only two or more years of experience. The value of  $b$  gives the change in  $\hat{y}$  due to a change of one unit in  $x$ . Thus,  $\beta = -1.5476$  indicates that, on average, for every extra year of driving experience, the monthly auto insurance premium decreases by K1.55. Note that when  $\beta$  is negative,  $y$  decreases as  $x$  increases.

(iii)

$$\begin{aligned} r &= \frac{n \sum XY - \sum X \sum Y}{\sqrt{[n \sum X^2 - (\sum X)^2][n \sum Y^2 - (\sum Y)^2]}} \\ &= \frac{(8)(4739) - (90)(474)}{\sqrt{[(8)(1396) - (90)^2][(8)(29642) - (474)^2]}} \\ &= \frac{-4748}{\sqrt{(3068)(12460)}} \\ &= \frac{-4748}{6182.8214} \\ &= -0.7679 \end{aligned}$$

b)

In the first year, consumption will be 20 million tonnes. In the second year, this will rise by 2%, so consumption will be 20(1.02) million tonnes. In the third year, this will again rise by

2% to become  $20(1.02)^2$  million tonnes. The total consumption (in millions of tonnes) during the next  $n$  years will be

$$20 + 20(1.02) + 20(1.02)^2 + \dots + 20(1.02)^{n-1}$$

This represents the sum of  $n$  terms of a geometric series with first term  $a = 20$  and common ratio  $r = 1.02$ , so is equal to

$$20 \left( \frac{1.02^n - 1}{1.02 - 1} \right) = 1000(1.02^n - 1)$$

Reserves will run out when this exceeds 250 million, so we need to solve the equation

$$1000(1.02^n - 1) = 250$$

For  $n$ . This is easily solved using logarithms:

$$(1.02^n - 1) = 0.25 \quad (\text{divide both sides by } 1000)$$

$$1.02^n = 1.25$$

$$n \log 1.02 = \log 1.25$$

$$n = \frac{\log 1.25}{\log 1.02} = 11.27$$

so the reserves will be completely exhausted after 12 years.

#### **SOLUTION FOUR**

1. (a) A bond is a written contract between the borrower and the lender.

(b)(i) Face Value is the amount which is stated on the front of the bond e.g.

K2500, K9000

(ii) Redemption date is the date on which the loan is to be paid

$$(c) \text{ Purchase Price} = F \times r \left[ \frac{1 - (1+i)^{-n}}{i} \right] + C (1+i)^{-n}$$

$$P = 1000 \times 0.06 \left[ \frac{1 - (1+0.05)^{-20}}{0.05} \right] + 1000 (1 + 0.05)^{-20}$$

$$= 60 \left[ \frac{1 - (1.05)^{-20}}{0.05} \right] + 1000 (1.05)^{-20}$$

$$\begin{aligned}
&= 60 [12.46221034] + 1000 (0.37689) \\
&= 747.73 + 376.89 \\
&= K1,124.62
\end{aligned}$$

$$\begin{aligned}
\text{(d) } \text{Irr} &= a\% + \left[ \frac{A}{A-B} \right] (b - a)\% \\
&= 8 + \left[ \frac{1400}{1400 - (-700)} \right] (12 - 8)\% \\
&= \underline{\underline{10.7\%}}
\end{aligned}$$

### SOLUTION FIVE

a. Binomial distribution with  $p = 0.03$  ,  $q = 0.97$  and  $n = 6$ .

$$\begin{aligned}
P(X = 0) &= {}^6C_0 (0.03)^0 (0.97)^6 \\
\text{i.} \quad &= 1 \times 1 \times 0.8330 \\
&= 0.8330
\end{aligned}$$

$$\begin{aligned}
P(X = 1) &= {}^6C_1 (0.03)^1 (0.97)^5 \\
\text{ii.} \quad &= 6 \times 0.03 \times 0.858734025 \\
&= 0.1546
\end{aligned}$$

$$\begin{aligned}
P(X = 2) &= {}^6C_2 (0.03)^2 (0.97)^4 \\
\text{iii.} \quad &= 15 \times 0.0009 \times 0.88529281 \\
&= 0.01195
\end{aligned}$$

$$\begin{aligned}
P(X \geq 2) &= 1 - P(X < 2) = 1 - [P(X = 1) + P(X = 0)] \\
\text{iv.} \quad &= 1 - [0.1546 + 0.8330] \\
&= 1 - 0.9876 = 0.0124
\end{aligned}$$

b)  $X \sim N(9, 81)$

$$\begin{aligned}
P(5 \leq X \leq 10) &= P\left( \frac{5-9}{9} \leq Z \leq \frac{10-9}{9} \right) = P\left( \frac{-4}{9} \leq Z \leq \frac{1}{9} \right) \\
&= P(-0.44444 \leq Z \leq 0.11111) \\
&= \Phi(0.44444) + \Phi(0.11111) - 1 \\
&= 0.6700 + 0.5438 - 1 = 0.2138
\end{aligned}$$

(c) Let the two independent enquiries be  $A$  and  $B$

(i) with two independent enquiries  $A$  and  $B$  :

$$\begin{aligned}P(A \cap B) &= P(A) \times P(B) \\ &= 0.4 \times 0.4 \\ &= 0.16\end{aligned}$$

(ii) We compute

$$\begin{aligned}P(\text{exactly one}) &= P(A \cap \bar{B}) + P(\bar{A} \cap B) \\ &= P(A)P(\bar{B}) + P(\bar{A})P(B) \\ &= 0.4 \times 0.6 + 0.6 \times 0.4 \\ &= 0.48\end{aligned}$$

(iii)

$$\begin{aligned}P(\text{at least one enquiry}) &= 1 - P(\text{no enquiry}) \\ &= 1 - (0.6 \times 0.6) \\ &= 0.64\end{aligned}$$

**END OF SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C3: ACCOUNTANCY FOR TAX PRACTITIONERS

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MONDAY 12 JUNE 2017

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

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**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **Cell Phones** are **NOT** allowed in the Examination Room.
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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.

**Attempt all five (5) questions in this paper**

**QUESTION ONE**

On 1 January 2015, Madoda Ltd purchased 80% of the equity share capital of Kachepa Ltd for a cash consideration of K6.2m, when the retained profits of Kachepa Ltd were K1.8m. At the time of acquisition, the fair of the net assets of Kachepa Ltd were the same as the carrying values. The Non-controlling Interest is accounted for using the proportionate share of the net asset.

The following financial statements are available for the two companies as at 31 December 2016.

**Statement of Financial Position – 31 December 2016**

	<b>Madoda Ltd</b>		<b>Kachepa Ltd</b>	
	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
<b>Assets</b>				
<i>Non-current assets:</i>				
Property, plant and equipment	8,500		4,800	
Investments	6,200		-	
Brands	<u>1,000</u>		<u>600</u>	
Total non-current assets		15,700		5,400
<i>Current assets:</i>				
Inventory	2,300		2,100	
Receivables	1,750		1,210	
Cash	<u>1,050</u>		<u>920</u>	
Total current assets		<u>5,100</u>		<u>4,230</u>
Total assets		<u>20,800</u>		<u>9,630</u>
<b>Equity and Liabilities</b>				
Ordinary share capital (K1)	10,200		3,750	
Retained profit	<u>6,110</u>		<u>3,150</u>	
Total equity		16,310		6,900
Non-current liabilities		2,750		1,500
<i>Current liabilities:</i>				
Payables	910		750	
Taxation	<u>830</u>		<u>480</u>	
Total current liabilities		<u>1,740</u>		<u>1,230</u>
Total Equity and Liabilities		<u>20,800</u>		<u>9,630</u>

**Additional information**

1. The goodwill on the acquisition of Madoda Ltd is to be impaired by 25% during the year to 31 December 2016.
2. Kachepa Ltd sold goods to Madoda Ltd during the year for K900,000 charging a profit margin of 30%. Half of these goods still remain in the inventory of Madoda Ltd at 31 December 2016.

**Required:**

Prepare a consolidated statement of Financial Position of Madoda Ltd as at 31 December 2016.

**[Total: 20 Marks]**

**QUESTION TWO**

You have just completed your Professional Diploma in Taxation and have been invited to attend an interview by one of the tax firms, Musonko Consulting.

As part of the interview, you are required to produce brief notes on the following accounting concepts:

- |       |                   |           |
|-------|-------------------|-----------|
| (i)   | Business entity.  | (4 marks) |
| (ii)  | Going concern.    | (4 marks) |
| (iii) | Materiality.      | (4 marks) |
| (iv)  | Accruals.         | (4 marks) |
| (v)   | Money measurement | (4 marks) |

**[Total: 20**

**Marks]**

**QUESTION THREE**

Chengelo and Yatsani are two companies operating in a similar market. Your manager has asked you to help her review the performance of both companies using their financial statements which are summarized below:

Statements of profit or loss accounts for the year ended 31 December 2016:

	<b>Chengelo</b>	<b>Yatsani</b>
	<b>K'000</b>	<b>K'000</b>
Sales	23 800	24 000
Cost of sales	<u>17 850</u>	<u>16 800</u>
Gross profit	5 950	7 200
Expenses	<u>2 500</u>	<u>4 800</u>
Profit before tax	3 450	2 400
Income tax expense	<u>900</u>	<u>600</u>
Profit for the year	<u>2 550</u>	<u>1 800</u>

Statements of Financial position as at 31 December 2016:

	<b>Chengelo</b>		<b>Yatsani</b>	
	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>	<b>K'000</b>
<b>Assets</b>				
Tangible non-current assets		15 000		24 000
Current assets				
Inventory	500		1 200	
Trade receivables	2 000		600	
Cash	<u>100</u>		<u>-</u>	
		<u>2 600</u>		<u>1 800</u>
		<u>17 600</u>		<u>25 800</u>

	K'000	K'000	K'000	K'000
<b>Equity and liabilities</b>				
Capital and reserves				
K1 ordinary shares		12 000		20 000
Revenue reserves		<u>3 625</u>		<u>3 995</u>
		<u>15 625</u>		<u>23 995</u>
<b>Non-current liabilities</b>				
Loan note		300		1 000
<b>Current liabilities</b>				
Trade payables	775		150	
Bank overdraft	-		55	
tax	<u>900</u>		<u>600</u>	
		<u>1 675</u>		<u>805</u>
		<u>17 600</u>		<u>25 800</u>

**Required:**

(a) Calculate the following profitability and liquidity ratios for both companies:

- (i) Gross profit percentage
- (ii) Net profit percentage
- (iii) Earnings per share
- (iv) Return on capital employed
- (v) Current ratio
- (vi) Acid test ratio

(12 marks)

(b) Financial ratios in themselves do not mean much unless they are interpreted and compared.

