QUESTION ONE

FUMBUSHE ASSOCIATES

1) In relation to the requests for the preparation of the cash and profit forecast,

a) Nature of such an engagement

This is an example of a compilation engagement as prescribed under the International Standard on Related Services (ISRE) 4410 – revised. This is not an assurance engagement

According to ISRE 4410. management may request a professional accountant in public practice to assist with the preparation and presentation of financial information of an entity. The value of a compilation engagement performed in accordance with the ISRE to users of financial information results from the application of the practitioner's professional expertise in accounting and financial reporting and compliance with professional standards, including relevant ethical requirements

Since a compilation engagement is not an assurance engagement, a compilation engagement does not require the practitioner to verify the accuracy or completeness of the information provided by management, for the compilation, or otherwise to gather evidence to express an audit opinion or a review conclusions on the preparation of the financial information

b) Ethical and professional issues and action to take

	i) Ethical and Professional Issue	ii) Recommended Action
1	**Outstanding fees – Self interest** Outstanding fees for a long time become non-current liabilities in the client's statement of financial position along with other loans. According to ZiCA ethical guidelines, this creates a self-interest as the practitioner will be interested in making sure that the business contact with the client is continued also that the client's financial position is not adversely affected	Fumbushe Associates should request that the outstanding fees are settled before the new assignments can be undertaken. Additionally, the firm should in future arrange for fees to be paid in part as the assignment progress
2	**Request to accept assignment – intimidation** Placing conditions for the continued business relationship between Kulima Ltd and Fumbushe Associates amounts to intimidation	Fumnushe Associates should discuss this perceived intimidation with the client. If the client maintains that continued relationship depends on Fumbushe accepting this assignment, Fumbushe should decline this appointment and consider discontinuing any such professional relationship with this client
3	**Hire of tractor at ½ price – self-interest** The other ½ price amounts to a gift. According to ZiCA ethical guidelines, a gift should only be accepted if it is considered to be significant and within the policy guidelines provided by the firm	The size of the gift (1/2 price not to be paid) appears significant, especially that it is extended to the entire professional team. Accordingly, the offer should be declined and client advised on the ethical implications
4	**Accountant nephew – Familiarity threat / self-interest** The family relationship between Lexon and the accountant affects the objectivity with	Either Lexon should be removed from the assignment or the assignment declined altogether. This ethical implications should be explained to the client and those charged with corporate governance

	which Lexon can use to compile information with impartiality	
5	**Inclusion of sale proceeds from sale of assets as operating activities – fraud and error** Reporting sale proceeds under operating activities instead of investing activities (According to IAS 7 – Cash flow statements) constitutes an error and is misleading the users. The professional implications depends on whether this is a intentional or not.	The issue should be discussed with the client with the request for the correct treatment of the sales proceeds as part of investing activities. If the clients refuses, this should raise integrity questions and the assignment should therefore be declined
6	**Overstatement of profit and cash position - misleading information** According to ZiCA ethical code, when the professional accountant knows or has reason to believe that the information with which the accountant is associated is misleading, the accountant shall take appropriate actions to seek to resolve the matter.	Discussing concerns that the information is misleading with the professional accountant's superior and/or the appropri ate level(s) of management within the accountant's employing organization or those charged with governance, and requesting such individuals to take appropriate action to resolve the matter, including having the information corrected. action might include: ○ Having the information corrected If after exhausting all feasible options, the professional accountant determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the accountant shall refuse to be or to remain associated with the information. In such circumstances, it might be appropriate for a professional accountant to resign from the employing organization.

2) In relation to the resident status of Kulima Ltd

a) Resident status of Kulima Ltd

Since the directors are Zambian based and hold their board meetings in Zambia, this would indicate that Kulima Ltd's place of effective management is in Zambia, and therefore it is resident in Zambia.

b) If directors were based abroad

- Companies that are incorporated abroad are only treated as being resident in Zambia if their place of effective management is in Zambia.
- If the directors were to be based abroad and to hold their board meetings abroad, the Kulima Ltd would probably be treated as resident abroad since the company's place of effective management would be abroad.
- The reason why Kulima Ltd would then be treated as being resident abroad is because the company is incorporated abroad. Companies that are incorporated abroad and that also have places of effective management abroad are resident abroad.

