

COMPETENCE PRACTICE EXAMINATION (CPE)

NON AUDIT

QUESTION ONE

Kazungula & Co.

Kazungula & Co. is an accountancy firm based in Livingstone. It is registered with the Zambia Institute of Chartered Accountants (ZiCA) and provides non-assurance services. The firm's competitive strategy to date has been to differentiate through close collaboration with clients on a number of issues. However, ZiCA has questioned some of the recently proposed collaborations.

You are a Manager in Kazungula & Co. The Managing Partner has asked you to advise him on the collaborations which ZiCA has questioned and complete the assignments involving the following clients:

- (1) Mununga Plc
- (2) Luangwa Ltd
- (3) Kalulushi Social Club
- (4) Training on International Public Sector Accounting Standards (IPSAS).

Collaborations

ZiCA has questioned the following proposed collaborations with clients:

- Secondment of staff – Kazungula & Co. is proposing that newly recruited CA Zambia graduates undergoing the compulsory practical training should be seconded to clients. Several clients' accounting departments are understaffed. These will be seconded for at least one (1) year, after which time they would return to Kazungula & Co.
- Business relationship – The Managing Partner has written to one of the clients to see whether the client would be interested in a joint venture involving the purchase of unprocessed copper from small scale miners and reselling the same to mining companies with excess smelting facilities. Control and profits will be shared in proportion to the capital contributions. This will boost the profits of both organisations.
- Training of accountants – Kazungula & Co. wants to start providing technical training in accountancy and taxation to clients. The fee charged for this training would depend on how long the client has been doing business with Kazungula & Co.
- Advertising – Kazungula & Co. is in the process of taking out a full page advertisement in collaboration with one of the clients who runs a casino.

The Managing Partner thinks ZiCA is unnecessarily interfering with the operations of the firm and wants you to evaluate these collaborations and advise him on the actions to take.

Mununga Plc

Mununga Plc is a retailer of a variety of human and animal food. The company has been a client for Kazungula & Co. for over seven (7) years. The Manager who was previously assigned to

prepare the financial statements for Mununga Plc had travelled to Europe and just came back last week. She is, however, on a fourteen (14) days mandatory quarantine due to the Corona virus (COVID 19) pandemic and is therefore unable to resume work immediately.

The Chief Accountant for Mununga Plc has already done some work on depreciation and cost of sales. You are satisfied with the work done. The depreciation amounts have been correctly computed and appropriately allocated to cost of sales, administration expenses and distribution costs. The following trial balance relates to Mununga Plc as at 31 March 2020:

	K'000	K'000
Inventory at 31 March 2020 (note 1)	4,000	
Trade receivables and payables	12,000	6,750
10% Loan notes (note 2)		40,000
Brand name at cost and Amortisation (note 3)	6,000	1,000
Land at cost	3,500	
Plant and equipment at cost (note 6)	46,000	
Buildings at cost	7,500	
Accumulated depreciation of buildings at 31 March 2020		1,800
Accumulated depreciation of plant and equipment at 31 March 2020 (note 6)		1,610
Income tax (note 4)	500	
Equity shares of K0.25 each (note 5)		3,000
Retained earnings at 1 April 2019		3,300
Deferred tax (note 4)		1,000
Bank		600
Cost of sales (note 1)	60,000	
Distribution costs	18,900	
Administrative expenses	33,500	
Bank interest	100	
Loan interest	2,000	
Revenue		132,300
Suspense account (note 5)	_____	<u>2,640</u>
	<u>194,000</u>	<u>194,000</u>

The following notes are relevant:

1. The inventory of Mununga Plc was counted on 8 March 2020 due to logistical and commercial reasons. At this date, its value at cost was K4 million and this figure has been used in the cost of sales calculation above. Between 8 March 2020 and the year end of 31 March 2020, Mununga Plc received a delivery of goods at a cost of K3 million on credit and made credit sales of K2 million at a mark-up on cost of 25%. Neither the goods delivered nor the sales made in this period were included in Mununga Plc's purchases (as part of cost of sales) or revenue in the above trial balance. The delivery was still in inventory on 31 March 2020.
2. The 10% Loan notes were issued on 1 April 2019 under terms that provide for a large premium upon redemption in 2025. The accounts department has calculated that the effective interest rate on this type of debt instrument is 19% per annum. Mununga Plc also paid in cash issue costs of K800,000; these have yet to be accounted for. Mununga Plc intends to hold these loan notes to maturity.
3. Mununga Plc's brand name in the trial balance relates to a product line that received bad publicity during the year which led to falling sales revenue. The brand name was acquired on 1 April 2018 at a cost of K6 million. An impairment review was conducted on 1 December 2019 which reviewed that, the brand name is now expected to generate net cash flows of K1 million per annum for the next four (4) years. On the same date, Mununga Plc received an offer for the purchase of the brand name for K3 million. The brand name is amortized using straight line method over a 6 year life. Amortization and impairment charges are all charged to administrative expenses. An appropriate annual discount rate is 12%.

Discount Factors @ 12%

Year 1 0.893

Year 2 0.797

Year 3 0.712

Year 4 0.636

Cumulative for 4 years 3.037

4. The directors of Mununga Plc have estimated the income tax liability for the year ended 31 March 2020 at K1.4 million. The balance of the income tax account in the trial balance represents under/over provision of the previous year's estimate. At 31 March 2020 there were K2 million of taxable temporary differences due to capital allowances exceeding depreciation. The applicable tax rate is 35%.
5. The suspense account in the trial balance represents the credit entry for the proceeds of a two (2) for five (5) rights issues of ordinary shares made on 1 March 2020. The issue was for K0.55 per share and was fully subscribed.
6. On 1 February 2018, Mununga Plc bought an item of equipment for K3.2 million. It has an expected useful life of eight (8) years but will realize nothing on final disposal. On 31 March 2020, it was decided to sell the equipment and a plan was put in place and instructions given to locate a buyer. The equipment is in great demand so Mununga Plc is confident that the machine will be sold promptly. Its current market value is K2.8 million.

As the item of equipment is of a considerable size dismantling costs to make it available for sale will be incurred of K15,000.

Luangwa Ltd

Luangwa Ltd is based in Kaoma and specializes in the production of high quality household furniture. The company's systems are mainly manual and this is affecting the company's ability to compete. The Managing Director has noted with great regret that in the last six (6) months there has been a noticeable increase in the number of complaints about the company's inability to complete orders on time.

To achieve agreed client deadlines, the Managing Director has asked Kazungula & Co. to suggest effective ways of computerizing systems. He is aware that technologies provide many opportunities and benefits such as increased productivity, efficiency, accuracy and better analysis of organizational and business-related data for decision-making. However, he is very concerned about cybercrime. The Managing Director has heard of "Identity Theft", "Malware", "Phishing" and "Scams" and would like Kazungula & Co. to clearly explain the aforementioned cybercrimes and recommend how Luangwa Ltd can protect itself against these cybercrimes.