**Required:**

- (i) List any **three (3)** basis for comparison of financial ratios.
- (ii) Briefly explain any **five (5)** limitations of financial ratios.

(8 marks)

**[Total: 20**

**Marks]**

**QUESTION FOUR**

Micky and Bright were in partnership as manufacturers of engineering components. They shared profits and losses in the ratio of 3:1 respectively, but Bright received in addition, an annual salary of K4,600 because he was engineering works manager as well as having his normal partnership duties.

The following were the balances in the financial books as at 1 January 2016:

	<b>K</b>
Freehold premises	20 000
Trade Receivables	8 000
Bank overdraft	5 900
Office rent and rates owing	350
Inventories:- Raw materials	3 500

Finished goods	7 500
Trade payables	6 000
Plant and machinery at cost	15 000
Motor vehicles at cost	8 000
Allowances for Depreciation:	
Plant and machinery	7 000
Motor vehicles	2 500
Cash Account	1 500
Advertising paid in advance	250
Capital Balances: Micky	28 000
Bright	14 000

For the financial year ended 31 December 2016; the following information was available:

1. Finished goods were sold at 25% above the trading cost of sales. (All goods were manufactured in the business).

2. Monthly drawings had been made as follows:-

Micky	K7, 350
Bright	K5, 250

3. Depreciation for the year had to be provided as follows:

Plant and machinery at 20% on cost  
Motor vehicles at 20% on reducing balance basis.

4. Adjustments for expenses necessary at 31 December 2016 were:

In arrears – Direct manufacturing wages	K800
Office salaries	K100
Printing and stationery	K 60
In advance – Office rent and rates	K150

5. Inventory of finished goods at 31 December 2016 was K12,000.

6. Payments made during the year

	<b>K</b>
Vehicles expenses	1 250
Advertising	100
Bank overdraft interest	520
Printing and stationery	120
Office rent and rates	2 000
Office salaries	2 500
Distribution salaries	6 000

7. Other balances of accounts at 31 December 2016 were:

**K**

▪ Cost of goods manufactured during the year (i.e balance on the manufacturing account which has already been prepared).	124 500
▪ Inventories of raw materials	8 400
▪ Trade receivables	5 000
▪ Trade payables	4 700
▪ Bank overdraft	7 600
▪ Cash	1 210

**Required:**

- (a) Prepare the partnership's Income statement and the appropriation statement for the year ended 31 December 2016. (12 marks)
- (b) Prepare a statement of financial position as at 31 December 2016 for the partnership. (8 marks)

**[Total 20**

**Marks]**

**QUESTION FIVE**

You have just been employed as a new Assistant Accountant for Pam Ltd. On your first day of reporting, you discovered that no bank reconciliations were made for the past three (3) months. When you tried to inquire from Jane (your subordinate) why no reconciliations were made for the past months, she said that it was not necessary because she was able to get the bank balance from the bank by calling them any time she needed it.

**Required:**

- (a) Explain **four (4)** reasons for preparing a bank reconciliation statement. (4 marks)
- (b) On 31 December 2015, Pam Ltd Company bank column of the cash book showed a positive balance of K6, 500,000 while the bank statement showed a credit balance of K6,720,000 on the account

Upon investigations the following month, the following errors were discovered:

- (1) An opening debit balance on 1 December 2015 was overcast by K100, 000.
- (2) A standing order of K50, 000 for water bills was recorded on the bank statement but no entry was made in the cash book.
- (3) Dividends received in the month from Howard Ltd Company of K500, 000 were credited by the bank but no entries were made in the cash book.
- (4) A cheque drawn and paid to Mr. Kalaba of K350, 000 had not been presented to the bank for payment.
- (5) Bank charges of K80, 000 shown on the bank statement had not been entered in the cash book.
- (6) A cheque received from M Kalunga of K300, 000 was dishonored by the bank due to insufficient funds. No entry was made in the cash book.
- (7) A cheque received from Zeba Ltd totaling K400,000 had been entered in the cash book and paid into the bank, but had not been credited by the bank until 20 January.
- (8) A receipt of K150, 000 was shown as a payment in the cash book.

**Required:**

- (i) Prepare a revised cash book as at 31 December 2015. (10 marks)
- (ii) Prepare a bank reconciliation statement as at 31 December 2015, starting with the balance as per revised cash book. (6 marks)

**[Total: 20**

**Marks]**

**END OF PAPER**

**JUNE 2017-ACCOUNTANCY FOR TAX PRACTITIONERS (C3)**

**SOLUTIONS**

**SOLUTION ONE**

**Consolidated Statement of Financial Position – 31<sup>st</sup> December 2016  
Madoda Ltd**

	K'000	K'000
<b>Assets</b>		
Non-current asset;		
Property, plant and equipment (8,500 + 4,800)	13,300	
Goodwill (w1)	1,320	
Brands (1,000 + 600)	<u>1,600</u>	
Total non-current assets		16,220
Current assets;		
Inventory (2,300 +2,100 – 135)	4,265	
Receivables (1,750+1,210)	2,960	
Cash and cash equivalents (1,050 +920)	<u>1,970</u>	
Total current assets		<u>9,195</u>
Total assets		<u>25,415</u>
<b>Equity and Liabilities</b>		
Ordinary share capital (K1)	10,200	
Retained profit	<u>6,642</u>	
Total equity due to Parent	16,842	
Non-controlling Interest	<u>1,353</u>	
Total equity		18,195
Non-current liabilities (2,750 +1,500)		4,250
Current liabilities;		
Payables (910 +750)	1,660	
Taxation (830 +480)	<u>1,310</u>	
Total current liabilities		<u>2,970</u>
Total Equity and Liabilities		<u>25,415</u>

### Working 1 – Goodwill on acquisition of Kachepe Ltd

	K'000
Investment	6,200
NCI (20% x 5,550)	1,110
Total	7,310
Net assets acquired (3,750+1,800)	(5,550)
Goodwill	1,760
Impairment (25% x 1,760)	<u>(440)</u>
Goodwill at 31/12/2016	<b><u>1,320</u></b>

### Working 2 – Unrealised profits

$900 \times 30\% \times 0.5$  (half) = 135  
 Treatment; Dr NCI (20% x 135) by 27  
             Dr Group profit (80% x 135) by 108  
             Cr Group inventory by 135

### Working 3 – NCI calculation

	K'000
NCI at date of acquisition	1,110
Share of profit of Kachepe (3,150 – 1,800) x 20%	270
Share of Impairment (0.2x440)	88
Share of URP	(27)
NCI at 31 <sup>st</sup> December 2016	<b><u>1,265</u></b>

<b>Working 4 – Group retained profits</b>	<b>K'000</b>
Parent – Madoda	6,110
Share of profit of Kachepa (3,150 – 1,800) x 80%	1,080
Share of impairment (440x0.8)	(352)
Share of URP	(108)
Profits at 31 <sup>st</sup> December 2016	<b>6,730</b>

### **SOLUTION TWO**

(i) Business Entity concept

The transactions undertaken by a business are regarded as completely distinct from those undertaken by its owners or managers.

This is the case regardless of the legal position. (A company is a separate legal entity, whereas a business of a sole trader or a partnership is not legally separate from its owners). Example: if a sole trader takes inventory from the business or their personal use, the trader has effectively purchased the goods from the business and the transaction must be recorded as drawings.

(ii) Going Concern Concept

Here it is assumed that the business will continue in operational existence for the foreseeable future and there is no intention or necessity to liquidate the scale of operations.

Example: The assets of a business are included in the accounts at historical cost or (in some cases) at current value. This would not be appropriate if the business were not a going concern.

(iii) Materiality concept

An item is material if its omission or misstatement could influence the economic decisions taken by persons using the financial statements.

Materiality is the principle that financial statements should separately disclose items which are significant or important in the context of the financial statements as a whole.

(iv) Accruals concept

This concept requires that revenue and costs are recognized as they are earned or incurred, not when the money is received or paid.

They must be matched with one another so far as their relationship can be established or justifiably assumed and dealt with in the income statement of the period to which they relate.

(v) Money Measurement concept

Accounting is only concerned with those facts that can be measured in monetary terms with a fair degree of objectivity.

This means of recording information is by translating it into the common language of money.