3) In relation to the taxation position of Kulima Ltd

a) Varioius taxation values for the tax year 2018:

i) The capital allowances on buildings

In computing capital allowances on buildings, the following should be considered:

Only the factory qualifies as an industrial building because the cost of the general offices exceeds 10% of the total construction cost of the building. The total construction cost is K480,000 – K90,00 = K390,000. 10% of K390,000 is only K39,000 and the cost of the general offices is K100,000. The general offices are therefore a commercial building.

Calculation of balancing adjustments on disposal of the buildings:

	Industrial Building	Commercial Building
	K	K
Qualifying cost	290,000	100,000
Less allowances claimed		
Initial allowance K290,000 x 10%	(29,000)	
Annual wear and tear allowances		
(tax years 2012 to 2017: 6 years)		
K290,000 x 5% x 6	(87,000)	
K100,000 x 2% x 6	_______	(12,000)
Income Tax Value b/f at 1 January 2018	174,000	88,000
Disposal proceeds (limited to original cost)	(290,000)	(100,000)
Balancing charges	(116,000)	(12,000)
	=======	=======

ii) The capital allowances on implements, plant and machinery

		Capital Allowances
Office furniture	K	K
Wear and tear allowance K65,600 x 25%		16,400
Audi Motor Car		
Income Tax Value b/f	19,600	
Disposal	(22,200)	
Balancing charge		(2,600)
Old equipment		
Income Tax Value b/f	27,600	
Disposal	(25,400)	
Balancing allowance		2,200
Nissan Tiida Motor car		
Wear and tear allowance K36,400 x 20%		7,280
Mercedes Benz E240 Motor car		
Wear and tear allowance K62,800 x 20%		12,560
Toyota Camry Motor car		
Wear and tear allowance K60,400 x 20%		12,080
New equipment		
Wear and tear allowance K80,600 x 25%		20,150
Total capital allowances		68,070

iii) Kulima Ltd
Computation of Taxable business profits for the tax year 2018

	K	K
Profit before taxation as per accounts		1,040,000
Add:		
- Depreciation	119,800	
- Gifts of food hampers	1,540	
- Donation to political party	600	
- Legal fees connected with issuing shares	6,200	
- Initial repairs	27,800	
- Entertaining customers	7,400	
- Fine for publishing misleading information	5,200	
- Personal to holder motor car benefits		
Managing Director's car (Mercedes Benz E240)	30,000	
- Finance Director's car (Toyota Camry)	30,000	
		228,540
		1,268,540
Less:		
- Dividends	90,000	
- Profit on disposal of building	120,000	
		(210,000)
		1,058,540
Capital allowances		
- Balancing charge on factory	(116,000)	
- Balancing charge on general office	(12,000)	
- Capital allowances on implements, plant and machinery	68,070	
- Other capital allowances	29,730	
- Net balancing charge		30,200
Taxable business profit		**1,088,740**
		=======

b) <u>Kulima Ltd</u>
<u>Company income tax computation for the tax year ended 2018</u>

	K
Taxable business profit	1,088,740
Company Income Tax payable K1,088,740 x 35%	381,059
	=======

The company income tax of K381,059 must have been paid in four quarterly instalments, with each instalment being due within 10 days following the end of the quarter that it relates to. The amount payable in respect of each quarter would have been K95,265 (i.e., K381,059 x 0.25).

The payments would have been made on the dates shown in the schedule below:

Due date	Amount K
10 April 2018	95,264
10 July 2018	95,265
10 October 2018	95,265
10 January 2019	95,265

c) **Property Transfer Tax implications of the disposals of assets**

In respect of the disposal of the old equipment on 12 October 2018, the company is not required to pay Property Transfer Tax because equipment is not property for the purposes of Property Transfer Tax.