The Managing Partner has requested you to provide briefing notes which addresses the Managing Director's concerns.

Kalulushi Social Club

Kalulushi Social Club provides various recreational facilities to the community. It is managed by non-executive elected trustees. The trustees are assisted by four (4) full-time employees – Manager, Accountant, Cleaner and Security Guard.

The Accountant is a retired secondary school bookkeeping teacher and is not a member of ZICA. He has provided the trustees with the following statistics:

Years ending 31 December:

	2019	2018
	K	K
Income	450,000	400,000
Expenditure	442,000	336,000
Non-current assets	552,300	494,000
Current assets	219,400	202,560
Non-current liabilities	85,000	85,000
Current liabilities	312,500	293,700
Number of paid-up members	800	690
Number of employees	60	40

The trustees have requested Kazungula & Co. to provide an analysis of the performance for the year ended 31 December 2019. They also want the firm to advise them on the procedure to be followed when engaging a person to perform accountancy work since the current Accountant's contract will not be renewed once it expires.

Training on International Public Sector Accounting Standards (IPSAS)

The Government of the Republic of Zambia has recruited over 3,000 accountants who will be deployed in various Ministries and Spending Agencies. Most of the accountants recruited have no idea of International Public Sector Accounting Standards (IPSAS). The Accountant General has requested Kazungula & Co. to provide a training session to the new accountants on the authority and scope of International Public Sector Accounting Standards (IPSAS); and the benefits for the Government of the Republic of Zambia of using these accounting standards.

IPSASs are issued by the International Public Sector Accounting Standards Board (IPSASB). Zambia has currently adopted the Cash Basis of public sector accounting. The IPSAB encourages governments to progress to the accrual basis of accounting.

Most IPSASs are based on accrual basis which is in line with International Financial Reporting Standards (IFRS).

Section A

Required:

- (1) Evaluate the proposed collaborations and advise the Managing Partner on the actions to take. (14 marks)
- (2) Prepare, in accordance with the requirements of International Financial Reporting Standards (IFRSs), Mununga Plc's:
 - (a) Statement of profit or loss and comprehensive income for the year ended 31 March 2020. (12 marks)
 - (b) Statement of changes in equity for the year ended 31 March 2020. (6 marks)
 - (c) Statement of financial position as at 31 March 2020. (18 marks)

(Sub-total: 50 marks)

Section B

Required:

- (3) Prepare briefing notes in which you clearly explain:
 - (a) Cybercrime using "Identity Theft", "Malware", "Phishing" and "Scams"; and
 - (b) Recommend how Luangwa Ltd can protect itself against the stated cybercrimes. (20 marks)
- (4) Using the information provided regarding Kalulushi Social Club, prepare a report for the trustees which:
 - (a) Evaluate the performance of Kalulushi Social Club.
 - (b) Explain any three (3) limitations of your evaluation in (a) above. (15 marks)

(5) Advise the trustees of Kalulushi Social Club on the procedure to follow when engaging a person to perform accountancy work. (5 marks)

(6) Prepare notes to be used at your training session in which you:

(a) Explain the authority and scope of International Public Sector Accounting Standards (IPSAS); and (4 marks)

(b) Identify four (4) benefits for the Government of the Republic of Zambia of using these accounting standards. (4 marks)

(c) Comment on whether departure from compliance with IPSAS is permitted. (2 marks)

(Sub-total: 50 marks)

[Total: 100 MARKS]

QUESTION TWO

Rosette Chartered Accountants

Rosette Chartered Accountants was formed in 2014 and is registered with the Zambia Institute of Chartered Accountants (ZiCA). It is based in a new district which was created in 2013 in the Western Province of the Republic of Zambia. Rosette Chartered Accountants specializes in accounting, tax and business advisory services. At the beginning of 2019, four (4) new firms of accountants set up in the same district and this is having a negative impact on the firm's profitability.

You are a Manager in Rosette Chartered Accountants and you are responsible for advising the Managing Partner on various ethical and professional issues. You are also in charge of the various assignments involving the following clients:

- (1) Mushili Ltd
- (2) Chamboli Clearing and Forwarding Enterprises
- (3) Ruth Chitwe
- (4) Jane Energy Ltd
- (5) Edah Ltd

Ethical and professional issues

The Managing Partner is concerned about the levels of confidentiality in the firm. He is particularly concerned about the following two incidents which happened last week:

- A Supervisor left a laptop at one of the popular drinking places in the district. One of the accountants at one of the new accounting firms brought the laptop and gave it to the Security Guard.
- One of the long-standing client of Rosette Chartered Accountants has complained that one of the accountants in Rosette Chartered Accountants leaked confidential information to one of the private newspapers. The information concerns a detailed report which Rosette Chartered Accountants did over the liquidity position of the client.

The Managing Partner wants you to evaluate the consequences of such breaches and recommended appropriate procedures regarding confidentiality which Rosette Chartered Accountants could adopt.

Mushili Ltd

Mushili Ltd is a manufacturing company based in Lusaka. It was established in 2000 and is registered for Value Added Tax (VAT). Mushili Ltd is one of the most successful manufacturing companies in the Republic of Zambia. It manufactures and sells various components for the Mining Industry. It has obtained "preferred supplier" with three (3) of the private international mining companies situated in Mwinilunga. Surplus cash is normally invested in Treasury Bills.

The following extract of the statement of profit or loss has been obtained from the accounts of Mushili Ltd, for the year ended 31 December 2020:

	K	K
Gross Profit		23,509,800
Add: Additional income		
Gross Treasury bill interest income		1,000.000
		<hr/>
		24,509,800
Less: Expenses		
Wages and salaries (note 1)	6,030,000	
Legal fees (note 2)	865,000	
Repairs and renewals (note 3)	8,123,900	
Depreciation	3,564,200	
Donations (note 4)	300,000	
Fines (Note 5)	92,500	
Allowance for receivables (note 6)	210,360	
Miscellaneous expenses (note 7)	<u>2,321,400</u>	
		<u>(21,507,360)</u>
Profit before tax		<u>3,002,440</u>

The following information is available:

Note 1: Wages and salaries

These comprises:

	K
Directors' salaries	2,400,000
Employees' wages and salaries	3,600,000
Skills development allowance	<u>30,000</u>
	<u>6,030,000</u>

The company has 4 directors who are all accommodated in company owned houses and each is provided with a 2,800 cc latest Toyota Camry for both business and private purposes.

