COMPETENCE PRACTICE EXAMINATION

NON-AUDIT PRACTISING CERTIFICATE

JUNE 2021

TIME ALLOWED: 5 HOURS

INSTRUCTIONS TO CANDIDATES

1. This paper has Two Questions.

2. You are required to attempt ALL the two questions

3. Each question has Sections:
   Question one has two sections: A and B

   Question two has two sections: A and B

4. All the two questions carry equal marks.

5. The Examination is divided into sessions of $2^1/_2$ hours each. There will be a 30 Minutes break in between the sessions.

6. Please use your Membership number and your National Registration Card number on the front of the answer booklet. Your name must NOT appear anywhere on your answer booklet.

7. This is an open book examination.

NON-AUDIT COMPETENCE PRACTICE EXAMINATION (CPE)

QUESTION ONE

Filimina Associates is an accountancy firm which is registered with the Zambia Institute of Chartered Accountants (ZiCA). You are one of the Senior Managers in the firm, and the following scenarios relate to five (5) of your clients:

(1) **Mandebwe Ltd**

The Managing Partner has sent you this email:

To: Senior Manager

From: Managing Partner

Subject: **Preparation of financial statements for Mandebwe Ltd**

Hello

The Finance Director of Mandebwe Ltd contacted me regarding the preparation of the financial statements for the year ended 31 March 2021 and has requested us to submit the financial statements next week. The Trainee Manager has provided me with a summary of the figures in the draft statement of financial position, which I have attached. I would like you to review the accounting treatment of the following issues which I suspect could be wrong:

- Provisions
- Government grant
- Impairment loss
- Deferred tax
- Leave pay

The details on the accounting issues are also attached.

Kindly submit the revised summary of the figures in the draft statement of financial position to me before the close of business tomorrow, without fail. I hope you are aware that the majority shareholder of Mandebwe Ltd is my best friend. This is why we continue to provide non audit services to the company. He has also requested us to suggest any amendments to the accounting policies which could boost profitability and enable him get a dividend and attract more investment into the company.

Thank you.

Attachments

Summary of the figures in the draft statement of financial position

	K'000
Non-current assets	12,580
Non-current liabilities	1,665
Current liabilities	3,075
Current assets	4,600
Equity	12,440

Accounting issues

- Provisions – Mandebwe Ltd is basically a paint manufacturing company. On 7 April 2021, the company inadvertently released poisonous waste into a nearby river and this caused a few of local residents to become ill. The poisonous waste which was released was within the legally permitted limits. A law firm representing the affected residents has submitted a compensation claim to Mandebwe Ltd for pain and suffering totaling K500,000. The court hearing is scheduled to occur soon and the case can be concluded within the next six (6) months. Mandebwe Ltd's legal counsel has advised that it is unlikely that the legal suit will be successful given that this was an accident and in fact the company moved swiftly to address the problem at a significant cost of K300,000. The Trainee Manager made a provision of K500,000 given that it involves human life.

- Government grant – On 1 April 2020, the company received a government grant of K1 million towards the purchase of new mixing machine with a gross cost of K3 million. The mixing machine has an estimated life of eight (8) years and is depreciated on a straight-line basis.
  One of the terms of the grant is that the sale of the mixing machine before 31 March 2025 would trigger a repayment on a sliding scale as follows:

Sale in the year ended 31 March:	2021	2022	2023	2024	2025
Amount of repayment (%):	100	80	60	40	20

Accordingly, the Directors proposed to credit to the statement of profit or loss K200,000 (K1 million X 20%) being the amount of the grant they believe has been earned in the year to 31 March 2021. Mandebwe Ltd accounts for government grant as a separate item of deferred credit in its statement of financial position. The company has no attention of selling the mixing machine before the end of its economic life. The Trainee Manager has accounted for the grant as proposed by the Directors.

- Impairment loss – Mandebwe Ltd is also involved in passenger transportation. It has five (5) mini-buses with a carrying value of K900,000 as at 31 March 2021. Following a recent spate of accidents, the company reviewed the mini-buses for possible impairment. The Trainee Manager correctly computed a value-in-use of K750,000. The anticipated sale proceeds have been reliably estimated at K800,000 after incurring expected selling costs amounting to K20,000. The Trainee Manager has recognized an impairment loss of K150,000 in the financial statements.