- In respect of the disposal of the Audi Motor car on 20 December 2018, the company is not required to pay Property Transfer Tax because a motor car is not property for the purposes of Property Transfer Tax.
- In respect of the disposal of the building on 31 March 2018, the company is required to pay Property Transfer Tax because the disposal of a building is a transfer of property. The realized value is the actual disposal proceeds amount of K600,000 and the Property transfer Tax payable is = 5% x K600,000 = K30,000.

4) Accounting treatment of various items

a) Repairs and Warranties

According to IAS 37, Provisions, Contingent Assets and Contingent Liabilities - An entity must recognize a provision under IAS 37 if, and only if:

(i) A present obligation (legal or constructive) has risen as result of past event (the obligation event)

(ii) It is probable ('more likely than not'), that an outflow of resources embodying economic benefits will be required to settle the obligation

(iii) The amount can be estimated reliably.

An obligation event is an event that creates legal of constructive obligation and, therefore, results in an entity having no realistic alternative but to settle the obligation. A constructive obligation arises if past practice creates a valid expectation on the part of a third party. If is more likely than not that no present obligation exists, the enterprise should disclose contingent liability, unless the possibility of an outflow of resources is remote.

Initial and subsequent measurement (best estimate and discounting)

The amount recognized as a provision should be the best estimate of the expenditure required to settle he present obligation at the statement of financial position date, that is, the amount that an enterprise would rationally pay to settle the obligation at the statement of financial positions events such as warranties, are measured at a probability weighted expected value. In reaching its best estimate, the entity should take into account the risks and uncertainties that surround the underlying events.

Expected cash outflows should be discounted to their present values, where the effect of the time of money is material using a risk rate (it should not reflect risks for which future cash flows have been adjusted). If some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognized as separate asset when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The amount recognized should not exceed the amount of the provision. In measuring a provision future events should be considered. The provision for warranty claim will be determined by using the expected value method.

Application to the scenario (recognition, initial and subsequent measurement)

The past event which causes the obligation is the initial sale of the product with the warranty given at that time. It would be appropriate for the company to make a provision for the year 1 warranty of K280,000 and year 2 warranty of K350,000, which presents the best estimate of the obligation (see appendix 2). Only if the insurance company has validated the counter claim will Chilanga be able to recognize the asset and income. Recovery has to be virtually certain. If it is virtually certain, then Chilanga may be able to recognize the asset. Generally contingent assets are never recognized, but disclosed where in inflow of economic benefits is probable.

The company could discount the provision if it was considered that the time value of money was material. The majority of provisions will reverse in the short term (within two years) and, therefore, the effects of discounting are likely to be immaterial. In this case, using the risk adjusted rate (IAS 37), the provision would be reduced to K269,000 in year 1 and K323,000 in year 2, the company will have to determine whether this is material.

Appendix 2 - Warranty						
Year 1 Warranty						
		Expected		Discounted		
		Value	Factor	value @4%		
		('000)		('000)		
80% * NIL		0				
15% *7,000 * $100		105				
5% * 7,000 * $500		175				
		------------		----------		
		280	**0.962**	269		
		------------		-------		
Year 2 Warranty						
		Expected		Discounted		
		Value		value @4%		
		('000)		('000)		
70% * NIL		0				
20% *5,000 * $100		100				
10% * 5,000 * $500		250				
		------------		----------		
		350	**0.924**	323		
		------------		-------		

b) Sale of non-current assets

According to IFRS 5 – Assets for sale, the following criteria should be met before an asset can be classified as held for sale

- The asset or disposal group must be available for immediate sale in its present condition subject to terms that are usual and customary for that type of asset
- The sale must be highly probable – criteria:
  - Management must be committed to a plan to sell the asset (disposal group)
  - An active program to locate the buyer and complete the plan must have been initiated
  - The price must be reasonable in relation to its current condition and location
  - The sale should be expected to be completed within one year from the date of classification

According to IFRS 5, an asset classified as held for sale should be sold within one year. If this is not the case, the commitment to sell should be reassessed in the light of changed conditions.