Note 2: Legal fees

These comprise the following:

	K
Costs associated with acquisition of land	70,000
Costs associated with recovery of loans from former employees	5,000
Costs associated with drafting employee contracts	60,000
Other legal costs (which are all allowable)	<u>730,000</u>
	<u>865,000</u>

Note 3: Repairs and renewals

These comprise the following:

	K
Repair of Manufacturing Machinery	473,000
Repair of second hand General Machinery required before use	2,540,000
Painting General Administration Offices and other allowable repairs	<u>5,110,900</u>
	<u>8,123,900</u>

Note 4: Donations

These comprises the following:

	K
Donation to political party with representation in the National Assembly	35,000
Donation to an approved public benefit organization	25,000
Donation towards COVID 19 pandemic	<u>240,000</u>
	<u>300,000</u>

Note 5: Fines

These comprises the following:

	K
Fines for health and safety offences	1,800

Penalties for late payment of NAPSA contributions	<u>90,700</u>
	<u>92,500</u>

Note 6: Allowance for receivables

These include the following:	K
Increase in specific allowance for receivables	232,360
Decrease in general allowance of receivables	(40,000)
Loans to former employees written off	38,000
Loans to former employees previously written off now recovered	<u>(20,000)</u>
	<u>210,360</u>

Note 7: Miscellaneous expenses

These include the following:	K
Staff canteen expenses	1,552,000
Entertaining external auditors	238,000
General administration expenses (all allowable)	<u>531,400</u>
	<u>2,321,400</u>

Note 8: Provision for Taxation

The amount of Company Tax paid under the provisional system of payment of Tax for the charge year ended 31 December 2020 was K1,945,000.

Note 9: Implements plant and machinery

During the year ended 31 December 2020, the company purchased the following from local vendors:

- Manufacturing equipment at a cost of K4,350,000 (VAT Inclusive)
- Secondhand General Machinery at a cost of K3,000,000 (VAT exclusive)
- Motor car at a cost of K220,000 (VAT exclusive)
- Computer at a cost of K29,000 (VAT inclusive) to enable homeworking by selected staff.

The only other assets held by the company at 1 January 2020, used in the business qualifying for wear and tear allowances were the latest Toyota Camry cars provided to each director. All the cars were bought in 2018 at a total cost of K450,000 (VAT inclusive). It has been agreed with the Commissioner General that private use in each car is equivalent to 30%.

Chamboli Clearing and Forwarding Enterprises

Rosette Chartered Accountants have been approached by Chamboli Clearing and Forwarding Enterprises to assist with the computation of import taxes for a saloon car which one of their clients has imported. The car is currently at Chirundu Border Post but the employee in charge of computing import taxes is currently on compassionate leave. The owner of the car wants clearance to be done immediately to avoid penalties and interest.

The imported saloon car has a cylinder capacity of 1700cc and cost US \$12,500. Insurance charges of US \$1,600 and freight charges of US \$900 in transit to Chirundu Border Post have already been paid. Transportation and other costs from the Chirundu Border Post to the owner's residence is estimated at US \$1,200 and Motor car registration in Zambia will cost K15,000. The car was manufactured in 2013.

The exchange rate issued by the Commissioner General is K18.50 per US \$. However, the exchange rate in one of the banks is K19.43 per US\$.

Ruth Chitwe

Ruth Chitwe, who was employed as the Marketing Director at Racecourse Plc, a Zambian resident company, stopped working for the company on 31 July 2020, following the expiry of her contract of employment. She had been employed at Racecourse Plc under a five (5) year fixed term contract. Her contract of employment provided for the following:

	K
Salary per annum	600,000
General purpose allowance per month	15,000

Upon the expiry of her contract, she received repatriation pay amounting to K970,000 and a pension of K6,000,000. She had accumulated 51 days of leave which were commuted at K2,400 per day. Racecourse Plc also paid her a gratuity of 35% of her cumulative basic pay in accordance with her contract of employment.

During the tax year 2020, she also received the following income:

	K
Interest from a bank deposit account	17,500
Royalties received	4,250
Rent received	36,000

The amounts shown above were the actual amounts received by Ruth Chitwe in all cases.

For the tax year 2020, she made the following payments:

	K
Income tax paid under PAYE	118,313

Professional subscription to Zambia Institute of Marketing (ZIM)	2,400
Mortgage loan repayments	18,000

Her NAPSA contribution amounted to 5% of her basic salary in the tax year 2020.

Rosette Chartered Accountants provides taxation services to Ruth Chitwe. She has informed you that the Withholding tax (WHT) on investment income was paid late.

Jane Energy Ltd

Rosette Chartered Accountants provides accounting and taxation services to Jane Energy Ltd. It is one of best clients for the firm. Jane Energy Ltd was incorporated in the Republic of Zambia in 2016. It manufactures and installs solar panels in business premises.

Jane Energy Ltd estimated the taxable profit for the tax year 2020 of K1,250,000. The company's return of provisional income tax in respect of the tax year 2020 was submitted on 30 June 2020. The company also paid the provisional income tax for both the first and second quarters of 2020 on 30 June 2020, whilst the third instalment for provisional income tax relating to the third quarter was paid on 10 October 2020. The final instalment of provisional income tax relating to the last quarter of 2020 was paid on 8 January 2021.

At the end of the tax year 2020, Jane Energy Ltd calculated the actual amount of income tax payable using the tax adjusted profit for the year of K1,975,000 and computed the balance of tax payable. The balance of tax was paid on 21 June 2021. The company also submitted the self-assessment return in respect of the tax year 2021 on the same date.

The company recently received a letter from the Zambia Revenue Authority (ZRA) giving notice of their intention to make an enquiry into the self-assessment income tax return and provisional income tax return for the tax year 2020. This letter also warned that penalties and interest may be payable.

The company is concerned about the high taxes, penalties and interests. Management has requested Rosette Chartered Accountants to suggest ways of reducing the taxes, penalties and interests.

The Bank of Zambia discount rate is 13% per annum.

Edah Ltd

Edah Ltd is a client for Rosette Chartered Accountants. A new Board of Directors has been established. The previous Board of Directors was dissolved following the discovery by the internal auditors of many instances of conflict of interest involving members of Board of Directors. It was resolved at a recent Annual General Meeting that:

- All directors should undergo an elaborate induction programme.
- A formal performance appraisal system should be developed and implemented.

Management has engaged Rosette Chartered Accountants to provide guidance on a number of issues. The Managing Partner has assembled a team of managers and he has given you the responsibility of preparing notes regarding the primary duty of directors and the factors which

can be used to appraise the performance of individual directors. You are a member of the Institute of Directors of Zambia.