- Deferred tax – It is expected that Government will announce tax changes on 25 July 2021, which have the effect of increasing the company's deferred tax liability by K40,000 as at 31 March 2021. The financial statements will be authorized for issue by the directors on 30 June 2021 and the annual general meeting (AGM) will be held on 21 July 2021. The Trainee Manager has not made any adjustment.

- Leave pay – The permanent employees of Mandebwe Ltd are entitled to sixty (60) days paid leave each year. The entitlement accrues evenly over the year and unused leave may be carried forward for one (1) year. The holiday year is the same as the financial year. At 31 March 2021, Mandebwe Ltd has fifty (50) permanent employees and the average unused holiday entitlement is ten (10) days per employee. Ten percent (10%) of permanent employees leave without taking their entitlement and there is no cash payment when an employee leaves in respect of holiday entitlement. There are two hundred and fifty (250) working days in the year and the total annual salary cost is K3 million. The Trainee Manager has not made any adjustment in the financial statements for the above and there was no opening accrual required for holiday entitlement.

(2) **Lufina Plc**

The company is about to hold its annual general meeting (AGM) and the Directors are considering holding the AGM using Zoom platforms, in view of the COVID-19 pandemic. However, there is an opinion amongst some Directors that this could be illegal. They have also questioned the effectiveness of such an AGM since it could result in Zoom fatigue. They have requested Filimina Associates to provide advice on the legality of holding the AGM via the Zoom platforms and also provide a few relevant details on Zoom fatigue.

(3) **Christine Ltd**

Christine Ltd is a construction company which was established in 2014. The Managing Director of Christine Ltd is happy that the company has finally won a lucrative Government contract to construct nine (9) technical schools. The newly appointed Finance Director has confided in you that the Managing Director actually gave the Controlling Officer a brand new Mercedes Benz car and undisclosed cash amounts to each of the members of the Procurement Committee.

The newly appointed Finance Director is unsure whether to make an anonymous disclosure to either the Anti-Corruption Commission (ACC) or the Zambia Institute of Chartered Accountant (ZiCA).

(4) **Zambia Revenue Authority (ZRA)**

The President of the Zambia Institute of Chartered Accountants (ZiCA) recently commended the Zambia Revenue Authority (ZRA) for being the first organization to adopt the accruals based IPSAS (International Public Sector Accounting Standards). Filimina Associates provides accounting services to ZRA. The Commissioner in charge of Finance has requested Filimina Associates to provide professional advice on the accounting treatments for the following:

- Five (500) hectares of land – at the beginning of the year, the Government of the Republic of Zambia transferred five (5) hectares of land to the Zambia Revenue Authority (ZRA). The transfer agreement specifies that the land is to be used for the construction of a dry port, but does not specify that the land is to be returned if not used for the construction of a dry port. The Governing Board has directed the Commissioner General to use the land for the intended purpose.
- Mpendwa House was acquired during the year by ZRA. ZRA uses part of Mpendwa House for administrative offices while the rest is rented out to independent third parties under operating leases in return for rental payments.

(5) **Francis Bank Ltd**

The company is a state owned enterprise. It was incorporated in the year 2010, through an Act of Parliament. Francis Bank Ltd is responsible for mobilizing funds meant for onward lending to small business enterprises at very affordable interest rates. It has retail banking operations in Lusaka and Kitwe, which are significantly supported by various public entities.

Francis Bank Ltd's accounting and management information systems are out of date, but are still operational. Management has requested the Board of Directors to approve upgrades worth K7 million. K4.5 million relates to an elaborate security system covering physical, human and systems aspects. The Board of Directors (BOD) of Francis Bank Ltd has asked Filimina Associates to give independent advice since:

- An evaluation of software quality has not been done
- More details are needed on physical, human and systems aspects of security to Francis Bank Ltd's accounting and management information systems.

If the upgrade is approved, it will be done by Mathews Consulting Co. No other IT consulting firms were consulted due to the urgency of the matter.