In this case, because the price is in excess of the current fair value, the asset is not available for immediate sale and should not be classified as held for sale.
Kulima Ltd should have responded to the changed conditions by reducing the price to realistic values to demonstrate its firm commitment to sell the asset.

c) **Sale agreements**

The sales agreements should be accounted for in accordance with IFRS 15, Revenue from Contracts with Customers.

According to IFRS 15, at the inception of the contract, Kulima Ltd must determine whether its promise to construct the asset is a performance obligation satisfied over time. Kulima Ltd only has rights during the production of the asset over the initial deposit paid. They have no enforceable rights to the remaining balance as construction takes place. Therefore they would not be able to receive payment for work performed to date.

Additionally, Kulima Ltd has to repay the deposit should they fail to complete the construction of the asset in accordance with the contract. There is a single performance obligation which is only met on delivery of the asset to the customer.

Accordingly, revenue should not be recognised on a stage of completion basis but must be deferred and recognised at a point of time. That is, on delivery of the asset to the customer.

d) Financing and interest payable

According to IFRS 9 , Financial Instruments, financial liabilities are classified as either:

- At fair value through profit and loss, or
- Financial liabilities at amortised cost

For financial liabilities at amortised cost, the following rules apply

- Initial measurement – Amortised cost (using the effective interest rate) less transactions costs – costs of issue
- Subsequent measurement – Amortisation taking into account interest receivable and interest received
- Interest receivable – income- computed at effective interest rate on opening balance is credited to the profit and loss

Accordingly, for Mukuni Ltd – the financial liability will be accounted as below

	ANSWER - - AMORTISED COST								
	Profit and Loss				**2018**	**2019**	**2020**		
	- Interest Expense				**3,573**	**3,782**	3,844		
	Statement of financial position								
	- Financial Liability				**47,273**	**48,054**	48,899		
	WORKINGS								
					Interest				
	Year	**Opening**	**Interest**	**Sub**	**payable**	**Closing**			
	end	**Balance**	**@ 7.65%**	**total**	**6% of 50,000**	**balance**			
	2018	46,700	3,573	50,273	-3,000	47,273			
	2019	47,273	3,782	51,054	-3,000	48,054			
	2020	48,054	3,844	51,899	-3,000	48,899			
	2021	48,899	3,912	52,811	-3,000	49,811			
	2022	49,811	3,985	53,000	-53,000	0			

QUESTION TWO

SUGGESTED SOLUTIONS

MULUBWA ASSOCIATES

1) **Han Construction Limited (HCL), draft a briefing memo to Mr Han in which you**

Briefing memo

To	:	Mr. Han
From	:	Mulubwa Associates
Subject	:	Deferred tax

Introduction

The purpose of this memo is to explain the concept and implications of deferred tax. The first part will explain the purpose and principles of deferred tax and the second part will explain and illustrate the deferred tax implication for the plant

a) Purpose and principles of deferred tax

Deferred tax is the future tax effect of temporary difference. It is essentially tax that is payable (or tax relief that will be available) in the future. Yet this is not yet due. So, in simple terms, deferred tax is tax that is payable or recoverable in the future. Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. Permanent differences (e.g. fines, political donations, entertainment) do not give rise to deferred tax, they are normally disallowed for tax purposes.

Accounting base- the carrying amounts of items in the financial statements. Tax base- the value of items recognised in the financial statements for tax purposes. Temporary differences can be either:

i) taxable differences – temporary differences which give raise to deferred income tax liabilities; or
ii) deductible temporary differences – result in amounts that are deductible in determining taxable profit of future periods when the carrying amount of the asset or liability or recovered or settled.

In many countries different rules are used for calculating accounting profit (as used by investors) and taxable profit. This can give rise to temporary differences. Temporary differences arise when income or expenditure is recognised in the financial statements in one year, but is charged or allowed for tax in another. Deferred tax needs to be provided for on these items. IAS 12 requires that an entity must provide for deferred tax on all temporary differences. This is known as the full provision basis.