Section A

Required:

- (1) With reference to the information given on ethical and professional issues:
 - (a) Explain the professional guidance on confidentiality and state the potential consequences for Rosette Chartered Accountants of the reported breaches. (9 marks)
 - (b) Recommend procedures that should be taken by the Managing Partner to ensure the security of highly-confidential information. (7 marks)
- (2) Using the information given in respect of Mushili Ltd:
 - (a) Calculate the tax adjusted profit for the company for the year ended 31 December 2020. (18 marks)
 - (b) Calculate the final amount of company Income Tax payable by the company for the charge year 2020. (5 marks)
 - (c) State the due date of the payment of the company income tax you have computed in (b) above and explain the consequences of paying the tax late. (3 marks)
- (3) In relation to the importation of the saloon motor car in Chamboli Clearing and Forwarding Enterprises:
 - (a) Compute the Value for Duty purposes (VDP) of the car. (3 marks)
 - (b) Compute the total import taxes paid on the importation of the motor car and determine the cost of the car for purposes of capital allowances. (5 marks)

(Total: 50 marks)

Section B

Required:

- (4) Using the information in respect of Ruth Chitwe:
 - (a) Calculate the total income tax payable by Ruth Chitwe for the tax year 2020. (13 marks)
 - (b) Explain the consequences of paying the withholding tax (WHT) late. (3 marks)
- (5) Using the specific information provided in Jane Energy Ltd:
 - (a) Advise Jane Energy Ltd of the potential exposure to penalties and interest. Your answer should be supported by calculations of the amount of interest or penalties arising as far as the information provided permits. (16 marks)
 - (b) State any four (4) practices of tax reduction which may constitute tax evasion and explain how Rosette Chartered Accountants should react if the request by Jane Energy Ltd constitutes tax evasion. (6 marks)
- (6) Using the information provided in respect of Edah Ltd:
 - (a) Discuss the primary duty of directors. (4 marks)
 - (b) Discuss any four (4) factors which Edah Ltd can use in the appraisal of individual directors. (8 marks)

(Sub-total: 50 marks)
[Total: 100 MARKS]

END OF PAPER

COMPETENCE PRACTICE EXAMINATION (CPE)

NON AUDIT

SOLUTION ONE

SECTION A

(1) Evaluations of collaborations and advice on action to take

- Secondment of staff – Kazungula & Co. is proposing that newly recruited CA Zambia graduates undergoing the compulsory practical training should be seconded to clients. The seconded staff may not have the required competence and experience and clients may not be getting value for money. The firm's reputation could be adversely affected and clients may feel cheated. Accounting departments are understaffed and this means it is highly unlikely that the CA Zambia graduates would undergo any meaningful compulsory practical training. There is a risk that competent CA Zambia graduates may leave Kazungula & Co. and join clients. In addition, secondments are a source of familiarity threat which affects independence and objectivity.
The firm must first ensure that the CA Zambia graduates undergo practical internal training for a reasonable period before seconding them to clients. Kazungula & Co. must sign agreements with clients and seconded individuals to reduce the risk of loss of CA Zambia graduates to clients without any meaningful compensation.

[Award 1 mark for each relevant point on evaluation – Maximum 3 marks]

Award 1 mark for valid point on action to take

Overall maximum – 4 marks]

- Business relationship – The Managing Partner has written to one of the clients to see whether the client would be interested in a joint venture involving the purchase of unprocessed copper from small scale miners and reselling the same to mining companies with excess smelting facilities. This relationship may significantly impact on the firm's independence and objectivity. It is unlikely that Kazungula & Co. will exercise appropriate levels of professional scepticism when dealing with this client. The close business relationship will create a significant self-interest threat.
Kazungula & Co. must not enter into this business relationship. The ethical risks are too high. However, this business opportunity may be pursued using a separate entity not related to Kazungula & Co.

[Award 1 mark for each relevant point on evaluation – Maximum 2 marks]

Award 1 mark for valid point on action to take

Overall maximum – 3 marks]

- Training of accountants – Kazungula & Co. wants to start providing technical training in accountancy and taxation to clients. Training has its own challenges and requires appropriate investment especially in human capital, training equipment and training material. Kazungula & Co. may not have these requirements. Necessary certification will also be required from the regulatory authorities. The firm should only perform tasks which it can handle competently. In addition, the basis for charging the fees could be misunderstood as it has no direct relationship with the training. Kazungula & Co. should not offer the training. If the training is mishandled, the firm's reputation could be negatively affected and may result in litigation, especially if the firm has no certification from the relevant regulatory authorities.

[Award 1 mark for each relevant point on evaluation – Maximum 3 marks

Award 1 mark for valid point on action to take

Overall maximum – 4 marks]

- Advertising – Kazungula & Co. is in the process of taking out a full page advertisement in collaboration with one of the clients who runs a casino. Casinos are not as highly regulated as professional firms, especially from an ethical view point. Some of the contents of the advertisement may fall short of the professional requirements. The objectives of advertising for Kazungula & Co. and the casino may be in conflict. The casino may want to impress clients while Kazungula & Co. will only be interested in informing clients. It will be very difficult to strike a balance in this case. The advertisement should not proceed further. It may bring Kazungula & Co. and ZiCA into disrepute.

[Award 1 mark for each relevant point on evaluation – Maximum 2 marks

Award 1 mark for valid point on action to take

Overall maximum – 3 marks]

(2) Mununga Plc

(a) Mununga Plc's Statement of profit or loss and other comprehensive income for the year ended 31 March 2020

	K'000	Marks
Revenue (w1)	134,300	2
Cost of sales (w2)	<u>(61,600)</u>	2
Gross profit	72,700	
Distribution costs	(18,900)	½
Administration expenses (w3)/(w4)	<u>(35,716)</u>	2 ½
Operating profit	18,084	
Finance costs (w5)	<u>(7,548)</u>	2
Profit before tax	10,536	
Taxation (6)	<u>(2,600)</u>	2
Profit for the year	<u><u>7,936</u></u>	1

[Maximum – 12 marks]

(b) Mununga Plc's Statement of changes in equity for the year ended 31 March 2020

	Share Capital K'000	Share Premium K'000	Retained Earnings K'000	Total K'000	Marks
At 1 April 2019	3,000		3,300	6,300	1 ½
Share issue (w7)	1,200	1,440		2,640	2 ½
Profit for the year	_____	_____	<u>7,936</u>	<u>7,936</u>	1
At 31 March 2020	<u>4,200</u>	<u>1,440</u>	<u>11,236</u>	<u>16,876</u>	1

[Maximum – 6 marks]

(c) **Mununga Plc's Statement of financial position as at 31 March 2020**

	K'000	K'000	Marks
Assets			
Non-current assets			
Property, plant and equipment (w8)		51,257	3
Brand name (w4)		<u>2,784</u>	4
		54,041	
Current assets			
Asset held for sale (w9)	2,333		2
Inventory (4,000,000 + 3,000,000 – 1,600,000)	5,400		1 ½
Receivables (12,000,000 + 2,000,000)	<u>14,000</u>		1
		<u>21,733</u>	
Total assets		<u>75,774</u>	
Equity and liabilities			
Equity			
Share capital (w7)	4,200		½
Share premium (w7)	1,440		½
Retained earnings	<u>11,236</u>		½
		16,876	
Non-current liabilities			
10% Loan notes (w10)	44,648		2
Deferred tax (1,000,000 + 700,000)	<u>1,700</u>		½
		46,348	
Current liabilities			
Payables (6,750,000 + 3,000,000)	9,750		1
Income tax	1,400		½
Bank (600,000 + 800,000)	<u>1,400</u>		1
		<u>12,550</u>	
Total equity and liabilities		<u>75,774</u>	

