SOLUTION ONE

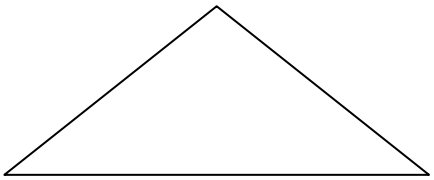
SECTION A

1)

Corporate Governance Issue	Explanation	Ways to resolve them
(i) Chairman and Chief Executive officer.	Combination of the two roles may result in excessive power held by one individual. This usually results in abuse of office.	Separate the two roles- chairman will run the board and chief executive officer should run the company
(ii) Weak organization Structure.	No clear defined responsibility and reporting lines. It is also unusual to combine HRM and procurement. This makes performance evaluation challenging, and provide a fertile ground for fraud.	Immediately, areas of responsibility and reporting lines should be established. This exercise can be outsourced.
(iii) No elaborate planning processes	Identification of objectives becomes very difficult and control unco-ordinated or non-existent.	Some formal process should be introduced, and progressively strengthened.
(iv) Weak Accountancy environment	The Finance Director has no formal qualifications. Quality information may not be forthcoming to enable management discharge their duties effectively. This is contrary to the requirements of the Accountants Act 2008.	Immediately recruit a qualified accountant recognized by ZICA, either on a full-time or part-time basis depending on the company's resources.
(v) No internal audit	It is apparent that monitoring of adherence to procedures is non- existent. This is also a fertile ground for fraud.	The company should consider employing an internal auditor or outsourcing. This is important given the nature of the business.

2)The Johnson, Scholes and Whittington (JSW) model of strategic planning is a rational planning model. It consists of the three elements as follows:

The strategic position analysis



Strategic choices Strategy into action (implementation)

Strategic planning is particularly important when:

a) There are long lead times
b) The business needs to be turned around
c) There is high capital expenditure
d) Many stakeholders are affected.

Studies generally show that companies that plan are more successful than those that do not. Strategic planning can have the following potential advantages:-

(i) Forces organisations to look ahead.
(ii) Improves the organizations fit with its environment.
(iii) Makes best use of scarce resources.
(iv) Ensures consistent goals and objectives
(v) Provides direction for the business etc.

However, freewheeling opportunists like Mr Abraham Chiwempale do not like planning. They prefer to see and grab opportunities as they arise. Often such people are entrepreneurs who enjoy taking risks and the excitement of setting up new ventures. However, once the ventures are up and running, the owners lose interest in the day to day repetitive administration needed to run a business.

It is unfortunate that most freewheeling opportunists concentrate on the disadvantages of formal planning instead of appreciating the advantages in great depth as well. Planning as already mentioned is key to organisational success. Forewarned is forearmed and progress monitoring (control) is made easier.

3. (a) FILIMINA RETAIL LTD

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER, 2011

	K'million
Sales (226,000 – 600)	225,400
Cost of sales (W1)	(93,430)
Gross profit	131,970
Other income (10,000 + 120)	10,120
Distribution costs (W4)	(43,500)
Administration costs (W5)	(23,900)
Loss on valuation of investment property	(4,000)
Finance cost (11,250 + 1760) (W6)	(13,010)
Profit before tax	57,680
Income tax expense (17,661 – 2,000)	(15,661)
Profit for the year	42,019
Gain on property revaluation	30,000
Total comprehensive income for the year	72,019

b)FILIMINA RETAIL LTD

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER, 2011

	K'million	K'million
ASSETS		
Non-current assets		
Property, plant and equipment(W7)	140,060	
Investment property (46,000 + 1,000)	47,000	
Intangible asset-Development cost	500	
		187,560
Current assets		
Inventories(W1)	30,510	
Receivables (140,500 – 600)	139,900	
Prepayment	1,500	
		171,910
Total assets		359,470
EQUITY AND LIABILITIES		
Equity		
K1 ordinary shares (20,000 + 1,000)	21,000	
Share premium (1,000 + 2,600)	3,600	
Revaluation reserve	30,000	
Retained earnings (6,000 +42,019 – 525)	47,494	
		102,094
Non-current liabilities		
2% Debentures (2015-2017)	88,000	