### SOLUTION THREE

(a) Profitability Ratios

		<b>Chengelo</b>	<b>Yatsani</b>
(i) Gross profit percentage:	$\frac{\text{Gross profit} \times 100}{\text{Sales}}$	$\frac{5\,950 \times 100}{23\,800}$ 25%	$\frac{7200 \times 100}{24\,000}$ 30%
(ii) Net profit percentage:	$\frac{\text{Net Profit} \times 100}{\text{Sales}}$	$\frac{2,550 \times 100}{23\,800}$ 10.7%	$\frac{1,800 \times 100}{24\,000}$ 7.5%
(iii) Earnings per share:	$\frac{\text{Net profit after tax}}{\text{No. of ordinary shares}}$	$\frac{2\,550}{12\,000}$ 21n.	$\frac{1\,800}{20\,000}$ 9n
(iv) Return on capital employed:	$\frac{\text{profit before tax}}{\text{Capital employed}}$	$\frac{3,450 \times 100}{15\,925}$ 21.7%	$\frac{2,400 \times 100}{24\,995}$ 9.6%
(v) Liquidity ratios			
Current ratio:	$\frac{\text{Current Assets}}{\text{Current liabilities}}$	$\frac{2\,600}{1\,675}$ 1.6:1	$\frac{1\,800}{805}$ 2.2:1
(vi) Acid test ratio:	$\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$	$\frac{2\,600 - 500}{1\,675}$ 1.3:1	$\frac{1800 - 1200}{805}$ 0.7:1

- (b) (i) - Past periods  
 - Planned performance/budget  
 - Other businesses in the same industry
- (ii) - Inflation adjustments need to be made  
 - They have to be compared  
 - In themselves they are meaningless  
 - Ratios are not definitive  
 - Interpretation needs careful analysis

### SOLUTION FOUR

Workings:

- (i) Cost of Inventory sold.

**K**

Cost of inventory of finished goods	7 500
Cost of inventory manufactured	<u>124 500</u>
	132 000
Less closing inventory	<u>12 000</u>
Cost of inventory sold	<u>120 000</u>
∴ Sales value 1.25 x 120 000	<u>150 000</u>

- (ii) Depreciation on plant and machinery 20% x 15 000 = K3 000  
 Depreciation on plant motor vehicles 20% x 5 500 = K1 100

(iii) Office Rent and Rates Account

Bank	2 000	Opening balance b/f	350
		Income statements (bal.figure)	1 500
		Balance c/d	<u>150</u>
	<u>2 000</u>		<u>2 000</u>

(iv) Current Accounts

	<b>Micky</b>	<b>Bright</b>		<b>Micky</b>	<b>Bright</b>
Drawings	7350	5250	Share of profit	6675	2225
Balance c/d	-	1 575	Partnership sale		4 600
	<u>7350</u>	<u>6825</u>	Balance c/d	<u>675</u>	<u>6825</u>
				<u>7350</u>	<u>6825</u>

(a) Statement of Profit or Loss Account for the year ended 31<sup>st</sup> December 2016

	<b>K</b>	<b>K</b>
Sales (1.25 x 120 000)		150 000
Opening inventory	7 500	
Cost of production	<u>124 500</u>	
	132 000	
Closing inventory	(12 000)	
Cost of sales		<u>120 000</u>
∴ Gross Profit		30 000
Less: Office rent and rated (2 000 – 350 – 150)	1 500	
Vehicles expenses	1 250	
Advertising (250 + 100)	350	
Interest on Bank overdraft	520	
Printing and stationery (120 + 60)	180	
Office salaries (2 500 + 100)	2 600	
Distribution salaries	6 000	
Depreciation on motor vehicles (1100+3000)	<u>4 100</u>	<u>(16 500)</u>
		13 500
Less: B's salary		<u>(4 600)</u>
		8 900

∴ Share of residual profit  $M \frac{3}{4} \times 8 900 =$  6675

$$B \frac{1}{4} \times 8\,900 = 2225 \quad (8,900)$$


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(b) Statement of financial position as at 31<sup>st</sup> December 2016

<u>Non-Current Assets:</u>	<b>Cost</b>	<b>Accum'd Department</b>	<b>NBV</b>
Freehold premises	20 000	-	20 000
Plant and machinery	15 000	10 000	5 000
Motor vehicles	<u>8 000</u>	3 600	<u>4 400</u>
	43000	13600	29 400
 <u>Current Assets:</u>			
Trade receivables		5 000	
Inventories: Raw materials		8 400	
Finished goods		12 000	
Cash		1 210	
Prepaid office rent and rates		<u>150</u>	<u>26 760</u>
			<u>56 160</u>
 <u>Financial by:</u>			
Capitals Micky	28 000 – 675	27 325	
Bright	14 000 + 1 575	15 575	42 900
 <u>Current liabilities:</u>			
Bank overdraft		7 600	
Trade payables		4 700	
Accrued manufacturing wages	800		
Accrued office salaries	100		
Accrued printing and stationery	<u>60</u>	<u>960</u>	<u>13 260</u>
			<u>56 160</u>

**SOLUTION FIVE****a) Four(4) reasons for preparing a bank reconciliation statement**

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

**b) (i) Pams Ltd Revised Cash Book**

Date	Details	K'000	Date	Details	K'000
2015			2015		
31/12	Balance b/d	6,500	1/12	Overcast balance b/d	100
31/12	Credit transfer	500	31/12	Standing order	50
31/12	Error in cash book		31/12	Bank charges	80
300			31/12	Dishonored cheque	300
			31/12	Balance c/d	6,770
					<u>7,300</u>
		<u>7,300</u>			

**B(ii) Pams Ltd Bank Reconciliation Statement as at 31 Dec 2015**

	<b>K'000</b>
Balance as per revised cash book	6,770
Add: Unpresented Cheques: Kalaba	<u>350</u>
	7,120
Less: Uncredited cheques: Zeba Ltd	<u>(400)</u>
Balance as per Bank Statement	<b>6,720</b>

**END OF SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C4: DIRECT TAXES

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THURSDAY 15 JUNE 2017

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

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**INSTRUCTIONS TO CANDIDATES**

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7. All workings must be done in the answer booklet.
8. Present legible and tidy work.
9. Graph paper (if required) is provided at the end of the answer booklet.
10. A taxation table is provided on pages 2, 3 and 4 of this paper.

**TAXATION TABLE FOR CHARGE YEAR 2017**

## 1. Individual Income Tax Rates

(a) <b>Income band</b>	<b>Taxable amount</b>	<b>Rate</b>
K1 to K39,600	first K39,600	0%
K36,601 to 49,200	next K9,600	25%
K49,201 to K74,400	next K25,200	30%
Over K74,400	Balance	37.5%

(b) <b>Income from farming for individuals</b>		
K1 to K39,600	first K39,600	0%
Over K39,600		10%

## 2. Company Income Tax rates

On income from manufacturing and other	35%
On income from farming	10%

## 3. Capital Allowances

### (a) **Implements, plant and machinery and commercial vehicles:**

Wear and Tear Allowance –	Plant used normally	25%
	Used in Manufacturing, Leasing	50%
	Farming	100%

### (b) **Non-commercial vehicles**

Wear and Tear Allowance	20%
-------------------------	-----

### (c) **Industrial Buildings:**

Wear and Tear Allowance	5%
Initial Allowance	10%
Investment Allowance	10%

### (d) **Low Cost Housing (Cost up to K20,000)**

Wear and Tear Allowance	10%
Initial Allowance	10%

### (d) **Commercial Buildings**

Wear and Tear	2%
---------------	----

Allowance

**(e) Farming Allowances**

Development Allowance	10%
Farm Works Allowance	100%
Farm Improvement Allowance	100%

**4. Presumptive Taxes**

3%

**(b) Presumptive tax for transporters**

Seating capacity	Tax per annum	Tax per day
	K	K
Less than 12 passengers and taxis	600	1.60
From 12 to 17 passengers	1,200	3.30
From 18 to 21 passengers	2,400	6.60
From 22 to 35 passengers	3,600	10.00
From 36 to 49 passengers	4,800	13.00
From 50 to 63 passengers	6,000	16.40
From 64 passengers and over	7,200	19.70

**5. Property Transfer Tax**

Rate of Tax on Realised Value of property other than mining rights	5%
Rate of Tax on Realised Value on a transfer or sale of a mining right	10%

**6. Value Added Tax**

Registration threshold	K800,000
Standard Value Added Tax Rate (on VAT exclusive turnover)	16%

**7. Customs and Excise**

**Duty rates on:**

- (i) Motor cars and other motor vehicles (including station wagons) principally designed for the transport of less than ten persons, including the driver:**

**Customs Duty:** 30%

**The minimum amount of Customs Duty on Motor Vehicles in categories from (i) up to (iii) above is K6,000**

	<b>Excise Duty:</b>	
	Cylinder capacity of 1500 cc and less	20%
	Cylinder Capacity of more than 1500 cc	30%
(ii)	<b>Pick-ups and trucks/lorries with gross weight not exceeding 20 tones:</b>	
	Customs Duty	15%
	Excise Duty	10%
(iii)	<b>Buses/coaches for the transport of more than ten persons</b>	
	<b>Customs Duty:</b>	15%
	<b>Excise Duty:</b>	
	Seating Capacity of 16 persons and less	25%
	Seating Capacity of 16 persons and more	0%
(iv)	<b>Trucks/lorries with gross weight exceeding 20 tonnes</b>	
	Customs Duty:	15%
	Excise Duty:	0%

**Attempt all five (5) questions**

## **QUESTION ONE**

Che Mwana Plc was incorporated 10 years ago and trading as a manufacturer of kitchen products. It prepares its accounts as at 31 December of each year.

The results for the year ended 31 December 2017 showed that the net profit before taxation was K53,950. The following additional information was provided.