[Maximum – 18 marks]

Workings

(1) Revenue

	K'000
Per trial balance	132,300
Sales adjustment	<u>2,000</u>
Revised figure	<u>134,300</u>

(2) Cost of sales

	K'000
Per trial balance	60,000
Adjustments	
Sales 2,000,000 x 100/125	<u>1,600</u>
	<u>61,600</u>

(3) Administration expenses

	K'000
Per trial balance	33,500
Amortisation (w4)	667
Impairment loss (w4)	1,296
Amortisation (w4)	<u>253</u>
	<u>35,716</u>

(4) Brand name

	K'000
Cost	6,000
Year ended 31 March 2019 – Amortisation	
6,000/6	(1,000)

Period ended 30 November 2019

6,000/6 x 8/12 (667)

Carrying value as at 30 November 2019 4,333

Recoverable amount

Higher of:

- Value in use = 1,000,000 x 3.037 3,037
- Fair value 3,000

Hence, recoverable amount = (Higher amount) 3,037

Impairment loss = 4,333,000 – 3,037,000 = 1,296

Recoverable amount 3,037

Period from 1 December 2019 to 31 March 2020

- Amortisation 3,037,000/4 x 4/12 (253)

Carrying value as at 31 March 2020 2,784

(5) Finance cost

K'000

Bank interest 100

Loan interest (w10) 7,448

7,548

(6) Taxation

K'000

Current year estimate 1,400

Previous year's Under-provision 500

Deferred tax (2,000,000 x 35%) 700

2,600

(7) Share capital and Share premium

Number of rights shares issued

$$3,000,000/0.25 \times 2/5 = 4,800,000 \text{ shares}$$

K'000

Proceeds

Share capital $4,800,000 \times 0.25$ 1,200

Share premium $4,800,000 \times .30$ 1,440

2,640

(8) Property, plant and equipment

K'000 K'000

Land at cost 3,500

Plant and equipment at cost 46,000

Buildings at cost 7,500

57,000

Less:

Asset held for sale (w9) 2,333

Accumulated depreciation of buildings at 31 March 2020 1,800

Accumulated depreciation of plant and equipment at 31 March 2020 1,610

(5,743)

51,257

(9) Asset held for sale

K'000

Cost at 1 February 2018 3,200

Year ended 31 March 2018 – depreciation

$3,200,000/8 \times 2/12$ (67)

Carrying value at 31 March 2018	3,133
Year ended 31 March 2019 – depreciation	
3,200,000/8	<u>(400)</u>
Carrying value at 31 March 2019	2,733
Year ended 31 March 2020 - depreciation	
3,200,000/8	<u>(400)</u>
Carrying value at 31 March 2020	<u>2,333</u>

Net Current market value (2,800,000 – 15,000) 2,785

There is no impairment loss

The value of the asset-held-for-sale is 2,333

(10) 10% Loan notes

	K'000
10% Loan notes	40,000
Less issue costs	<u>(800)</u>
Net	39,200
Interest 19% x 39,200	7,448
Less interest paid	<u>(2,000)</u>
Value of the liability	<u>44,648</u>

SOLUTION ONE

SECTION B

(3) (a) & (b) Briefing notes

To: Managing Partner

From: Manager

Date: xxxxx

Subject: Cybercrime

Introduction

These briefing notes explain cybercrime using "Identity Theft", "Malware", "Phishing" and "Scams" and provide recommendations on how Luangwa Ltd can protect itself against the stated cybercrimes.

Cybercrime is simply crime committed on the Internet, on local networks, or even against isolated computers. It can affect any of your digital devices (including PCs, notebooks, smart TVs, tablets, smartphones, home electronic systems, etc.). It also refers to any activity where crime is committed using any computer system.

Cyber criminals are publicly known as hackers, although the term is technically inaccurate, the correct term is "cracker".

Identity Theft

This is very common and is a major problem with people using the Internet for cash transactions and banking services. Criminals seize control of victims' banking credentials, apply for new banking accounts, steal users' hard-earned savings, and more. All the criminals need are some key bits of information about you to convince a bank or a customer service representative that they're you.

To protect against identity theft, Luangwa Ltd should take care not to reveal too much about themselves on social media and other websites. In addition, Luangwa Ltd should never use emails to transmit confidential or other personal information to another person, especially someone the company doesn't know.

Malware

Malware comes in many different forms. Some specifically target users' financial information by installing keyloggers onto victims' computers. Malware samples can also reach users via a number of delivery methods, including phishing attacks and malicious software packages that exploit unpatched software vulnerabilities. Once installed, criminals can use the malware to spy on online activities, steal company and personal financial information or hack into other systems. Malware has become one of the biggest online threats and it's been used in some of the world's largest cyber-attacks including WannaCry, NotPetya and Cryptolocker.

Luangwa Ltd can protect against malware by always checking the domain of a login page for their web accounts. If something seems off, the website might be a fake and could attempt to steal users' login information. Users should also implement security updates as soon as possible and store their passwords in a secure location such as a password manager.

Phishing

Phishing happens where a person receives a supposedly legitimate email with a link that leads to a different website, usually a hostile website. Hence, criminals attempt to trick unsuspecting users into doing something they wouldn't ordinarily do, such as clicking on a malicious (uniform resource locator (URL) or email attachment. Criminals usually leverage phishing attacks to steal users' login credentials, details which they can then abuse to gain unauthorised access to their victims' emails or financial accounts.

Luangwa Ltd can protect itself against phishing by making sure employees exercise caution around suspicious links or email attachments. Employees should also be on the lookout for other tell-tale signs of a phishing scam, like frequent grammar or spelling mistakes in what might seem to be an official piece of correspondence from a bank or other institution.

Scams

Scams don't come in one size. But many of them have something in common: they convey an enticing offer that in many cases attempts to trick users into sending over money. Of course, those offers are baseless, and victims end up losing money in the process.

Luangwa Ltd should never buy into incredible scenarios where the company is offered money or other rewards in exchange for a fee. Instead, the company should ignore these.

Conclusion

Luangwa Ltd must develop a robust policy and ensure security best practices are followed. However, cybercrime is continually evolving, which is why there will be need for Luangwa Ltd to continually train employees and help them build upon their awareness of IT security threats.