SECTION A

Required:

(1) Using the information above regarding Mandebwe Ltd:

(a) Identify and explain five (5) ethical threats or professional issues which may affect the independence of Filimina Associates in respect of the preparation of the financial statements for Mandebwe Ltd. (10 marks)

(b) For each ethical threat or professional issue, explain how it might be reduced to an acceptable level. (5 marks)

(c) Advise on the suitability of each of the five (5) accounting treatments used by the Trainee Manager. (10 marks)

(d) Prepare a summarized statement of financial position as at 31 March 2021, using the correct figures. (9 marks)

(2) Using the information given in respect of Lufina Plc:

(a) Explain what is generally meant by Zoom fatigue and give four (4) symptoms of Zoom fatigue. (6 marks)

(b) Discuss three (3) possible measures which Lufina Plc may put in place during the annual general meeting (AGM) to minimize effects of Zoom fatigue. (6 marks)

(c) Explain any two (2) advantages of holding the Annual General Meeting (AGM) via Zoom platforms and, advise the Directors whether it is legally allowed to hold Annual General Meetings (AGMs) via electronic platforms. (4 marks)

[Total: 50 marks]

SECTION B

Required:

(3) Making reference to appropriate legislation, advise the newly appointed Finance Director of Christine Ltd whether he should make the anonymous disclosure to the Anti-Corruption Commission (ACC) or the Zambia Institute Chartered Accountants (ZiCA). (6 marks)

(4) Using the information on the Zambia Revenue Authority (ZRA):

(a) Explain what is meant by exchange and non-exchange transactions in the context of public sector accounting, giving two (2) examples for each transaction. (10 marks)

(b) Using suitable International Public Sector Accounting Standards (IPSASs), recommend the correct accounting treatment for:

(i) Land for the construction of a dry port. (4 marks)

(ii) Mpendwa House. (5 marks)

(5) Using the information given in respect of Francis Bank Ltd:

(a) Discuss the importance of software quality to users and explain four (4) key aspects of quality in Francis Bank Ltd's accounting and management information systems. (10 marks)

(b) Explain what is meant by physical, human and systems aspects of security to Francis Bank Ltd's accounting and management information systems. (6 marks)

(c) Comment on the possible legal consequences of engaging Mathews Consulting Co. to do the upgrades and advise the Board of Directors (BOD) whether the upgrades should be approved. (9 marks)

[Total: 50 marks]

QUESTION TWO

You are a Manager in Luke Accountants, a firm registered with the Zambia Institute of Chartered Accountants (ZiCA). You are in charge of various assignments for the following clients:

(1) Mutale Ltd

(2) Musa Plc

(3) Kasonde Ltd

(4) Kasanga Ltd

Mutale Ltd

Mutale Ltd is a mining company involved in large scale open pit mining of precious stones. The company has showed sound industrial logic. However, its corporate governance structures have been criticized.

Abraham owns 80% of the shareholding and is the Chairperson of the Board of Directors (BOD). His wife is a qualified engineer and is the Engineering Director. She was recently appointed as the Chairperson of the Audit Committee, since she also did principles of accounts when she was in secondary school ten (10) years ago.

Abraham's youngest son is the Finance and Internal Audit Director. He is a qualified accountant and was recently awarded the CA certification following his successful completion of the three (3) practical training. The Audit Manager responsible for Internal Audit is happy with his leadership style.

The Board of Directors (BOD) consists of eight (8) members and is well-balanced. The Chief Executive Officer (CEO) is not related to Abraham. The BOD's performance is appraised at the end of the three (3) year term by the Chief Executive Officer (CEO). No appraisal is performed for individual Directors in order to encourage team work.

The Finance and Internal Audit Director and Chief Executive Officer (CEO) decide on the remuneration for all executive directors (EDs) after a critical analysis of the financial impact on the company's cash flows.

Musa Plc

In the year 2020, Musa Plc, a Zambian VAT registered manufacturing company, obtained a listing on Lusaka Securities Exchange (LuSE).

Thirty six percent (36%) of the shareholding is held by indigenous Zambians. The Company Accountant has correctly computed the profit before capital allowances as K4,085,000 but has requested assistance on the computation of capital allowances and the final company income tax payable for the tax year 2021.