1. The net profit was arrived at after taking into account the following investment income:

K	
Bank interest (net)	28,900
Debenture interest (gross)	23,000
Dividends from Zambian Company	5,000
Royalties (net)	17,000

2. The salaries and wages account reveals the following:

	K
Employer's contributions to NAPSA	70,000
Misappropriation of funds by director	200,000
Statutory redundancy payments	360,000

3. Miscellaneous expenses include the following items:

	K
Donation to Democratic Party (DP)	7,000
Manufacturers' Trade Association subscriptions	100,000
Golf club subscriptions	3,500
Interest on late payment of tax	8,750
Donation to Reformed Church in Zambia (RCZ)	25,000
Fees for training at college	40,000

4. The analysis of legal charges shows the following accounts:

	K
Debt recovery	3,500

Legal costs of defending action for breach of contract	10,000
Fine for breach of health and safety at work regulations	6,000
Sale of property May 2017	1,000
Preparation of service agreement for Sales Director	15,000

5. The entries in the bad debts account are set out below:

	K		K
Bad debts written off	20,000	General provision b/f	112,500
Loan to employee written off	135,000	Bad debts recovered	37,500
General provision c/f	<u>175,000</u>	Profit or loss	<u>180,000</u>
	<u>330,000</u>		<u>330,000</u>

6. Depreciation charge for the year for assets which were used during the year amounted to K10,850.

7. Entertaining and gifts were made up as follows:

	K
Entertaining suppliers	24,500
Staff Christmas party	134,000
Calendars bearing company names costing K80 each	8,000

8. The company purchased the following assets qualifying for capital allowances: K

Toyota Harrier (latest model)	85,000
Manufacturing equipment	300,000
Toyota Land Cruiser	200,000

The Toyota Land Cruiser was bought on 1 January 2016 and was sold for K190,000 on 15 March 2017. It was replaced by the Toyota Lexus 2015 model which was acquired at a cost of K280,000. The Toyota Lexus has a cylinder capacity of 3000cc and the Harrier has a cylinder capacity of 2200 cc. The two vehicles were used by the Finance Director and Human Resources Director respectively as personal to holder cars.

9. The final dividend of K15,000 for the year ended 31 December 2016 was paid in March, 2017 and an interim dividend of K6,000 for the year to December 2017 was paid in October 2017.

**Required:**

- (a) Calculate the capital allowances to be claimed by Che Mwana Plc for the tax year 2017. (5 marks)
- (b) Calculate the tax adjusted business profit of Che Mwana Plc for the tax year 2017. (10 marks)
- (c) Calculate the final income tax payable by Che Mwana Plc for the tax year 2017. (5 marks)

**[Total: 20 Marks]**

**QUESTION TWO**

- (a) State the factors Zambia Revenue Authority (ZRA) uses to determine the residence of the company for tax purposes. (3 marks)
- (b) The following situations are given to you as a Diploma in Taxation student:
- (i) Trade Queens Ltd is a company that is incorporated in Zambia. The Board of Directors meets every week in a country called Muzo where the company has several branches. In Zambia the company has only the head office. (3 marks)
- (ii) Good Steel Limited is a company that is incorporated in a country called Democratic Republic of Zema. The company's Board of Directors holds weekly meetings in a country called Hindu. The company has the highest number of branches than in Hindu, and in the Democratic Republic of Zema. (3 marks)
- (iii) Tusole Tea Estates is a company that is engaged in the growing of citrus fruits. The company was incorporated in a country called Tseba, but has only one branch in Zambia. The Board of Directors holds its weekly meetings in Zambia while in Tseba, meetings are only held at least once in a year. (3 marks)
- (iv) Jamuka is a company incorporated in Luba - Lunda where it's Board of Directors meets every week. The company has only a few branches in Zambia and meetings are held only once every year in the Zambian capital Lusaka. (3 marks)

**Required:**

Explain whether each of the above companies should be treated as a resident in Zambia for tax purposes.

- (c) Persons who are not resident in Zambia are exempt from Zambian Income Tax. However, certain persons are exempt from Zambian Income Tax although they are resident and ordinarily resident in Zambia.

**Required:**

State any **five (5)** persons exempt from paying Income Tax in Zambia.

(5 marks)

**[Total: 20 Marks]**

**QUESTION THREE**

Peter Kausoko retired from employment on 31 May 2017 from Bonanza Limited where he was employed for 15 years as the Marketing Manager. Peter Kausoko's contract of employment provided for the following:

	<b>K</b>
Annual Salary	360,000
Monthly Entertainment allowance	5,000
Monthly utility allowance	3,000

Annual transport allowance is 5% of basic pay and annual housing allowance is 15% of basic pay.

During the tax year 2017, he also received a refund of medical bills he incurred in the month of April 2017 amounting to K13, 000. His accrued leave pay amounted to K60, 000. He made NAPSA contributions of 5% of his gross pay. His other payments in the tax year 2017 included Trade Union contributions which amounted to K4,800, life assurance premiums of K7,200, school children educational fees totaling K4,500 and subscriptions to the Institute of marketing amounting to K1,800. PAYE deducted from his salary amounted to K330, 446.

On his retirement on 31 May 2017, his employer made the following additional payments:

	<b>K</b>
Repatriation pay	120,000
Pension from an approved pension fund	900,000
Accrued service bonus	200,000
Severance pay	130,000

Peter Kausoko has successfully run a retail business for many years. In the year ended 31 December 2017, he made a net profit as per accounts of K1,120,000 from turnover of K2,100,000. The net profit was arrived at after deducting the following expenses:

1. Motor car running expenses which amounted to K24,000 in respect of his private motor car which is partly used for business purposes. During the year ended 31 December 2017, he drove a total of 16,000 kilometres, out of which 10,000 kilometres were for private journeys.

2. Professional fees amounting to K140,000 consisting of K87,000 for accountancy services, K3,000 for fees in connection with the preparation of a

personal tax computation and K50,000 for trade debt collection.

3. Property expenses amounting to K19, 200. He lives in a flat that is situated above the shop, and one-third of the total property expenses relate to this flat.

4. During the year ended 31 December 2017 he took goods out of the business for personal use without paying for them, and no entry has been made in the accounts to record this. The goods cost K5,000 and he makes a mark-up of 20% on the cost of sales.

5. General expenses of K320,000 which includes K800 for a fine in respect of breach of health and safety regulations, K1,000 for a donation to a political party, advertising expenses amounting to K27,000, shop repairs amounting to K221,200 and depreciation of K70,000.

6. Salaries for employees amounting to K77, 200. This amount includes his nominal salary of K24, 000.

Kausoko uses his private telephone to make business calls. Telephone expenses for the year to 31 December 2017 amounted to K13, 000 and have not been included in the computation of the net profit figure given above. It has been agreed with the Commissioner General that 80% of the telephone expenses related to business calls, whilst capital allowances for the year ended 31 December 2017 have been determined to be K51,000.

**Required:**

Calculate the income tax payable by Peter Kausoko for the tax year 2017.

**[Total: 20 Marks]**

**QUESTION FOUR**

(a) Mr. Daniel Banda intends to set up a transportation business. He will buy six (6)

Rosa buses, each with a sitting capacity of thirty six (36) passengers, at a cost of K900,000 each. He will hire out three of the buses to three different companies

which he has identified, at K250,000 per month for each bus. The remaining three

buses will be used for public passenger transportation and will earn K900 per day each, for six working days per week, for four weeks per month, throughout the tax year 2017.

Banda will employ six drivers to whom he will be paying monthly salaries of K4,500 each. The bus running expenses will average K2,800 for each bus per month. Each driver will make a NAPSA contribution of 5% of their salary and Mr. Banda will also contribute 5% of each driver's salary to NAPSA as employer's contribution.

**Required:**

Calculate the presumptive tax payable by Mr. Daniel Banda for the year ended 31 December 2017.

(2 marks)

(b) Kalunga intends to commence in business on 1 January 2017 trading as Kalunga and Co. He expects his turnover to be in the range of K280,500 per annum, with revenue expenditure of approximately K75,000 per annum. All of the supplies that Kalunga will make are exempt supplies for Value Added Tax purposes. He will purchase equipment at a cost of K48,000 on 1 January 2017 for exclusive use in his business. This equipment will be replaced in three years' time.

Today's date is 1 December 2016.

**Required:**

Calculate the turnover tax and explain any taxation implications of Kalunga's activities for the tax year 2017. (8 marks)

(c) Muke intends to commence in business preparing accounts to 31 May each year. He will commence the first trading on 1 September 2013 and he will prepare accounts for the nine months period to 31 May 2014, producing a tax adjusted profit of K20,000, there after he will prepare accounts to 31 May 2015 and 2016 , producing tax adjusted profit figures of K80,000 and K120,000 respectively.

After 31 May 2016, he will change the accounting date to 31 December and prepare the next accounts for the seven months to 31 December 2016 producing a tax adjusted profit figure of K56,000.

He will prepare the next accounts for the year ending 31 December 2017 producing a tax adjusted profit figure of K130,000.

**Required:**

Advice Muke the amounts that will be chargeable to income tax in respect of his trade for the tax years 2013,2014,2015,2016 and 2017. (10 marks)

**[Total: 20 Marks]**

**QUESTION FIVE**

Mr. Grey Banda is self-employed who runs a business and has a flat that accommodates himself and his family on top of the business building. He always prepares accounts to 31 December each year and for the year ended 31 December 2017, his income statement was as follows:

	K	K
Gross profit		668,000

***Less expenses:***

Depreciation	54,500	
Electricity (note 1)	29,800	
Water (note 1)	15,400	
Motor car running expenses (note 2)	45,000	
Wages and salaries (note 3)	85,000	
Sundry expenses (note 4)	<u>43,200</u>	
		<u>(272,900)</u>
Net profit		<u>395,100</u>

### **Note 1 – Private accommodation**

Banda lives in a flat on top of the business building. It has been agreed with the Commissioner General that 15% of the expenditure on electricity and water relates to the private accommodation.

### **Note 2 – Motor Car running expenses**

During the year ended 31 December 2017, Banda drove a total of 21,000 kilometres of which it has been agreed with the Commissioner General that 14,000 kilometres were for business purposes.

### **Note 3 – Wages and salaries**

Included in the figure for wages and salaries of K85,000 is the annual salary of K12,000 paid to Mr. Banda's son. The son works in the business shop on a full time basis. Other full time employees who work with Banda's son are each paid an annual salary of K9,600.