Grant	480	
Deferred tax	15,000	
Lease obligations(W8)	16,313	
		119,793
<u>Current liabilities</u>		
Bank overdraft	20,000	
Payables	80,000	
Lease obligations (32,250 – 16,313)	15,937	
Income tax	17,661	
Accruals (960 + 2,500)	3,460	
Dividends	525	
		137,583
Total equity and liabilities		359,470

<u>WORKINGS</u>

W1)<u>Cost of sales</u>

	K'million
Opening inventory	40,000
Purchases	60,000
Closing inventory (30,000 + 520 – 10)	(30,510)
Depreciation (W2)	23,940

Cost of sales	93,430

W2)Depreciation

	K'million
Plant and Machinery [(50,000 – 1,200) – 12,000] ×25%	9,200
New equipment $^{1200}/_{5}$	240
Buildings $^{70,000}/_{35}$	2,000
Leased equipment (W3)	12,500
Depreciation	23,940

W3)Depreciation on leased equipment

K'million

$^{(13,500\times4) - (1,000\times4)}/_{4} = {}^{50,000}/_{4} = \underline{12,500}$

W4)Distribution cost

	K'million
As per question	45,000
Less prepayment	(1,500)
Distribution cost	43,500

W5)Administration costs

	K'million
As per question	21,400
Add accrual $^{3500}/_{7} \times 5$	2,500

Administration costs	23,900

W6)Finance cost

	K'million
Interest on debenture 2%×88,000	1,760
Finance lease (W8)	11,250
Finance cost	13,010

W7)Property, plant and equipment

Asset	Cost(valuation)	Accumulated depreciation	NBV (carrying amount)
	K'million	K'million	K'million
Land	2,000	-	2,000
Plant and machinery	50,000	21,440	28,560
Buildings	70,000	2,000	68,000
Leased equipment	54,000	12,500	41,500
Total			140,060

W8)Finance lease

Year	Opening balance	Interest at 25%	Sub-total	Instalment	Closing balance
	K'million	K'million	K'million	K'million	K'million
2011	45,000	11,250	56,250	24,000	32,250
2012	32,250	8,063	40,313	24,000	16,313

2013	16,313	4,078	20,391	20,391	0

W9)Dividends

$^{21,000,000,000}/_{1} \times 0.025 =$ K525,000,000

4)The day to day management of a company is in the hands of directors, not the shareholders. However, shareholders retain some important powers many of which involve making decisions through resolutions of the shareholders. In order to make such decisions, shareholders must convene at a meeting under the provisions of section 137 of the Companies Act CAP388 of the laws of Zambia.

The usual business of an AGM is:-

i)Directors lay before the company annual accounts and reports for the most recent financial period.

ii)Auditor's term of office ends at the AGM, so they must be re-appointed or new auditors must be appointed.

iii)Directors' recommendation for the dividend to be paid to shareholders will be voted on.

iv)The Articles may provide that directors are to retire in rotation. Some directors will retire at the AGM and must be re-appointed or replaced.

v)Resolutions may be required to pay directors' and auditors' fees.

vi)Shareholders may have their own resolutions placed on the agenda.

Fiduciary duty is a duty imposed upon certain persons because of the position of trust and confidence in which they stand in relation to another. The legal requirements demand full disclosure of information held by the fiduciary, a strict duty to account for any profits received as a result of the relationship, and a duty to avoid conflicts of interest.

SECTION B

5)Survival in business to a large extent depends on the ability of an enterprise to generate cash. Hence cashflow accounting directs attention towards this critical issue. From this point of view, it is right that cash is what determines a company's destiny, because without cash an enterprise may not be in a position to continue operating. Creditors, employees, government etc, all need to be paid cash.

However, if too much emphasis is placed on cash, management risk taking decisions which are short-term at the expense of the long-term. It is important to realise that it is wrong to try to assess the health or predict the death of a reporting entity solely on the basis of a single indicator.

6) STATEMENT ON CORPORATE GOVERNANCE

INTRODUCTORY PARAGRAPH

Filimina Retail Ltd is committed to the principles of openness, integrity and accountability. The directors and employess of the company strive to ensure that the company is managed in an efficient, accountable, responsible and moral manner. The Board of Directors endorses the Lusaka Stock Exchange (LuSE) corporate governance code for listed and quoted companies and believes that, in all material respects, the company complied with the principles of the code throughout the year under review.