Relevant details are as follows:

(1) The company incurred the following capital expenditure on implements, plant and machinery in the year ended 31 December 2021:

	K
Purchase of manufacturing plant (VAT inclusive)	870,000
Purchase of office furniture (VAT exclusive)	90,000
Purchase of delivery van (VAT inclusive)	580,000
Purchase of pool car (VAT inclusive)	300,000
Purchase of Managing Director's personal-to-holder car (VAT exclusive)	400,000

(2) It has been agreed with the Commissioner General that the Managing Director has private use of 30%.

(3) At 1 January 2021, all the implements, plant and machinery qualifying for capital allowances had been completely written down to zero. During the year, an old manufacturing plant that had been acquired for K696,000 (VAT inclusive) was sold for K610,000 (VAT exclusive).

(4) The company constructed a new building in the tax year 2021 at a cost of K3,020,000 comprising of the following elements:

	K
Land	400,000
Preparing the site	24,500
Factory	2,300,000
Drawing office	90,000
Staff canteen	205,500
Total cost	3,020,000

Musa Plc received a Government grant worth K450,000 towards the construction of the building. The building was brought into use on 1 November, 2021. All figures are VAT exclusive.

(5) Provisional income tax paid for the tax year 2021 was K820,000.

Kasonde Ltd

Kasonde Ltd is a Zambia resident company which deals in pharmaceutical products. Its profits before tax for the year ended 31 December 2020 increased by 250%, mainly due significant opportunities provided by the COVID-19 pandemic. The company is considering rewarding its shareholders working as Directors using either bonuses or dividends, amounting to K100,000 each. All directors earn an annual salary of K480,000.

Luke Accountants have been engaged to give professional advice on which option would be tax efficient. The Directors are aware that the Zambia Revenue Authority (ZRA) has zero tolerance to illegal activities aimed at minimizing tax liabilities. The veil of incorporation for the main competitor was recently lifted on suspicion of tax evasion.

Mwansa Ltd

Mwansa Ltd is considering the implementation of the balanced scorecard to improve performance measurement in the company. At a recent Board Meeting called to discuss the implementation of the balanced scorecard, the Chairperson of the Board of Directors noticed that most of the Directors had no idea of the balanced scorecard. The Board Meeting was therefore postponed to a later date.

The Chairperson of Board of Directors has therefore requested Luke Accountants to prepare a suitable report which will be used by the Directors at the next Board Meeting. The report should also include details on the importance of performance measurement.

Kasanga Ltd

The following information has been provided from the files of Kasanga Ltd, in respect of the tax year 2021:

The directors have decided that the company will cease trading on 30 October 2021, as the business has experienced a significant reduction in profit in the last two (2) due to the COVID-19 pandemic. All the assets of the company will be sold at their market values on that date. The income tax values of assets qualifying for capital allowances at 1 January 2021 were as follows:

	Original cost (VAT exclusive)	I.T.V. as at 1.1.2021	Market Value as at 30.10.2021 (VAT inclusive)
	K	**K**	**K**
Commercial land	600,000	N/A	870,000
Industrial building	9,000,000	2,250,000	3,480,000
Tata Bus	1,240,000	620,000	812,000
Manufacturing Machinery	2,800,000	0	1,044,000

SECTION A

Required:

(1) In respect of the corporate governance of Mutale Ltd:

(a) Identify and explain six (6) corporate governance deficiencies. (9 marks)

(b) Provide recommendations to address each deficiency, to ensure compliance with good corporate governance principles. (6 marks)

(2) Using the information in respect of Musa Plc:

(a) Explain what is meant by pool car, and clearly explain the tax treatment of personal-to-holder cars. (8 marks)

(b) Calculate the maximum capital allowances that Musa Plc can claim for the tax year 2021. (18 marks)

(c) Compute the tax adjusted business profits for Musa Plc for the tax year 2021. (4 marks)

(d) Calculate the amount of the final company income tax payable by Musa Plc for the tax year 2021, and state the due date. (5 marks)

[Total: 50 marks]

SECTION B

Required:

(3) Using the information regarding Kasonde Ltd:

(a) Explain what is meant by lifting the veil of incorporation. (3 marks)

(b) Explain what is meant by tax planning, tax avoidance and tax evasion, giving two (2) examples for each. (9 marks)

(c) Determine the tax efficient option and advise the Directors on whether adopting the tax efficient option will be termed as tax evasion. (6 marks)