### **Note 4 – Sundry expenses**

Included in the figure for sundry expenses of K43,200 is a fine of K1,250 for failing to fit security bars in the shop, contrary to the law, theft of cash by an employee amounting to K250, a donation to a political party of K900 and a subscription to a trade associate of K950.

### **Note 5 – Goods taken for personal use**

Banda withdraws each week goods from the business for personal and family use without making payments for them. He has estimated that the weekly drawings have an average of K56. His gross profit is 20% of sales revenue.

### **Note 6 – Capital allowances**

The only asset owned by Banda is his Motor Car. On 1 January 2017, the motor car had an income tax value of K15,000. The motor car was acquired for K25,000.

### **Other Income**

I. Banda lectures on a part time basis at a nearby private college. For the tax year 2017, he was paid a gross salary of K16,000. Income Tax deducted from his salary under the Pay As You Earn system is K6,400.

- II. During the tax year 2017, Banda received royalties of K8,500, and Dividends from Zambian companies of K2, 550. These figures represent the actual cash received by Banda.
- III. On 1 July 2017, Banda also received management fees of K17,000 net.

**Other information**

- I. Banda does not have any other income apart from that mentioned above.
- II. For the tax year 2017, Banda's provisional Income tax payments Totaled K132,250

**Required:**

- (a) Calculate Banda's taxable business profit for the year ended 31 December 2017. (6 marks)
- (b) Calculate Banda's final amount of income tax payable for tax year 2017. (7 marks)
- (c) State the due date for payment of income tax calculated in part (b) above. (1 mark)
- (d) State the due date for submitting the income tax return for the tax year 2017. (1 mark)
- (e) Assuming that Banda submitted his income tax return for 2017 three months after the due date, calculate the amount of penalty that would be charged. (2 marks)
- (f) Assuming that Banda paid the income tax for 2017 late by the three months, calculate the amount of interest on overdue tax that would be charged. You should assume the Bank of Zambia discount rate is 14% per annum. (3 marks)
- [Total: 20 Marks]**

**END OF PAPER**

**JUNE 2017 –DIRECT TAXES (C4)**

**SOLUTIONS**

**SOLUTION ONE**

**(a) CHE MWANA**

**COMPUTATION OF CAPITAL ALLOWANCES FOR THE TAX YEAR ENDED 31 DECEMBER 2017**

	K	Capital allowances K
<u>Toyota Harrier</u>		
Cost	85,000	
Wear and tear (K85,000 x 20%)	<u>(17,000)</u>	17,000
ITV c/f	<u>68,000</u>	
 <u>Manufacturing equipment</u>		
Cost	300,000	
Wear and tear (300,000 x 50%)	<u>(150,000)</u>	150,000
ITV c/f	<u>150,000</u>	
 <u>Toyota Land Cruiser</u>		
ITV b/f	160,000	
Disposal proceeds	<u>(190,000)</u>	
Balancing charge	<u>(30,000)</u>	(30,000)
 Toyota Lexus		
Cost	280,000	
Wear and tear	<u>(56,000)</u>	56,000
ITV c/f	<u>224,000</u>	
Total capital allowance		<u>193,000</u>

**(b) CHE MWANA**

**COMPUTATION OF TAX ADJUSTED BUSINESS PROFIT FOR THE TAX YEAR 2017**

	K	K
Net profit		53,950
<u>Add back disallowables</u>		
Misappropriation of funds	200,000	
Donation to Democratic Party	7,000	
Golf club subscriptions	3,500	
Interest on late payment of tax	8,750	
Fine for breach of health	6,000	
Sale of property	1,000	
Loan written off	135,000	
Increase in general provision	62,500	
Depreciation	10,850	
Entertaining suppliers	24,500	
Personal to holder cars:		
Toyota Lexus	20,000	
Toyota Harrier	<u>15,000</u>	

		<u>494,100</u>
		548,050
<u>Less:</u>		
Bank interest	28,900	
Debenture interest	23,000	
Dividends	5,000	
Royalties	17,000	
Capital allowances	<u>193,000</u>	
		(266,900)
Tax adjusted business profits		<u><u>281,150</u></u>

**(c) CHE MWANA  
COMPUTATION OF INCOME TAX PAYABLE FOR THE TAX YEAR 2017**

	K
Tax adjusted business profits	281,150
Bank interest (28,900 x 100/85)	34,000
Debenture interest	23,000
Royalties (17,000 x 100/85)	<u>20,000</u>
Total income	<u>258,150</u>
Company income tax (258,150 x 35%)	90,352.50
<u>Less:</u>	
WHT- Bank interest (34,000 x 15%)	(5,100)
WHT- Debenture interest (23,000 x 15%)	(3,450)
WHT- Royalties (20,000 x 15%)	<u>(3,000)</u>
Final income tax payable	<u><u>78,802.50</u></u>

**SOLUTION TWO**

- (a) A company is resident in Zambia if:
- It is incorporated in Zambia or,
  - It is not incorporated in Zambia, if it is centrally managed and controlled from within Zambia.
  - A company is centrally managed and controlled from within Zambia if it's Board of Directors holds its meetings and makes decisions here.
- (b) (i) Trade Queens Ltd is resident in Zambia for tax purposes because it is

incorporated in Zambia. Any company that is incorporated in Zambia is resident here irrespective of where it is controlled.

- (ii) Good Steel Ltd is not resident in Zambia for tax purposes as it was incorporated in Democratic Republic of Zema, and the company's Board of Directors does not hold weekly meetings in Zambia .
  - (iii) Tusole Tea Eastes is not incorporated in Zambia. However, it is resident in Zambia for tax purposes because the Board of Directors controls the company from within Zambia. All the Board meetings are held in Zambia.
  - (v) Jamuka is not resident in Zambia for tax purposes because it was not incorporated in Zambia. The company is also centrally managed and controlled in Lunda – Luba.
- (c)
- The Republican President on the income received as President
  - Chiefs in respect of the income received from Government
  - Local Authorities
  - Approved Funds
  - Commonwealth Development Corporation
  - Club, society or association organized and operated only for social welfare or recreation and improvement etc.
  - Registered trade Unions
  - Political parties registered as statutory society under the societies Act

### **SOLUTION THREE**

#### **Peter Kausoko's Income tax computation for the tax year 2017**

	<b>K</b>	<b>K</b>
Business profits( <b>Refer to working 1 below</b> )		1,184,800
Salary (K360,000 x 5/12)	150,000	
Entertainment allowance( K5,000 x 5)	25,000	
Utility allowance ( K3,000 x 5 )	15,000	
Transport allowance ( K360,000 x 5% ) x 5/12	7,500	
Housing allowance ( K360,000 x 15% ) x 5/12	22,500	
Refund of medical bills (Exempt )	nil	
Accrued leave pay	<u>60,000</u>	
		<u>280,000</u>
		1,464,800
<b><u>Less ;allowable deductions</u></b>		
NAPSA ( Restrict)	3,060	
Professional subscription	1,800	

		(4,860)
		1,459,940
Less; Tax free		<u>(39,600)</u>
Taxable Income		1,420,340
<b>Income Tax</b>		
K9,600 x 25%	2,400	
K25,200 x 30%	7,560	
K1,385,540 x 37.5%	<u>519,578</u>	
		529,538
Less: PAYE		<u>(330,446)</u>
Income tax payable /( Refundable)		199,092
<b>Income tax on terminal benefits</b>		
Repatriation pay	nill	
Accrued service bonus	nill	
Severance pay	nill	
Pension from approved fund( Exempt )	<u>nill</u>	
Total income tax payable		<u>199,092</u>

### Computation of taxable business profits (Working 1)

Net profits as per accounts		1,120,000
<b>Add: Disallowable</b>		
Private car expenses(10000/16000xK12,000)	15,000	
Personal income tax computation	3,000	
Personal property expenses(K19,600 x 1/3)	6,400	
Goods for personal use (K5,000 x 120/100)	6,000	
Fine for breach of health regulations	800	
Political party donations	1,000	
Peter Kausoko's salary	24,000	
Depreciation	<u>70,000</u>	
		<u>126,200</u>
		1,246,200
<b>Less</b>		
Private telephone expense (K13, 000 x 80%)	10,400	
Capital allowances	<u>51,000</u>	
		<u>(61,400)</u>
		<u>1,184,800</u>

### SOLUTION FOUR

(a) The Presumptive tax payable by Mr. Daniel Banda for the tax year 2017 will be:

$$6 \times 4 \times 3 \times K13 \times 12 = K 11,232$$

(b) The turnover tax payable by kalunga for the tax year 2017 will be:  
 $K280500/12 = K 23,375$  per month

Fixed turnover tax in last category is k1025 per month then we add 3% of (k23375-K 20,800)=  $k2525 \times 3\% = K77.25$

Total turnover tax per month will be  $K1025 + K77.25 = K1102.25$

Therefore the turnover tax payable in the tax year 2017 will be:

$$K1102.25 \times 12 = K13, 227.$$

No any other tax will be paid ,no capital allowances will be claimed ,no loss relief will be available, no computation of tax adjusted profit, only notional capital allowances will be calculated ,no vat will be payable and finally no expenses will be allowed as deductions against profits.

(c) Muke's taxable profits for the tax years from 2013 will be determined using the current year basis as accounts will be prepared to a date falling between 1 April and 31 December. This will be the case throughout even after the change of accounting date.