7)a)Some of the dangers in internal auditors becoming too involved in consultancy projects are:-

i)Internal audit staff may be diverted to consultancy projects, and the regular audit reviews may be inadequately resourced.

ii)By taking on consultancy projects, and suggesting solutions, internal audit could be getting too involved in operational concerns. There is a serious potential lack of independence if internal audit has to review solutions that internal audit staff have provided.

iii)Management is relying on internal audit to solve problems instead of having operational staff and managers to solve or preferably prevent them.

b)Steps which need to be taken in order to avoid these problems include:-

i)The terms of reference of the internal audit department should draw a clear distinction between regular audit services and consultancy work.

ii)Enough resources for regular work should be guaranteed; consultancy work should be separately resourced and additional resources obtained if necessary.

iii)If managers are concerned about improving controls, reviewing these improvements can legitimately be included in the work of internal audit.

iv)Regular audit reviews and consultancy projects can be undertaken by different staff.

v)If consultancy work identifies serious control weaknesses, these must be incorporated into internal audit reviews as high risk areas.

8)According to IAS 24 (Related party disclosures), a party is related to another if:

i)The party controls, is controlled by, or is under common control with the entity or has an interest in the entity that gives it significant influence over the entity or has joint control over the entity.

ii)The party is an associate of the entity or a joint venture.

iii)The party is a member of the key management personnel of the entity or its parent.

iv)The party is a close family member of anyone referred to in (i) or (iii) above.

v)The party is controlled, jointly controlled or significantly influenced by an individual in (iii) or (iv) above.

It is clearly evident that Mrs Chiwempale is a related party. IAS 24 requires all material related party transactions to be disclosed. Such transactions with related parties can easily be used as a vehicle to manipulate profitability. For example, sales made to related parties may give an impression of increased activity and that might impress a potential investor, but for which there is no economic justification. In some cases the entities get goods or services from a related party at exceptionally beneficial credit terms. This may apply to Mrs Chiwempale.

It should be noted that related party transactions are not necessarily fraudulent or intended to deceive. However, without proper disclosures, investors may be disadvantaged, and IAS 24 seeks to remedy this. Knowledge of related party relationships and transactions affects the way in which users assess a company's operations and the risks and opportunities that it faces.

9)Ways in which inventories can be effectively managed and controlled by Filimina Retail Ltd include:

i)Since inventories are a significant asset in retail, management may have to categorise the inventories according to their values. Management should therefore apply appropriate management and control techniques depending on the category. For example, there will be no need of applying sophisticated methods to cheap voluminous items, like sweets and bubblegums.

ii)Management can consider applying Just in Time (JiT) inventory management system to perishables,like fruits and vegetables to reduce wastage, and boost profitability.

iii)Procurement can be electronically linked to major suppliers and re-order levels established to facilitate automatic replenishment of inventories.

iv)Appropriate, authorised documentation should be used e.g. when ordering and drawing inventories from the warehouse. Management should lead by example and minimise emergencies which normally tend to circumvent control and render inventory management and control ineffective.

v)Management can also consider the use of Economic Order Quantity model so as to minimise total costs of holding inventories. However, management must be aware that this can only work in some areas where the parameters (e.g. lead times, sales etc) are predictable.

SOLUTION TWO

SECTION A

1)a)Corporate Social Responsibility (CSR) is concerned with the ways in which an organisation exceeds the minimum obligations to stakeholders specified through regulation and corporate governance. The public relations and enhancement of reputation arising from CSR is likely to increase profits in the long-term. Hence, I would strongly advise an enterprise to spend money on CSR mainly because of its positive impact on long-term profits.

b)Some of the effective ways of compensating communities include:-

i)Work creation-create suitable employment for the community.

ii)Training programmes-set some funds aside for use in training programmes for the communities e.g. bee-keeping, agriculture, animal husbandry and effectively encourage entrepreneurship.

iii)Support for educational institutions and links with business.

iv)Sponsorship of the arts and sport-this can encourage communities to change the negative perceptions about a company.

v)Build houses-this is long-term and well appreciated in Zambia.

vi)Environmental programmes-encourage use of renewable energy and reduce pollution.

c)The courts will among other things consider whether the parties intended the agreement (if any) to have legal effect. In social agreements, there is a presumption that the parties do not intend to create legal relations, while in commercial agreements, the strong presumption is that the parties intend to enter into legally binding relationships in consequence of their dealings.