The most common temporary difference is that between depreciation charged in the financial statements and capital allowances in the tax computation. In practice capital allowances tend to be higher than depreciation charges, resulting in accounting profits being higher than taxable profits. This means that the actual tax charge (known as current tax) is too low in comparison with accounting profits. However, these differences even out over the life of an asset, and so at some point in the future the accounting profits will be lower than the taxable profits, resulting in a relatively high current tax charge.

These differences are misleading for investors who value companies on the basis of their post tax profits (by using EPS for example). Deferred tax adjusts the reported tax expense for these differences. As a result the reported tax expense (the current tax for the period plus the deferred tax) will be comparable to the reported profits, and in the statement of financial position a provision is built up for the expected increase in the tax charge in the future.

There are many ways that deferred tax could be calculated. IAS 12 states that the liability method should be used. This provides for the tax on the difference between the carrying value of an asset (or liability) and its tax base. The tax base is the value given to an asset (or liability) for tax purposes. The deferred tax charge (or credit) in profit or loss is the increase (or decrease) in the provision reported in the statement of financial position.

b) Deferred tax implications for the plant for the year ended 31 December 2018

The plant will be reported in the Statement of financial position at 31.12.2018 within Property, plant and equipment at its fair value of K130million in accordance with the entity's Revaluation model per IAS 16. The plant's depreciation charge will be based on its carrying amount of K210 million during the year to 31.12.2018, its revised residual value of K5 million and the revised remaining life of 6.25 years (8 – 1.75). This gives a depreciation charge of K32.8 million = (210 -5)/6.25 to report in profit or loss for the year to 31.12.2018.

The revaluation at 31.12.2018 will give a revaluation loss as follows:

	K'm
Carrying amount after revaluation	130
Carrying amount before revaluation (210-32.8)	(177.2)
Loss on revaluation	(47.2)

Accounting for the revaluation loss:
Without revaluation, the cost model carrying amount of the plant at 31.12.2018 would be:

		K'm
Cost		250
Depreciation up to 31.12.2017	(250-10)/10X1.75	(42)
		208
Depreciation for y/e 31.12.2018	(208-5)/6.25	(32.5)
Carrying amount at 31.12.2018		175.5

With the above in mind, of the total loss of K47.2 million at 31.12.2018, a loss equal to K1.7 million (i.e. 177.2 -175.2) reverses a past unrealized gain on the plant and will therefore be reported in other comprehensive income (no recycling to profit or loss). The balance of the loss amounting to K45.5 million must be reported in profit or loss.

In accounting for deferred tax, Lusaka must consider any temporary difference between the accounting base and the tax base of the plant as follows:

	K'm	K'm
Accounting base at 31.12.2018		130
Tax base at 31.12.2018 (250-25%X250X3)		(62.5)
Taxable difference at 31.12.2018		67.5

Therefore, at 31.12.2018, Lusaka must report a deferred tax liability of K20.3 million under non-current liabilities (i.e. 67.5X30%).

The total deferred tax expense or credit to SPLOCI will be computed as follows:

		K'm
Liability at 31.12.2018		20.3
Less opening liability:		
- Accounting base	210	
- Tax base 250 -250X25%X2	(125)	
- Taxable difference	85	
- Deferred tax liability 85X30%		(25.5)
- Total credit to SPLOCI for the y/e 31.12.2018(decrease in liability)		(5.2)

Of the total decrease in the deferred tax liability of K5.2 million, a credit of K0.5 million (i.e. 30%X1.7) will be reported in OCI against the loss of K1.7 million. The balance of the credit equal to K4.7 million will be in profit or loss as part of the income tax expense

2) Mukumpe Farms - Taxation

a) COMPUTATION OF PROVISIONAL INCOME TAX

	K
Revised estimated taxable profit	550,000
Provisional Income Tax	
- K39,600 x 0%	0
- K510,400 x 10%	51,040
	51,040
Amount of provisional income tax paid each quarter (K51,040 ÷ 4)	12,760