## **SOLUTION FIVE**

(a)(i) Grey Banda computation of tax adjusted business profit for the year ended 31<sup>st</sup> December 2017

	K	K
Net profit as per accounts		395,100
Add		
Depreciation	54,500	
Electricity (.15x29800)	4,470	
Water (.15x15400)	2,310	
Motor car running expenses (7/21x45)	15,000	
Wages and salaries (12000-9600)	2,400	
Sundry expenses-fine	1,250	
-political party	900	
Drawings (56x52x100/80)	<u>3,640</u>	
		<u>84,470</u>

	479,570
Less	
Capital allowance on motor car (14,000/21,000x25,000x20%)	<u>3,333</u>
Tax adjusted business profit is	<u>476,237</u>
(b)Grey Banda	

Computation of income tax payable for tax year 2017

	K	K
Tax adjusted business profit		475,237
Salary from tuition	16,000	
Gross royalties (8500/85x100)	10,000	
Gross mgt fees (17,000/85x100)	<u>20,000</u>	
		<u>46,000</u>
		522,237
Less exempt income		<u>(39,600)</u>
		<u>481,637</u>
9,600 x 25%		2,400
25,200 x 30%		7,560
Excess 446,837 x 37.5%		<u>167,939</u>
		177,899
<b><u>Less</u></b>		
Provisional tax		132,250
PAYE		6,400
WHT-royalties (10,000x15%)		1,500
WHT –mgt. fees (20,000x 15%)		<u>3,000</u>
		<u>34,749</u>

**(c)**

The due date for the payment of the income tax calculated in solution ii above is 21<sup>st</sup> June 2018.

**(d)**

The due date for the submission of income tax returns for the tax year 2017 is 21<sup>st</sup> June 2018.

**(e)**

The penalty for late submission of income tax returns by three months is:

1000 penalty units x 3 months = 3000 penalty units

**(f)**

The interest on the overdue tax is:

$14\% + 2\% = 16\% \times 3/12 \times 34,468 = K1389.96$

**END OF SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C5: INDIRECT TAXES

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THURSDAY 15 JUNE 2017

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

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**INSTRUCTIONS TO CANDIDATES**

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

## Taxation table for paper C5 – Indirect Taxes (June and December 2017 Examinations)

### Value Added Tax

Registration threshold	K800,000
Standard Value Added Tax Rate (on VAT exclusive turnover)	16%

### Customs and Excise

#### 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%
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**Excise Duty:**

Percentage of Value for Duty Purposes for Excise Duty Purposes	0%
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- 5. Surtax**

**On all motor vehicles aged more than five (5) years from year of manufacture**

	K2,000
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**Attempt all five (5) questions.**

**QUESTION ONE**

Mwana Baba bought a Toyota Allteza, Cylinder capacity is 1500cc from Japan on 1 March 2017. The purchase price of the car was US \$3,500. Freight charges amounted to US\$210 and insurance costs were US\$315. Transport charges from Dar-el-Salaam to Nakonde were US\$650. Incidental costs up to the border of Nakonde amounted to US\$150. Mwana incurred further costs amounting to K1,500 for transportation from Nakonde to Lusaka. K600 was incurred for registration. On the date of acquisition of the Car the ruling Bank of Zambia exchange rate was K9.56 per US\$1. And the Commissioner General's approved exchange rate was K10.20 per US\$1

**Required:**

- (a) Calculate the import duties and other related taxes paid by Mwana Baba. (7 marks)
- (b) Provide a list of documents which Zambia Revenue Authority requires Mwana Baba to submit before clearing his car. (4 marks)
- (c) One of the functions of Customs and Excise division of the Zambia Revenue Authority is to collect Revenue.  
Explain any of the **five (5)** taxes which the customs and excise division collects. (5 marks)
- (d) Explain any of the **four (4)** functions of the Customs and Excise division of the Zambia Revenue Authority. (4 marks)

**[Total: 20 Marks]**

**QUESTION TWO**

- (a) The government of the Republic of Zambia has introduced a lot of incentives for exporters in order to improve the trade deficit. One of the export incentives available is the Duty Drawback System.

**Required:**

- (i) Explain what Duty Drawback system is and the purpose for its' existence (2 marks)
- (ii) Explain the advantages and disadvantages of the Duty Drawback System. (6 marks)
- (b) State the conditions that must be met for Input VAT on a taxable supply to be recoverable. (6 marks)

- (c) The COMESA Customs Union was created so as to reduce trade tariffs and promote trade among member states.

**Required:**

- (i) Explain the three (3) key requirements which the member states were to implement during the three year COMESA Customs union transition period. (3 marks)
- (ii) Explain the focus of the COMESA Customs Union. (3 marks)

**QUESTION THREE**

- (a) Chipate Limited commenced to trade on 1 April 2017. The company has made the following forecast of sales figures:

		<b>K</b>		
2017	April	40,000	2017	October
		90,000		
	May	46,800		November
		88,000		
	June	60,500		December
		95,000		
	July	70,700	2018	January
		98,000		
	August	78,000		February
		77,000		
	September	80,000		March
		84,000		
				April
		55,000		
				May
		70,000		

All the above figures are standard rated supplies for VAT purposes. The company's sales forecasts shown above are all VAT exclusive figures.

**Required:**

(i) Explain to the directors of Chipate Limited, the persons who are required to register for VAT and state any four duties of persons who are registered for VAT purposes.

(6 marks)

(ii) Explain from what date Chipate Limited will be required to register for VAT by statute, based on the above forecast using:

- Quarterly registration threshold.
- Annual registration threshold (ignoring quarterly registration threshold).

(6 marks)

(b) G. Nyundo is a building contractor who registered for a VAT cash accounting scheme. The company had provided the following information in respect of the month of April 2017:

1. Credit sales (contract) invoices amounting to K160,000 were issued to customers. However, progress payments (cash) received amounted to K114,000 Twenty percent (20%) of the cash received was from VAT zero rated customers.

2. Standard rated credit and cash payments were as follows:-

	Credit	Cash
	K	K
Purchases – Building materials	68,000	54,000
Petrol	12,000	8,000
Business entertainments	4,000	3,000
Overheads	11,000	9,000
Telephone expenses	8,000	7,000
Diesel	21,000	19,000
Furniture for domestic		
Use of staff members	14,000	14,000

All the above figures are VAT exclusive.

**Required:**

(i) Calculate the amount of VAT payable for the month of April 2017.

(7 marks)

- (ii) State the due date when the amount of the VAT for April 2017 was due.

(1 mark)

**[Total: 20 Marks]**

#### **QUESTION FOUR**

- (a) Goods and services provided by the various Zambian businesses are either, standard rated, zero-rated or exempt for VAT purposes. Generally, there are classifications on the types of goods or services that fall in the three categories although there are exceptions and slight variations to the general rules.

##### **Required:**

Explain the general rules of classifications into standard, zero-rated and exempt supplies for VAT purposes and give examples where necessary. (9 marks)

- (b) A VAT registered trader can be de-registered on four grounds.

##### **Required:**

- (i) Explain the grounds of de-registration of VAT registered business. (6 marks)  
(ii) Explain the changes which do not lead to de-registration. (3 marks)  
(c) Explain the meaning of a tax point. (2 marks)

**[Total: 20 Marks]**

#### **QUESTION FIVE**

The construction industry is one of the sectors that is fast growing in Zambia. In common with all other sectors, Value Added Tax (VAT) is one of the taxes charged on goods consumed in Zambia.

Mandiche International is a construction firm operating in Zambia since 2012 and registered for VAT. And all its sales are standard rated. The company's VAT returns for the quarter ended 31 March 2017 showed the following information:

1. Standard rated sales amounted to K240,000 and Mandiche offers its customers a 5% discount for prompt payment, and this discount is taken by half of the customers.
2. Standard rated purchases and expenses amounted to K71,280. This amount includes K960 for entertaining customers.
3. The company wrote off bad debts of K4,000 and K1,680 in December 2016 in respect of invoices due for payment on 10 May and 5 November 2016 respectively.
4. On 31 March 2017, the company purchased a motor car at a cost of K32, 900 for the use of a Director, and machinery at a cost of K42, 300. Both amounts are VAT inclusive.

The motor car is used for both business and private mileage.

All the figures are exclusive of VAT unless stated otherwise.

**Required:**

- (a) State any four (4) conditions under which Input VAT is recovered. (4 marks)
- (b) Calculate the amount of VAT payable by Mandiche International for the quarter ended 31 March 2017. (7 marks)
- (c) What is the daily penalty for late submission of VAT returns. (2 marks)
- (d) Explain any four (4) situations under which a trader can be de-registered. (4 marks)
- (e) Explain the appeals procedures in relation to VAT. (3 marks)

**[Total: 20 Marks]**

**END OF PAPER**

**JUNE 2017- INDIRECT TAXES (C5)**

**SOLUTIONS**

**SOLUTION ONE**

**MWABA BABA**

<b>(a)</b>	K
Purchase price	3,500
Freight	210
Transport from Dar to Nakonde	650
Insurance	315
Incidental costs	150
<b>TOTAL</b>	<b>4,825</b>

½ mark for each correct applicable charges

**Value for duty purposes** =US\$4,825 X 10.20  
=K49,215

Customs duty of import taxes paid

	K	
Value for duty purposes	49,215	
<b>Customs value @30%</b>	<u>14,765</u>	14,765
	63,980	
<b>Excise duty</b> K63,980 X 20%	<u>12,796</u>	12,796
	76,776	
<b>Value added tax</b> K76,776 X 16%	12,284	<u>12,284</u>
<b>Total taxes paid</b>		<b><u>39 845</u></b>

(b)

- Purchase Invoice
- Bill of lading
- Insurance certificate
- Freight statement
- Contract of sale

(c)

- Customs duty-tax on goods imported into Zambia
- Excise duty-tax on some imported goods as well as goods manufactured in the country of a luxury nature

- Import VAT-VAT on imports at the entry point Zambia based on Value for Duty Purposes (VDP)
- Fuel levy-tax on fuel
- Dumping duty-tax on goods which are imported into Zambia which unfairly disadvantage Zambia goods.