The legal implications will therefore depend on whether a contract existed between the company and the community. A contract is defined as a binding agreement.

The company's position will to a large extent depend on the legal interpretation. It will definitely be advisable for the company to seek legal advice. Acting otherwise may not be appropriate.

2)Professional and ethical issues are:-

i)Integrity-management recruited a person with no recognition with ZICA and did not bother to consult ZICA to find out the correct position. Professional jobs require appropriate assessment by people with high levels of integrity.

ii)Objectivity-some of the applicants may be colleagues and temptation to persuade management to offer the job is likely to be high.

iii)Professional competence and due care- this is a senior position which requires a proper and detailed search for a suitable person with appropriate qualifications, skills and experience.

Additional procedures will include:-

i)Reviewing the applications for any obvious omission on the part of the juniors who were scrutinising the applicants. If possible, reduce the number further, possibly to five(5).

ii)Obtaining background information about the applicants.

iii)Arranging formal interviews with the applicants.

iv)Recommending at least three (3) candidates to the client and ensuring the necessary clearance is obtained from ZICA and relevant law enforcement agencies e.g. police service.

It is advisable to leave the final selection to the client to avoid possible loss of independence and objectivity.

3)a) AMQ's

COMPANY INCOME TAX COMPUTATION

TAX YEAR 2011/12

	K'million	K'million
Profit before tax		225,000
ADD:-Depreciation	3,000	
Excess interest $^{5}/_{8}$ ×5,000	3,125	
		6,125
		231,125
LESS:-Exchange gain (unrealised)	250	
Capital allowances	80,000	
		(80,250)
		150,875
Loss relief		(40,000)
Taxable income		110,875

Income tax K'million

110,875 × 40.679% (W1)= 45,103

K'million

Mineral royalty tax 3% × 400,000 = 12,000

WORKINGS

1.Variable tax rate

Percentage of assessable profit to gross sales

$= {}^{110,875}/_{400,000} \times 100\% = 27.772\%$*

*27.772% exceeds 8%, and therefore variable tax rate applies

$Y=30\%+[a-({}^{ab}/_{c})]$

$Y= 30\% + [15\% - ({}^{15\% \times 8\%}/_{27.772\%})]$

Y= 30% + [15% - 4.32%]

Y=30% + 10.679%

Y=40.679%

b)Windfall tax applies when prices exceed specified levels. It aims to capture the abnormal gains and enable government participate in these abnormal gains which accrue to the mining firms. Most scholars believe it can result in maximum revenue collection for the government. However this view is debatable.

Mining companies invest huge sums of money at great risk. Most mining companies were attracted to Zambia by lucrative development agreements they signed with the government. However these were invalidated by an Act of parliament when windfall tax was introduced. This was viewed as grossly unfair. If not handled properly, the country can even lose the little revenue it is able to generate, especially if mining companies decide to leave the country.

Windfall tax has since been abolished in Zambia. The variable tax rate is able to capture reasonable revenues. This is in addition to the mineral royalty tax. Maximisation of tax revenue is generally a myth and what works in reality is satisfactory revenues, since this acknowledges and respects investors' massive investments. The returns to the investors must sufficiently compensate the investors for the risks they undertake, otherwise mining in Zambia can be viewed as relatively unattractive.