Instalment	Due Date Amount	K
1st Instalment	31 March but not later than 10 April 2018	12,760
2nd Instalment	30 June but not later than 10 July 2018	12,760
3rd Instalment	30 September but not later than 10 October 2018	12,760
4th Instalment	31 December but not later than 10 January 2019	12,760

b) COMPUTATION OF MAXIMUM AMOUNT OF CAPITAL ALLOWANCES FOR TAX YEAR 2018

	K
Stumping and clearing Expenditure	
- Farm works allowance (K9,700 x 100%)	9,700
Construction of Fence	
- Farm improvement allowance (K16,300 x 100%)	16,300
Expenditure for Prevention of Soil Erosion	
- Farm works allowance (K18,500 x 100%)	18,500
Motor van wear and tear allowance	
- (K90,000 x 25%) x 80%	18,000
Tractor	
- Wear and tear allowance (K130,000 x 100%)	130,000
Farm implements	
- Balancing charge (0 – K6,400)	(6,400)
	186,100
	======

c) COMPUTATIN OF ACTUAL TAXABLE PROFIT FOR THE YEAR 2018

	K	K
Profit for the year		680,000
Add:		
- Mukumpe's salary	90,000	
- Loans to former employees written off	12,000	
- Repairs and fuel for motor van (K9,500 x 20%)	1,900	
- Depreciation	14,400	
- Increase in general provision	2,600	
- Loss on disposal of farm implements	7,100	
- Stumping and clearing	9,700	
- Constructing wire fence	16,300	
- Expenditure on prevention of soil erosion	18,500	
- Goods for personal use (K15,000 x 20%)	3,000	
		175,500
		855,500
Less: capital allowances (b)		(186,100)
Final actual taxable profit		669,400
		======

d) COMPUTATION OF THE FINAL AMOUNT OF INCOME TAX PAYABLE FOR THE YEAR 2018

	K
Final taxable profit	669,400
	======
Income Tax	
- K39,600 x 0%	0
- K629,800 x 10%	62,980
	62,980
Less provisional income tax	(51,040)
Final income tax payable	11,940
	======

3) Mukumpe farm – Accounting treatment

a) **The Land**

This represents an investment property and should be accounted in accordance with IAS 40, Investment Property. According to IAS 40:

- Investment property is defined as a property held for value appreciation or for the receipt of economic rent
- The property should be measured at cost on initial purchase – cost being all the expenditure incurred to bring the property to its present condition and location
- Subsequently, the property should be measure on the basis of cost or fair value model
- Where fair value is applied, the property should be subjected to fair valuations periodically and should not be depreciated
- Any changes in fair value movement is to be reported in the profit and loss

Accordingly, the rented piece of land will be remeasured at K314,00 at the end of the year and the gain of K74,000 will be credited to the profit and loss account

b) Harvested maize

According to IAS 41, Agriculture, biological assets and agricultural produce should be accounted at fair value less point of sale costs

The harvested maize represent agricultural produce and should be measured as

	K
Fair value per bag	80
Less point of sales costs per bag - @2%	(1.6)
	78.4

Therefore the total value of the 200 bags is K15,680 (200 * 78.4)

According to IFRS 13, fair value is the exit price or selling price less transportation costs – transaction costs are not taken into account

c) Hire of farming implements

This transactions is covered by the provisions of IFRS 16, Leases. As Mukumpe enjoys the right to use and control the implements, this is in the nature of a finance lease, regardless of the period of the lease. According to IFRS 16,
Upon lease commencement a lessee recognises a right-of-use asset and a lease liability.
DR Asset
CR Liability

The right-of-use asset is initially measured at the amount of the lease liability (Net present value of lease payments payable over the lease term) plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations or similar.

Exemption

Instead of applying the recognition requirements of IFRS 16, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term or another systematic basis for the following two types of leases:

(i) leases with a lease term of 12 months or less and containing no purchase options – this election is made by class of underlying asset; and

(ii) leases where the underlying asset has a low value when new (such as personal computers or small items of office furniture) – this election can be made on a lease-by-lease basis.