[Award marks as follows:

1 mark for each point on introduction – Maximum 2 marks

1 mark for each valid point on explanation of "Identity Theft" – Maximum 2 marks

1 mark for each valid point on protection against "Identity Theft" – Maximum 2 marks

1 mark for each valid point on explanation of "Malware" – Maximum 2 marks

1 mark for each valid point on protection against "Malware" – Maximum 2 marks

1 mark for each valid point on explanation of "Phishing" – Maximum 2 marks

1 mark for each valid point on protection against "Phishing" – Maximum 2 marks

1 mark for each valid point on explanation of "Scams" – Maximum 2 marks

1 mark for each valid point on protection against "Scams" – Maximum 2 marks

1 mark for each valid point on conclusion – Maximum 2 marks

Overall maximum – 20 marks]

(4) (a) Evaluation of the performance of Kalulushi Social Club and limitations

Report

To: The Trustees – Kalulushi Social Club

From: Manager – Kazungula & Co.

Date: xxxxx

Subject: Performance evaluation and limitations

1.0. Introduction

This report evaluates the performance of Kalulushi Social Club and explains three (3) limitations of the evaluation.

2.0 Performance evaluation

The performance evaluation is based on the financial ratios computed using the information provided by the Accountant for Kalulushi Social Club (see appendix).

2.1 Income

The income has grown by 12.5% over the two (2) years. However, the average incomes for both employees and members have decreased. This needs further investigation in order to establish specific causes. It will be important to involve all stakeholders, especially the members and major donors.

2.2 Expenditure

The expenditure has increased by 31.5% over the two (2) years. However, the expenditure per employee has decreased while the expenditure per member has increased. Stakeholders will need more detailed information so that they can appreciate whether more spending is in line with the mission of Kalulushi Social Club rather administrative. It is possible that unpaid members and non-members may also be enjoying the facilities, hence the increased expenditure.

2.3 Surplus

The surplus has decreased significantly by 87.5%. This suggests that the increase in expenditure should be addressed now before Kalulushi Social Club start experiencing deficits. Prolonged deficits can threaten the going concern status of Kalulushi Social Club.

2.4 Current ratio

The current ratio, which is an important liquidity ratio, has decreased from 0.70:1 to 0.68:1. This decline should also be a cause for immediate further investigation. The use of current liabilities to finance some of the operations for Kalulushi Social Club is not sustainable.

2.5 Non-current assets

Non-current assets have increased by 11.80%. However, this is not resulting in increased income. It is possible that some assets may be idle or significantly underutilized. Any excess assets must be identified and disposed of, after obtaining the required approvals. If this action is not taken, the excess assets could be stolen and/or facilitate fraudulent activities.

3.0 Limitations of the evaluation

The limitations of the evaluation include the following:

- The reliability of the figures given could be questioned given that the Accountant is not qualified. If the figures are unreliable, then the ratios computed will also be unreliable.
- The available information is very limited. It would be useful to have additional information such as general economic conditions, strategic plans, budget information, detailed analysis of income and expenditure etc. Additional information will enable the trustees and various stakeholders to understand the financial information and actively review what is presented and participate in the discussions in order to offer the required oversight.
- It has been assumed that all data is comparable, i.e. that similar accounting policies have been used over the two (2) years.

4.0 Conclusion

From the information given, Kalulushi Social Club's performance is satisfactory given that it has been able to fully cover its costs and achieve surpluses. However, the surplus in 2019 decreased significantly. Hence, increased expenditure need to be addressed as a matter of urgency. In addition, the adoption of a balanced scorecard approach could assist in the provision of both financial and non-financial information.

Signed

[Award marks as follows:

1 mark for introduction

1 mark for each valid point on income – Maximum 2 marks

1 mark for each valid point on expenditure – Maximum 2 marks

1 mark for each valid point on surplus – Maximum 2 marks

1 mark for each valid point on current ratio – Maximum 2 marks

1 mark for each valid point on non-current assets – Maximum 2 marks

1 mark for each valid limitations – 3 marks

1 mark for conclusion

Overall maximum – 15 marks]

Appendix

- Income growth

$$(450,000 - 400,000)/400,000 \times 100\% = 12.5\%$$

- Average income

	Per employee	Per member
2019	$K450,000/60 = K7,500$	$K450,000/800 = K562.50$
2018	$K400,000/40 = K10,000$	$K400,000/690 = K579.71$

- Increase in expenditure

$$(442,000 - 336,000)/336,000 \times 100\% = 31.5\%$$

- Average expenditure

	Per employee	Per member
2019	$K442,000/60 = K7,366.67$	$K442,000/800 = K552.50$
2018	$K336,000/40 = K8,400$	$K336,000/690 = K486.96$

- Surplus/(Deficit)

		K
2019	$K450,000 - K442,000 =$	8,000
2018	$K400,000 - K336,000 =$	64,000

$$\text{Percentage decrease in surplus} = (64,000 - 8,000)/64,000 \times 100\% = 87.5\%$$

- Current ratio

$$2019 \quad K219,400/K312,500 = 0.70:1$$

$$2018 \quad K202,560/K293,700 = 0.68:1$$

- Increase in non-current assets

$$(552,300 - 494,000)/494,000 \times 100\% = 11.80\%$$

(5) Procedure for engaging an Accountant

The Zambia Institute of Chartered Accountants (ZiCA) is mandated by the Accountants Act 2008 to regulate all accountants in the Republic of Zambia. Hence, before any person is engaged as an accountant to perform any work, Kalulushi Social Club must verify the person's membership with ZiCA.

Kalulushi Social Club can verify valid membership by accessing the list of members on the ZiCA website or contacting the Institute. Checking the validity of members before engaging them for any work will avert penalties that are chargeable to employers who contravene section 18 and 19 of the Accountants Act 2008.

It is important to note that ZiCA membership is only valid with payment of annual subscription fees. Even if a member submits a membership certificate, which is issued once at registration, it is not valid until they have paid their annual subscription fees for the year.

The law (Accountants Act 2008) must be followed when individuals or firms are engaged to carry any accountancy work.

[Award marks as follows:

1 mark for reference to Accountants Act 2008

1 mark for verification of membership

1 mark for specific reference to section 18 and 19 of the Accountants Act 2008

1 mark for penalties

1 mark for subscription

Maximum – 5 marks]

(6) Notes to be used at the training session

(a) Authority and scope of International Public Sector Accounting Standards (IPSAS)

The IPSASB recognizes the right of governments and national standard setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. In Zambia, both ZiCA and the Minister of Finance issue such guidelines.

IPSASs cannot be imposed on governments. However, the adoption of IPSASs by governments will improve both the quality and compatibility of financial information reported by public sector entities world-wide.

Hence, it encourages countries to either adopt or adapt IPSASs.

All public entities and Non-Governmental Organisations (NGOs) other than Government Business Enterprises (GBEs) qualify as public entities to use IPSASs. GBEs have to comply with International Financial Reporting Standards (IFRSs). In Zambia, an example of a GBE is Zambia Electricity Supply Corporation (ZESCO), since it is basically not different from entities conducting similar activities in the private sector.