4)a)i)<u>Payback period</u>

Year	E		F		G	
	Cashflows	Cumulative cashflows	Cashflows	Cumulative cashflows	Cashflows	Cumulative cashflows
	K'million	K'million	K'million	K'million	K'million	K'million
0	(50,000)	(50,000)	(60,000)	(60,000)	(70,000)	(70,000)
1	20,000	(30,000)	10,000	(50,000)	50,000	(20,000)
2	30,000	0	40,000	(10,000)	40,000	20,000
3			40,000	30,000		

Payback period	2 years	2 years + $^{10,000}/_{40,000}$ × 12moths =2 years 3 months	1 year + $^{20,000}/_{40,000}$ × 12 months =1 year 6 months

ii)<u>Accounting rate of return (ARR)</u>

ARR= $^{\text{Average annual profit}}/_{\text{Average investment}}$ × 100%

	E	F	G
ARR	$=^{21,250}/_{30,000}$ × 100% =<u>70.83%</u>	$=^{13,750}/_{32,500}$ × 100% =<u>42.31%</u>	$=^{18,000}/_{36,000}$ × 100% =<u>50%</u>

iii)<u>Net Present Value</u>

10% Discount Factor	Year	E		F		G	
		Cashflow	Present Value	Cashflow	Present Value	Cashflow	Present Value
		K'million	K'million	K'million	K'million	K'million	K'million
1.000	0	(50,000)	(50,000)	(60,000)	(60,000)	(70,000)	(70,000)
0.909	1	20,000	18,180	10,000	9,090	50,000	45,450
0.826	2	30,000	24,780	40,000	33,040	40,000	33,040
0.751	3	35,000	26,285	40,000	30,040	30,000	22,530
0.683	4	50,000	34,150	25,000	17,075	22,000	15,026
		NPV	<u>+53,395</u>	NPV	<u>+29,245</u>	NPV	<u>+46,046</u>

b)Recommendation:- Project E should be selected since it has a higher NPV.

c)The recommendation will remain the same even though none of the other projects have a higher IRR than project E. NPV is a more superior method compared to IRR. This means project E would still be preferred even if any of the other projects had a higher IRR than project E.

d)Any share issued by a company in Zambia that is not listed on the Lusaka Stock Exchange (LuSE) is chargeable property, and property transfer tax(PTT) is charged at 5% of the higher of nominal value and open market value.

However, all LuSE listed shares are exempt from PTT. Hence, there will be no tax implications when shares are issued because AMQ plc is listed on the LuSE.

SECTION B

5)a) FAR ALUNA

PAYSLIP-MARCH 2012

	K	K	K
GROSS PAY			
Salary		10,000,000	
Medical allowance		8,000,000	
Fuel allowance		5,200,000	
Uniform allowance	2,500,000		
Less:-expense claim	(2,000,000)	500,000	
Gratuity		140,000,000	
Sub-total			163,700,000
DEDUCTIONS			
PAYE (W3)		60,583,000	
NAPSA		500,000	
Loan		1,200,000	
Canteen		310,000	
			(62,593,000)
NET PAY			101,107,000

WORKINGS

1.GRATUITY

	K
Amount paid	140,000,000
Less: qualifying gratuity	(90,000,000)
25% × 360,000,000*	
Non-qualifying gratuity	50,000,000

*Salary earned over three (3) years.

Year	K
1	120,000,000
2	120,000,000
3	120,000,000
Total	360,000,000

**Tax on qualifying gratuity

Amount K90,000,000

Income tax	K
90,000,000	
(12,000,000)×0%=	0
78,000,000	
78,000,000×25%=	19,500,000
0	
Income tax payable	19,500,000

3.PAYE

	K
Gross pay for March (excluding qualifying gratuity)	73,700,000
Gross pay up to previous pay day	400,000,000
	473,700,000
NAPSA (155,000×12	(1,860,000)
Taxable income	471,840,000

Income tax computation	K
471,840,000	
(12,000,000)×0%=	0
459,840,000	
(8,820,000)×25%=	2,205,000
451,020,000	
(29,580,000)×30%=	8,874,000
421,440,000	
(421,440,000)×35%=	147,504,000
0	
Income tax liability	158,583,000
Less tax to previous pay day	(117,500,000)
Income tax payable for March	41,083,000

Total PAYE computation	K
*On normal income plus non-qualifying gratuity	41,083,000
*On qualifying gratuity	19,500,000
Total PAYE	60,583,000

b)At the end of the year, employers have the following responsibilities:-

i)Making an annual return-employers have an obligation to make an annual return on form CF/P18 not later than the 1st June following the end of the charge year to which the return relates. Where an employer has ceased operations part way through a charge year, a return is to be made within 2 months of cessation.

ii)Cerificate of pay and tax deducted-employers are also obliged to give each employee in respect of whom PAYE deductions have been made an annual certificate of pay and tax deducted on form ITF/P22. The certificate is to be given before the 1st June following the end of the charge year to each employee who is still employed at the end of the charge year or who left during the charge year.