**(d)**

- **Revenue Collection**  
The division collects various duties such as customs duty, Excise duty
- **Protecting the Local industry**  
The division is responsible for protecting Zambian industry from unfair competition using various means under Customs and Excise Act.
- **Prevention of Smuggling**  
Goods smuggled present unfair competition to those that are subjected to Customs and
- **Providing trade data and statistics**  
Zambia Revenue Authority obliged to provide trade data to the Government via certain agencies such as Bank of Zambia and Central Statistical Office

**SOLUTION TWO**

**(a)**

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

The purpose is to reduce the export price thereby increasing competitiveness of local products on the local market

(ii) **Advantages of the Duty Drawback System**

- Improves the exporters cash flow.
- It reduces the export price of the goods being exported.
- It improves the competitiveness of local products on the local market.

**Disadvantages of the Duty Drawback System**

- Keeping of detailed records on the part of the exporter can be administratively time consuming
- Administrative costs may raise result of huge record keeping
- ZRA may end up losing a lot of money in refunds if record keeping is not up to date
- ZRA has to undertake periodic reviews which may be administratively time consuming and costly.

(b) Conditions that must be met are:

- At the time the supply was made, the trader must have been registered for VAT purposes
- The person making the claim must use the goods or services for business purposes. (Personal expenses will not qualify for relief)
- The supply must be supported by evidence which is normally in form of Tax invoice
- The amount of VAT recoverable should be that which is accurately calculated and amount should be that which accurately relates to the supply.
- The VAT should not be that which is not recoverable.
- The supply must have been made to the taxable person making the claim.

(c)

(i)

- Migrating national tariff nomenclatures to the Common Tariff Nomenclature (CTN)
- Domesticating the Customs Management Regulations
- Adjusting national tariffs rates to the Common External Tariff (CET)

**(ii) Customs Union Focus is to ensure:**

- The internal free trade area
- Relations with third countries including application of the CET is enhanced
- Trade remedies
- Export promotion
- Dispute settlement

**SOLUTION THREE**

**CHIPATE LIMITED**

(a) (i) Persons who are required to register for VAT are businesses who make taxable supplies and whose annual turnover of taxable supplies exceeds the VAT registration threshold of K800, 000 per annum or K200, 000 for three months (quarterly).

The duties of a VAT registered business are:-

- The VAT registered trader must issue tax invoices in respect of supplies made.
- The VAT registered trader will be able to recover all the input VAT that is attributed to taxable supplies.
- The business must keep VAT records for minimum period of six years.
- Allow VAT inspectors to inspect the VAT records and documents at any time.
- Display the VAT registration certificate at its business premises.

(ii) Using VAT quarterly registration threshold, the VAT exclusive taxable turnover are:-

April, May & June = 40, 000 + 46, 800 + 60, 500 = K147, 300  
 May, June & July = 46, 800 + 60, 500 + 70, 700 = K178, 000  
 June, July & August = 60, 500 + 70, 700 + 78, 000 = K209, 200

At the end of the three month period from 1 July, 2017 to 31<sup>st</sup> August, 2017, the VAT exclusive turnover figure exceeds the registration threshold of K200, 000. The business will need to apply for VAT registration at the end of three months to 31<sup>st</sup> August, 2017. The commissioner general will then normally grant the VAT registration to be effective from 1<sup>st</sup> October, 2017 or from the date when the application for VAT registration would be received.

Using annual registration threshold, the position is as follows:-  
 April, 2017 to February, 2018 = K824, 000

The business will be required to register for VAT at the end of eleven months period to 28<sup>th</sup> February, 2018. The business should submit an application for registration within one month.

(b)

(i) G. Nyundo – VAT Payable – April, 2017

	K	K
Output VAT		
- Progress payment – cash received		
- (K114, 000 X 80%) X 16%		14,592
		<u>          -</u>
		14,592
Less: Input VAT		
Purchases (K54,000 X 16%)	8, 640	
Overheads (K9,000 X 16%)	1,440	
Diesel (K19, 000 X 16%x 90%)	<u>2,736</u>	
	<u>(12,816)</u>	
	VAT Payable	<u>1,776</u>

(ii) The VAT payable of K1,776 for April, 2017 was due on or before 16<sup>th</sup> May, 2017.

## **SOLUTION FOUR**

(a) (i) The general rules of classification into standard rated, zero-rated and exempt supplies are as follows:

(1) Exempt supplies are normally goods or services sold for the benefit of the community and therefore, include such items as health services, water supply, education services, passenger transport, funeral services, etc.

(2) Zero-rated supplies are normally classified into three categories:-

- Agricultural produce and medical supplies and drugs.
- Export of goods and tourism services.
- Supplies to privileged persons e.g. Republican president, diplomats and donor agencies.  
e.g. USAID, JICA, NORAD, etc.

(3) Standard rated supplies (at 16% currently) are goods and services which are neither exempt nor zero-rated. Normally, luxury goods and services are standard rated.

(b) (i) Cancellation of registration may take place on the following grounds:-

- If you have been granted registration in an anticipation of commencing a business on certain date but do not carry out any business on or before the due date.
- When the value of taxable supplies fails consistently below the VAT registration threshold which is currently K800, 000 per annum.
- Where there is a change in the legal status of an entity (e.g. a partnership is dissolved and changes to a limited company)
- If the business ceases trading permanently
- If the business is sold.
- When the trader stops dealing in exempt or zero rated supplies.

(ii) However de-registration (cancellation) is not required in the following circumstances:-

- A change in the trading name of the business, the name of the business or an address of any partner of the business.
- A change in the business address of the principal place at which the business is carried on.

- Transfer of a going concern.

(1) Tax point is a time when a supply is deemed to have taken place

### SOLUTION FIVE

a) Four (4) conditions under which input VAT is recoverable are:-

- The supply must have been made to the taxable person making the claim
- The supply must be supported by evidence in form of tax invoice
- The VAT should not be that which is irrecoverable
- The person making the claim must use the goods or services for business
- The supply must have been to the taxable person making the claim

b)

Input VAT	K	Output VAT	K
Purchase and exp		Sales K240 000 x	
		95%	
(71 280 – 960) 16%	11 251	X 16%	18,240
Bad debts			
K4 000 x 16%	640		
Machinery			
K42 300 x 16/116	5 834		
VAT payable	<u>515</u>		
	<u>18,240</u>		<u>18,240</u>

c) The daily penalty for late submission of VAT returns is the higher of :-

- 1 000 penalty units (K180) .
- 0.5% of the amount of VAT payable

d) Four (4) situations under which a trader can be de-registered are:-

- If the business is sold or stops to trade permanently
- If a trader submits no returns for twelve (12) consecutive standard periods
- If a trader had applied for registration before commencing to trade and that trader fails to start trading on the expected date
- If there is a change in the legal status of the trader for example changing from a sole trader to a company
- If ZRA is satisfied that the trader is no longer making taxable supplies nor intending to make taxable supplies
- When a trader voluntarily applies for deregistration

- e) Appeals in relation with VAT are made to the revenue appeals tribunal  
VAT should be paid and the necessary returns that the trader is required to make are made will make it possible for the appeal to be accepted or entertained  
The normal time limit for making an appeal is 30 days from the time that a decision has to be made by the Commissioner General

**END OF SOLUTIONS**



TAXATION PROGRAMME EXAMINATIONS

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CERTIFICATE LEVEL

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C6: LAW FOR TAX PRACTITIONERS

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FRIDAY 16 JUNE 2017

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

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**INSTRUCTIONS TO CANDIDATES**

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This question paper consists of FIVE (5) questions of twenty (20) marks each. You MUST attempt all the FIVE (5) questions.
3. Enter your Student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. **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.

**Attempt all five (5) questions**

**QUESTION ONE**

- (a) Give the definition of the word 'law'. (2 marks)
- (b) Identify the two functions of a judicial decision under common law. (4 marks)
- (c) State any three (3) disadvantages of delegated legislation. (9 marks)
- (d) Explain any two (2) functions of the Industrial Relations Court. (5 marks)

**[Total: 20 Marks]**

**QUESTION TWO**

Mr. Giant Mulenga , a farmer based in Kapiri made a will in which he conveyed all the legal interest of his properties to his daughter. His nephew wished to raise money immediately and was aware of the constituents of the will authored by the frail farmer Mr Giant Mulenga. The nephew, being in a fix and in need of money to pay for his wedding bills and honeymoon spree decided to pay his uncle Mr Giant Mulenga a visit in the company of his best friend and business tycoon Mr. Kwendomuzhila. The two told Mr giant Mulenga that they had bought him a good gift which was irresistible but needed his signature to transfer it. Mr. Kwendomuzhila asked Mr. Giant Mulenga to sign a document which he signed without reading as he had broken his spectacles and did it out of trust. Unknown to him, this document was actually an assignment of his property interests to Mr. Kwendomuzhila. The duo then used this document to borrow money from Zanin Society and spent all the money on their insatiable desires. The society now seeks to take over the possession of Mr. Giant Mulenga's properties and he has invoked the defence of *non est factum*.

**Required:**

- (i) Advise the parties on the legal issues at hand. (10 marks)
- (ii) Guide Mr. Giant Mulenga on the three (3) essential things which must be presented for his defence to stand. (9 marks)
- (iii) Explain the seller's obligation under the hire purchase agreement? (1 mark)

**[Total: 20 Marks]**

### **QUESTION THREE**

- (a) Describe the nature of an agency relationship. (5 marks)
- (b) List the **four (4)** types of cheques. (8 marks)
- (c) Discuss the importance of labour law. (5 marks)
- (d) Explain international insurance. (2 marks)

**[Total: 20 Marks]**

### **QUESTION FOUR**

- (a) (i) Explain the doctrine of subrogation in relation to insurance. (2 marks)
- (ii) Discuss **four (4)** circumstances under which an insurance company may refuse to compensate the insured. (8 marks)
- (b) (i) State **four (4)** powers of a liquidator. (4 marks)
- (ii) Distinguish between a debenture and share capital. (4 marks)
- (iii) Define an extra ordinary meeting. (2 marks)

**[Total: 20 Marks]**

### **QUESTION FIVE**

- (a) A Carrier (transporter) of goods has both duties and liabilities to the owners of the goods as soon as the goods are under his control.  
  