[Award marks as follows:

1 mark for recognize right of governments

1 mark for not able to impose IPSASs

1 mark for applicable to all public entities and Non-Governmental Organisations (NGOs) other than Government Business Enterprises (GBEs)

1 mark for example of GBE

Maximum – 4 marks]

(b) Benefits for the Government of the Republic of Zambia of using these accounting standards

The benefits include:

- More comprehensive information produced and disclosed under IPSAS facilitates improved management and stewardship of resources, the effectiveness of operational delivery and the achievement of results.
- Improved internal control and transparency with respect to assets and liabilities.
- Improved consistency and comparability of financial statements as a result of the detailed requirements and guidance provided by each standard.
- More comprehensive information about costs better support results-based management and improve decision making.

[Award 1 mark for each benefit – Maximum 4 marks]

(c) Departure from compliance with IPSAS

An entity is permitted to depart from compliance with a requirement in a standard where that requirement would be misleading or conflict with the objectives of financial statements and relevant regulatory framework requires, or otherwise does not prohibit such a departure. However, the recommended disclosures must be made.

[Award 1 mark for permitted and 1 mark for disclosures – Maximum 2 marks]

SOLUTION TWO

SECTION A

(1) Confidentiality

(a) Potential consequences for improper release of information

Confidentiality is one of the fundamental ethical principles which underpin the accounting profession. Accountants are required to respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose, nor use the information for the personal advantage of the professional accountant or third parties.

If the professional accountant breaches the guidance on confidentiality, the consequences include:

- Disciplinary action by the Zambia Institute of Chartered Accountants (ZiCA) or by another professional body
- Damage to the firm's reputation and ZiCA if confidential information is reported in the public media, including on social media
- The client may sue the firm and this could have serious financial consequences
- Loss of clients
- Competitors may exploit this and gain an advantage in the market
- Critical information could be lost especially if there are no back-ups
- Staff turnover may increase as professional accountants would not want to be associated with Rosette Chartered Accountants
- Criminal charges may result if the leak is classified as insider dealing.

[Award 1 mark for each valid point on confidentiality – Maximum 2 marks

1 mark for each valid consequence – Maximum 7 marks

Overall maximum – 9 marks]

(b) Recommended procedures

The procedures which Rosette Chartered Accountants is going to put in place should be set out clearly in a policy document and these will include:

- Proper induction of new employees on confidentiality
- Regular refreshing of knowledge on confidentiality of existing staff through case studies, lectures, networking groups etc.
- Physical protection for files or other documents containing confidential information e.g. paper files may be kept in a safe or even kept off site in secure deposit with a reputable custodian such as a major bank.
- Use of encryption software for securing files on computers and/or email messages.
- Use of passwords and other access controls

- Strict emails policy, instructing employees to avoid any mention of confidential issues in the emails they send
- All staff must sign declarations of confidentiality/secretcy
- Disciplinary measures for breaches of confidentiality, ranging from official warning (for example, for leaving a laptop at one of the popular drinking places) to dismissal or even referral to the police for a criminal matter (for example, insider dealing).

[Award 1 mark for each valid procedure – Maximum 7 marks]

(2) Mushili Ltd

(a) Computation of taxable business profit for the year ended 31 December 2020

	K	K	Marks
Profit before tax		3,002,440	½
Add:			
Depreciation	3,564,200		½
Entertaining external auditors	238,000		½
Staff canteen expenses	1,552,000		½
Loans to former employees written of	38,000		½
Accommodation benefit			
- Directors' accommodation			
(K2,400,000 x 30%)	720,000		1
Fees - Acquisition of land	70,000		½
Costs associated with recovery of loans	5,000		½
Repair of second hand General Machinery	2,540,000		½
Donation to political party	35,000		½
Personal to holder cars benefit (4 x 40,000)	160,000		1
Fines for health and safety offences	1,800		½
Penalties for late payment of NAPSA contributions	<u>90,700</u>		½
		<u>9,014,700</u>	
		12,017,140	
Less:			
Decrease in general allowance of receivables	40,000		½

Loans recovered	20,000	1/2
Treasury bill interest	1,000,000	1/2
Capital allowances (W)	<u>3,407,290</u>	Workings
	(4,467,290)	
Tax adjusted profit	<u>7,549,850</u>	2

Workings:

Computation of capital allowances

	K	Marks
<u>Toyota Camry cars</u>		
Wear and tear allowance		
K450,000 x 20%	90,000	1
<u>Manufacturing equipment</u>		
Wear and tear allowance		
K(4,350,000 x 25/29) x 50%	1,875,000	1 1/2
<u>Secondhand General Machinery</u>		
Wear and tear allowance		
K(3,000,000 + 2,540,000) x 25%	1,385,000	1 1/2
<u>Motor car</u>		
Wear and tear allowance		
K220,000 x 1.16 x 20%	51,040	1 1/2
<u>Computer</u>		
Wear and tear allowance		
(K29,000 x 25/29) x 25%	<u>6,250</u>	1 1/2
Total capital allowances	<u>3,407,290</u>	

[Maximum marks – 18 marks]

(b) Computation of the final amount of company Income Tax payable for the charge year 2020

	K	Marks
Tax adjusted profit	7,549,850	½
Treasury bill interest	<u>1,000,000</u>	½
Taxable income	<u>8,549,850</u>	
Company income tax		
K8,549,850 x 35%	2,992,448	1
Less Tax already paid:		
Provisional income tax	(1,945,000)	½
WHT on Treasury bill interest (K1,000,000 x 15%)	<u>(150,000)</u>	1
Final company income tax payable	<u>897,448</u>	1 ½

[Maximum – 5 marks]

(c) Due date for payment of company income tax and consequences of late

Payment of the tax:

- The due date of the payment of the above company income is 21 June 2021
- If company income tax is paid late, then a penalty is 5% of that income tax per month or part thereof will arise
- Additionally, interest on overdue tax will be charged at the Bank of Zambia discount rate plus 2% per annum.

[Award 1 mark for each valid point – Maximum 3 marks]

(3) Chamboli Clearing and Forwarding Enterprises

(a) Computation of VDP

	\$	Marks
Cost	12,500	½
Insurance	1,600	½
Freight	<u>900</u>	½
	<u>\$15,000</u>	
	x K18.50	½
VDP	<u>K277,500</u>	1

[Maximum – 3 marks]

(b) Computation of import taxes and cost of the car for purposes of capital allowances

	K	K	Marks
VDP	277,500		½
Customs Duty	<u>8,423</u>	8,423	½
	285,923		
Excise Duty	<u>10,950</u>	10,950	½
	296,873		
Import VAT @ 16%	<u>47,500</u>	47,500	1
Total Cost	344,373		
Transportation costs (\$1,200 x K18.50)	22,200		1
Motor car registration	<u>15,000</u>		½
Total cost for capital allowances purposes	<u>381,573</u>		1
		<hr/>	
Total import duties		<u>66,873</u>	

[Maximum – 5 marks]