Accordingly, Mukumpe can write off the rentals on a straight line basis depending on the period of the lease

4) St Joseph's schools

a) Improvements to the purchasing system

- The schools should consider centralised purchasing for bulky common items such as stationery
- The inventory system should include pre-determined reorder levels, reorder quantities and lead times to avoid overstocking and shortages
- For each year, the school should consider selecting specific suppliers to secure favourable terms in respect of quality, price and delivery times
- The suppliers should be invited through a tender process and suppliers selected by a select committee
- There should be regular inventory counts reconciled to inventory ledgers
- Surprise inventory counts should be instituted
- Suppliers should be monitored to ensure that the quality, delivery and other contract conditions are strictly adhered to

b) Reporting framework options available to the schools

The Zambia Institute of Chartered Accountants launched the three tier Financial Reporting Framework in Zambia on 15th December 2010 at the Intercontinental Hotel.

Under the three tier financial reporting framework, entities have been categorised are as follows:

No.	Type of Entity	Financial Reporting Framework	Audit Assurance Requirement
1.	Listed Companies, Public Interest Entities and Government Owned Enterprises	Full IFRS	Full Audit Assurance Engagement
2.	Economically Significant Companies – companies that are not public companies or quoted on the stock exchange	IFRS for SMEs or Full IFRS if the Company opts to use it	Full Audit Assurance Engagement

	with turnover of K20 billion and above		
3.	Micro and Small Entities – entities with Turnover of less than K20 million	Zambian Financial Reporting Standard for Micro and Small Entities	No full audit required. If needed full audit can be done, otherwise Accountants report will suffice subject to Companies Act amendment

The Financial Reporting Standard for MSEs is available on the ZICA website under Technical Matters for members to download.

c) Reporting framework suitable for the schools

With a turnover over of about K5 million kwacha, the schools should adopt the Zambian Financial Reporting Standard for Micro and Small Entities

5) Ethical and other professional issues raised and recommendations

a) Han Construction Limited – Work permit information – Confidentiality

According to the ZiCA Ethical code relating to confidentiality, a professional accountant is not allowed to disclose information obtained in the course of their work to a third party without the permission from the client or in exception circumstances allowed by the ZiCA ethical code

Some of the exceptions allowed include situations where the client is involved in criminal activities such as money laundering or drug trafficking and where the professional considers the matter to be in public interest. For matter to be considered to be in the public interest, the following conditions should apply:

- The matter is serious
- Members of the public will be adversely affected
- The matter is likely to be repeated

In the context of the request from Mr. Lee it is arguable as to whether this meets the criteria above. Accordingly, the request should be declined on professional grounds

b) Mukumpe Farms – Understatement of profit

There are two potential ethical issues with regard to understatement of profit. The first one is being associated with misleading information and the second one is non-compliance with applicable laws and regulations

Non- compliance to laws and regulations

Tax can be reduced through a process of tax planning aimed at identifying areas where tax can be avoided be taking advantage of areas where the taxation legislation is not clear and maximising on all the tax saving opportunities. This is tax avoidance and is allowed.

On the other hand tax evasion is the blatant non-compliance of taxation laws in order to reduce the tax obligation. According to the ZiCA Ethical Code, non-compliance with applicable laws and regulations also raises questions regarding the integrity of Miss Mukumpe

Mulubwa Associates should advixe Miss Mukumpe accordingly. If she insists on reducing taxable through evasion, Mulubwa Associates should consider withdrawing from the assignment

c) St Joseph Schools - Recruitment

According to the ZiCA Ethical Code, a professional accountant shall not intentionally mislead an employing organization as to the level of expertise or experience possessed. The principle of professional competence and due care requires that a professional accountant only undertake significant tasks for which the accountant has, or can obtain, sufficient training or experience.

A self-interest threat to compliance with the principle of professional competence and due care might be created if a professional accountant has insufficient experience, training and/or education.

Mulubwa Associates does not have any experience in recruitment. Accordingly, the request should be declined and reasons communicated to the board of trustees