State any **five (5)** duties of the carriers arising from the contract to 'carry and deliver' the goods. (5 marks)
- (b) Explain a nominal Partner under Partnership Agreements. (5 marks)
- (c) Outline the priority of preferential payments of ***all unsecured debts*** of a company under bankruptcy. (5 marks)
- (d) Discuss the elements of a tort (5 marks)

**[Total: 20 Marks]**

**END OF PAPER**

## **JUNE 2017 -LAW FOR TAX PRACTITIONERS (C6)**

### **SOLUTIONS**

#### **SOLUTION ONE**

- (a) Law can be defined as a collection of rules of human conduct prescribed by human beings for the obedience of human beings. Law may further be defined as a body of rules; a guidance of human conduct; imposed and is enforceable. The law is dynamic.
- (b) The functions of judicial decisions under common law are:
- (i) To define and dispose of the controversy before the court in accordance with the doctrine of *res judicata*, meaning the decision is final, but may be appealed to the superior court.
  - (ii) To create law, as the court resolves disputes, it somehow creates the law.
- (c) The disadvantages of delegated legislation are that:
- It allows non-elected people to make laws and rubber-stamped by elected representatives.
  - Parliament may lack parliamentary time to control it, as a result this may result in bad laws.
  - The law may become too bulky
  - The law can be used to target or abuse selected people.
- (d) The following are the functions of the Industrial relations Court:
- To inquire into and make awards and decisions in collective disputes and any other matter under the Act
  - To interpret the terms or awards, collective agreements and recognition agreements
  - To inquire into and adjudicate upon matters affecting various employment issues such as employees' rights and obligations.
  - To commit and punish for any contempt made against the court.
  - To perform such acts and carry out such duties as may be prescribed under the Act.

#### **SOLUTION TWO**

Every contract springs from a legally enforceable agreement between the parties reflecting the identity or meeting of minds, generally referred to by the Latin phrase, *consensus ad idem*. If either or both the parties to the contract err in the understanding of any essential term of the contract, apparently, there would not be any *consensus ad idem*. To have a blanket rule categorically rendering such agreements unenforceable, may actually trigger more problems than it may aim to solve by the blatant abuse of the rule with impunity. To prevent such abuse of the legal provisions, the common law has evolved some sophisticated set of rules dealing with mistake. One kind of mistake that give the courts difficulty involves a party who mistakes the kind of contract being signed. Suppose a person signs away the deed to a house, thinking that the document signed was only a guarantee for another person's debt or an attestation of a will as a witness. Under contract law, in such situations, the person who has signed, under the mistaken impression as to the nature of the document, might be able to plead **non est factum** in a court and on that basis seek the assistance of the court to avoid the contract. The Latin phrase **non est factum** literally means "it is not his/her deed." It is a special defence in contract law to allow a person to avoid the stipulations in a contract that she may have signed because of certain reasons such as mistake as to the kind of contract. In modern times, it has very limited application and the law on this subject was completely reviewed and restated by the House of Lords in **Sounders v Anglia Building Society (1939) 3 ALLER**. In that case it was held that in exceptional circumstances, the plea was available so long as the person signing the document had made a fundamental mistake as to the character or effect of the document. Their Lordships appear to have directed their minds to the disparity between the effect of the document actually signed and the document as it was believed to be. It was also held that the disparity must be "radical", "essential", "fundamental", or "very substantial. In this case the defence failed because she did not take the trouble to read the document.

Three things must be present for the defence to stand;

- (i) The signature must have been induced by fraud
- (ii) The document signed must have been fundamentally different from that thought to be signed
- (iii) The signer must not have acted negligently.

To supply goods of satisfactory quality as to fitness and suitability.

### **SOLUTION THREE**

- (a) Agency is the relationship that arises where one person is appointed to act as a representative to another. In this way the agent is given legal authority by his principal to establish privity of contract with a third party. A contract of agency is a common law exception to the doctrine of privity. Since the agent does not make contracts on his own behalf, it follows that it is not necessary that he should have full contractual capacity, but the principal and the third party must have full contractual capacity.
- (b) The four types of cheques are open cheque; crossed cheque; bearer cheque; and order cheque.
- (c) Labour law is important because it governs the employer/employee relationship both inside and outside the work place. It regulates all the minimum standards of employment incidents in Zambia as well as resolution of disputes.
- (d) International insurance is insurance that is done internationally. There are several insurance companies that insure internationally by use of brokers or representative insurance companies in other foreign countries. Such type of insurance includes marine and air cargo insurance taken out on export goods. Goldman insurance is one such example as it has international network by having branches in different countries.

#### **SOLUTION FOUR**

##### **(a)**

(i) The Doctrine of Subrogation provides that the insured cannot make a profit from his own loss and has to account for any profit made out of the loss to the insurer so as to prevent unjust enrichment (*Castellan v. Preston (1883) 11 QBD 380*). Further, the insurer under subrogation, has the right to sue a third party who causes damage to the insured's property.

(ii) **Four Circumstances** under which the insurance company may refuse to compensate the insured may include:

1. Where the insured has no insurable interest. For example the insured cannot insure a property that is not his/hers.

2. Where the insured has lied. That is the insured has a duty of utmost good faith to tell the truth to the insurer at times to help the insurer assess the real risk involved and decide whether to take up the risk or not.

3. Where the insured did not do a full disclosure, i.e has not lied but has not just disclosed all the material information concerning the property to be insured or in the case of life assurance, has not disclosed material facts about his health. This is also a breach of utmost good faith and the insurance company may not compensate.

4. Where the cause of the risk, loss or damage is not within the scope of what was insured. For example, the insured's motor vehicle is insured against damage by fire, he will not be compensated should the motor vehicle be damaged through an accident as it would not have been by insurance policy.

5. Where the insured wants to make profit out of the insurance. For example by deliberately causing the damage so that the insurance company can give you compensation. In this way, once proved that the loss or damage was deliberately caused, the insured will not be compensated as this would be a breach of insurable interest.

6. Where the loss was not reported to the insurance company within a given period of time. For example, if the law provides that a motor accident must be reported within 7 days from the date of the incidence, failure to report within that time entitles the insurance company to refuse compensation on the insured or his insured property.

**(b)**

(i) **Four powers** of a liquidator may include:

(1) Take into his control all the property and things in action to which the company is entitled.

(2) Cause the preparation of a statement of affairs of the company at the time of winding up.

(3) Require any company official to verify the statement of affairs.

(4) Carry on the business of the company for the satisfactory winding up during the four weeks following the winding-up order (Section 289 of the Companies Act).

(5) Bring or defend an action in the name and on behalf of the company.

(ii) A *Debenture* is a document evidencing or creating a debt to a company. Debentures are loans to a company raised in the same way as shares, different from bank loans. Debenture holders are creditors to a company and will have to be repaid their money with interest. On the other hand, *share capital* is capital of a company raised through the sale of shares. Shareholders, are owners of the company and shares do not have to be repaid to the owners as they (shares) represent permanent capital for the company.

(iii) An extra-ordinary meeting is any meeting of the shareholders or company's members other than the Annual General Meeting. It is held to discuss urgent matters that cannot wait for the Annual General Meeting. It is provided for under Section 139 of the Companies Act, Chapter 388 of the Laws of Zambia.

## **SOLUTION FIVE**

**(a)** Five Duties of carriers include the following:

(i) To carry all goods of the class he professes to carry for anybody who delivers them to him, provided he has room in his carriage and the person offers to pay the proper charges.

(ii) To carry the goods by his ordinary route and with reasonable diligence and without unreasonable deviation or delay.

(iii) To deliver the goods to the consignee at the place designated by the consignor, unless the consignee requires delivery at another place, when he may deliver them accordingly.

(iv) To receive and carry all goods offered for carriage as long as the carrier is not exposed to extra ordinary danger.

(v) To take utmost care of goods from the moment of receipt to the place of destination.

(vi) To deliver the goods within a reasonable time depending on the case by case basis.

(b) A nominal Partner is one who has presented himself or knowingly allowed himself to be represented as a partner when not or no longer a firm's partner. This normally occurs where a former partner fails to take reasonable steps to remove their name from the business stationery and notice as provided under the Act.

(c) The preferential payments of all unsecured debts in a bankruptcy is as follows:

1. **First** – Costs and expenses of the winding up including taxes which shall include the remuneration of the liquidator and costs of any audit carried out.

2. **Secondly** – Preferential debts, that is all amounts due to:

(i) Wages or salaries earned by way of commission;

(ii) Accrued leave to employees;

(iii) Accrued paid absence leave;

(iv) Recruitment expenses reimbursable under a contract of employment;

(v) Three months salary or wages as severance pay to employees.

(vi) Amounts due in respect of workers' compensation and pension contributions.

3. **Thirdly** – Any tax, duty or rates payable in respect of the period prior to the commencement of the winding up but which have become due after that date and all arrears of government rents.

4. **Fourthly** – All rates due to the local authority that are due within the period of three years prior to the start of the winding up.

5. **Fifthly** – Any surplus (if any) would be used for deferred debts, that is, dividends declared but not paid and interest accrued on debts since liquidation.

d) A tort is a civil wrong, and normally between individuals, whose remedy is compensation. The elements of tort are; **Duty**, breach of **duty**, **causation**, and injury. In order to claim damages, there must be a breach in the **duty** of the defendant towards the plaintiff, which results in an injury.

**END OF SOLUTION**