SOLUTION TWO

SECTION B

(4) Ruth Chitwe

(a) **Personal income tax computation for the tax year 2020**

	K	Marks
<u>Earned Income</u>		
Salary (K600,000x 7/12)	350,000	1
General purpose allowance (K15,000 x 7)	105,000	1
Leave pay (51 x K2,400)	<u>122,400</u>	1
	577,400	
<u>Investment Income</u>		
Royalties received (K4,250 x 100/85)	<u>5,000</u>	1
	582,400	
<u>Less allowable deductions</u>		
Professional subscriptions	<u>(2,400)</u>	½
Taxable income	<u>580,000</u>	1 ½
Income tax		
First K39,600 x 0%	0	½
Next K9,600 x 25%	2,400	½
Next K25,200 x 30%	7,560	½
Balance K505,600 x 37.5%	<u>189,600</u>	½
Income tax liability	199,560	
Less tax already paid:		
PAYE	(118,313)	½
WHT- Royalties K5,000 x 15%	<u>(750)</u>	1
Final income tax payable	<u>80,497</u>	1 ½
Pension benefits (pension, repatriation pay and gratuity) are exempt.		½
Withholding tax (WHT) on rent is a final tax.		½

Interest is exempt.

1/2

NAPSA contributions are not deductible.

1/2

[Maximum – 13 marks]

(b) Withholding tax (WHT)

Withholding tax (WHT) is due for payment on the 14th day following the end of the month to which the tax relates. If the withholding tax is paid late, the penalty is charged at a rate of 5% of the tax payable per month or part thereof. Interest is also charged on overdue tax at a rate of 2% above the Bank of Zambia discount rate.

[Award 1 mark for each valid point – Maximum 3 marks]

(5) Jane Energy Ltd

(a) Penalties and interest

Jane Energy Ltd is exposed to penalties and interest due to late payments of taxes. The company is also exposed to penalties for late filing of returns and for filing incorrect returns as explained below:

- The Provisional income tax return for the first quarter was submitted on 30 June 2020, when it should have been submitted on 31 March 2020. It was therefore filed late by 3 months.
- A penalty of 2,000 (K600) penalty units per month or part thereof will arise running from the due date to the date when filed. The amount of the penalty will be:

$$2,000 \times 3 = 6,000 \text{ penalty units or K1,800}$$

- The first instalment of provisional income tax for the first quarter of 2020 was paid late. It was paid on 30 June 2020, when it should have been paid by 10 April 2020. It was therefore paid late by 2 months and 21 days.
- A penalty of 5% of the tax due per month or part thereof will arise. The amount of penalty payable will be:

$$5\% \times \text{K109,375 (W)} \times 3 = \underline{\text{K16,406}}$$

- Additionally interest on the overdue tax will arise. The amount of interest will be 2% above the BOZ policy rate per annum.

The amount of interest payable will be:

$$(13\% + 2\%) \times \text{K109,375} \times 3/12$$

$$= \underline{\text{K4,102}}$$

- **Workings:**

Computation of provisional income tax payable:

	K
Estimated taxable profit	<u>1,250,000</u>
Provisional tax is K1,250,000 x 35%	<u>K437,500</u>

Provisional income tax payable per quarter is:

$$K437,500/4 = \underline{K109,375}$$

- Final company income tax payable
(Tax underpaid)

	K
Actual company income tax K1,975,000 x 35%	691,250
Provisional tax	<u>(437,500)</u>
Final company income tax payable	<u>253,750</u>

- Additional penalty

Where the amount of provisional income tax paid is less than the actual total income tax for the tax year by at least one third, then an additional penalty at the rate of 10% of the underpaid income tax will arise.

One third of the actual income tax payable is K230,417 (1/3 x K691,250). The total provisional income tax paid of K437,500 is more than this and therefore no additional penalty will arise.

[Award up to 2 marks for each valid point – Maximum 16 marks]

(b) Tax evasion and action to take

Tax evasion refers to the use of illegal means to avoid or reduce tax liabilities. The main aim of the tax payer practicing tax evasion is to defraud the government of the tax revenue. Practices of tax reduction which may constitute tax evasion include the following:

- Deliberate concealment of income, including overstatement of tax credits or exemptions and suppression of profits
- Deliberate misrepresentation of material fact, manipulation of accounts, disclosure of unreal expenses for deductions, showing personal expenditure as business expenses.
- Hiding relevant documents which may help in the computation of taxable income, and eventually tax payable.
- Tax payers failure to maintain proper accounting records of all the transactions
- Tax payer's failure to report taxes such as VAT, PAYE and withholding tax which are collected on behalf of the government.

Paying taxes is a moral obligation for all taxable persons. Actions taken to reduce taxes payable because the taxable person intentionally wants to pay less or because the taxes legislation is inadequate could be considered as unethical practices. Accountants are expected to observe the professional code of ethics in the provision of taxation services. Rosette Chartered Accountants should not use unlawful practices to aid in tax reduction. Hence, any request involving tax evasion must be declined and the Management of Jane Energy Ltd must be advised to be honest.

[Award marks as follows:

1 mark for each valid practice – Maximum 4 marks

1 mark for each valid point on the action by Rosette Chartered Accountants – Maximum 2 marks

Overall maximum – 6 marks]

(6) Edah Ltd

(a) Primary duty of directors

The primary duty of directors is the management of the affairs of the company. They are managers rather than servants of the company and owe a fiduciary duty to the company:

- To exercise their powers bona fide for the purpose for which they are conferred and for the benefit of the company as a whole; and
- Not to put themselves in a position in which their duties may conflict with their personal interests.

[Award up to 2 marks for each relevant point – Maximum 4 marks]

(b) Criteria for appraisal of individual directors

The criteria which can be used in the appraisal of individual directors include the following:

- Preparedness – Edah Ltd should be able to assess the director's preparedness. The director must know key staff, organisation and industry, and must be aware of statutory and fiduciary duties. This is important in ensuring that the director contributes positively to the success of Edah Ltd.

- Development of the organisation – Edah Ltd should be able to specifically identify each director’s contribution towards the development of the organisation. The director must make suggestions on innovation, strategic direction and planning, and must also help win the support of outside stakeholders.
- Committee work – Edah Ltd should assess the director’s committee work including attendance of committee meetings. The director must understand the process of committee work, exhibits ideas and enthusiasm.
- Independence – Edah Ltd must assess the director’s freedom from influence. The director should be free thinking in discussions and decision making. He/ She must avoid conflicts of interest. If Edah Ltd’s articles of association allows directors to have any contracts with the company either directly or indirectly, then the directors should disclose their interest to the rest of the board.
- Practice – Edah Ltd must take note of the director’s practice as a member of the Board of Directors. The director must participate actively, question, insist on obtaining information and undertake professional education. The minutes of the meetings of the committees and the board of directors could be used so that the appraisal is objective.

[Award 2 marks for each well explained on factor – Maximum 8 marks]

END OF SOLUTIONS