6)a) PERSONAL COMPUTATION

OF INCOME TAX PAYABLE 2011/12

	K'000	K'000
Profit before tax		232,420
ADD:		
Excess salary	300	
Allowance to owner	5,200	
Depreciation	11,000	
Motor car expenses	2,400	
(40% × 6,000)		
Fixtures and fittings	1,000	
Cash register repairs	700	
Bonus	17,500	
Entertaining Auditors	1,000	
Entertaining foreign suppliers	1,300	
Christmas gift-Mosi	2,200	
Personal-to-holder vehicle	15,000	
		57,600
		290,020
LESS:-		
VAT	64,000	
464,000 × $^{4}/_{29}$		
Decrease in general provision	3,000	
Capital allowances(W1)	35,590	
		(102,590)
Taxable business profit		187,430

Income tax payable computation

	K
Employment income	420,000,00
Business profits	187,430,000
Taxable income	607,430,000

Income tax

	K
607,430,000	
(12,000,000)×0%=	0
595,430,000	
(8,820,000) ×25%=	2,205,000
586,610,000	
(29,580,000)×30%=	8,874,000
557,030,000	
(557,030,000)×35%=	194,960,500
0	
Income tax liability	206,039,500
Less:tax already paid	
PAYE	(139,788,000)
Income tax payable	66,251,500

The due date is 30th September, 2012.

WORKINGS

1.CAPITAL ALLOWANCES

	Allowances
	K'000
i)Motor van	-
ii)Cash register	6250
$29{,}000\times{}^{25}/_{29}\times25\%$	
iii)Motor car	6728
29,000×1.16×20%	
iv)Printer	3125
12,500 × 25%	
v)Computer	1500
$6960\times{}^{25}/_{29}\times25\%$	
vi)Fixtures and fittings	250
(1,000 × 25%)	
vii)Cash register	2425
(9,000 + 700)×25%	
viii)Motor car – Mr Nzolo	8352
69,600 × 20% × 60%	
ix)Motor car – Mrs Nzolo	6960
30,000 × 1.16 × 20%	
Total	35,590

b)If income tax is paid late, the penalty is 5% of that income tax per month or part thereof. This penalty runs from the due date of payment of income tax to the date of actual payment.

Interest on overdue tax is charged at the Bank of Zambia discount rate plus 2% per annum. The interest is calculated on the income tax that is paid late. Interest on overdue tax runs from the due date of payment of income tax to the date of actual payment.

7)a)The main reasons are:-

i)Massive tax evasion-most traders who are registered for VAT do not use the recommended cash register. This enables them to grossly understate the VAT on their sales.

ii)Exaggerated refunds-some of the input VAT claims are not genuine. Fake tax invoices may be attached and some inputs may have nothing to do with the furtherance of their business. ZRA is understaffed and cannot mount vigorous investigations into this.

b)Some of the ways include:-

i)Educating the public on the consequences of the traders not using the recommended cash register.

ii)Recruitment of more VAT officers and making surprise visits to traders.

iii)Ensuring culprits are prosecuted to the full extent of the law.

iv)Showing in practical terms the benefit of paying tax.

c)VAT is largely invoice based and uncomplicated. It has a “self-policing” character, which in turn improves tax compliance, unlike sales tax.

The input credit mechanism gives registered businesses back much of the tax they pay on their purchases and expenses used for making taxable supplies and, as a result, largely avoid the “Tax on Tax” which was characteristic of the sales tax.

In addition, VAT is broad and has brought a significant number of traders into the Tax net.

The four main obligations of VAT registered suppliers are:-

i)Display their VAT registration certificate.

ii)Provide Tax invoice.

iii)Maintain sufficient records and retain them for the specified minimum period.

iv)Submit VAT returns and make payments as required.