(4) Write a report to the Board of Directors of Mwansa Ltd, clearly explaining:

(a) The importance of performance measurement. (6 marks)

(b) How Mwansa Ltd can use the balanced scorecard in performance measurement. (11 marks)

(5) With reference to the information given in respect of Kasanga Ltd, explain using appropriate computations:

(a) Property Transfer Tax (PTT) implications. (4 marks)

(b) Value Added Tax (VAT) implications. (4 marks)

(c) Income tax implications. (7 marks)

[Total: 50 marks]

END OF PAPER

NON-AUDIT COMPETENCE PRACTICE EXAMINATION (CPE)

SOLUTION ONE

SECTION A

(1) (a) & (b) **Ethical threats or professional issues and safeguards**

Ethical threats or professional issues	Explanations	Safeguards
(1) Assignment of Trainee Manager	It is unlikely that the Trainee Manager has the required skills and experience to competently handle the assignment. Poor quality work could have a negative impact on the reputation of the firm.	The work done by the Trainee Manager must be reviewed by a Senior Manager or Partner.
(2) The majority shareholder of Mandebwe Ltd is the friend to the Managing Partner	This represents serious self-interest and familiarity threats as the independence and objective of the Managing Partner may be affected by his relationship with majority shareholder of Mandebwe Ltd.	The Managing Partner must not be involved in the assignment. If he is involved, then an independent person must review the work and evaluate the reasonableness of any professional judgements made.
(3) Majority shareholder of Mandebwe Ltd	The majority shareholder of Mandebwe Ltd effectively controls the business and it is possible that he dominates the financial reporting process and decides what should be reported.	The firm should review the governance structures and the majority shareholder's role in the financial reporting process. Adequate quality control procedures must be put in place.
(4) Filimina Associates continue to provide non audit services to the company	It is possible that the firm has been providing non audit services for many years although the specific number of years have not been mentioned. This gives rise to a familiarity threat which could impair objectivity.	There should be regular rotation of senior members of the team and quality control reviews.

(5) Suggesting any amendments to the accounting policies which could boost profitability in order to pay a dividend and attract more investment	This may be referred to as "creative accounting". It is unethical for accountants in financial statement preparation to make figures look better in order to satisfy their interests. The Managing Partner may be faced with an advocacy threat given that the majority shareholder is his best friend. The majority shareholder may expect to be supported by the Managing Partner at all costs. This is likely to impair the Managing Partner's objectivity.	This must not be entertained. The majority shareholder must be told that the interests of the company and all its shareholders come first, and he must also have regard to other stakeholders such as potential investors or lenders. If a treatment does not conform to acceptable accounting practice, it is unethical and therefore should not be accepted.
(6) Time pressure	The Managing Partner wants the revised summary of the figures in the draft statement of financial position to be submitted to him before the close of business tomorrow, without fail. This may result in an intimidation threat and corners may be cut in order to meet the deadline. Filimina Associates would be at risk of preparing financial statements not showing a true and fair view, leading to possible litigation. The firm would contravene IESBA code of ethics.	It will be important to politely ask the Managing Partner for more time, if necessary.

[Award marks as follows:

1 mark for identifying ethical threats or professional issues – Maximum 5 marks

1 mark for explaining ethical threats or professional issues – Maximum 5 marks

1 mark for safeguards – Maximum 5 marks]

(c) **Suitability of each of the five (5) accounting treatments used by the Trainee Manager.**

- Provisions – The provision of K500,000 is incorrect and must therefore be reversed. As at 31 March 2021, there was no present obligation arising as a result of a past event that will result in a probable outflow of economic benefits which can be reliably measured. There should be no recognition nor disclosure of this event as it does not meet the criteria for a provision or contingent liability as guided by IAS 37 *Provisions, contingent liabilities and contingent assets.*

  The accounting entry for the reversal will be:

Debit	Current liabilities	K500,000	
Credit	Equity		K500,000

- Government grant – According to IAS 20 *Accounting for government grants and disclosure of government assistance,* government grant related to non-current assets should be credited to the statement of profit or loss over the life of the asset to which they relate, not in accordance with the schedule of any potential repayment. The Directors' proposed treatment is implying that the government grant is a liability which decreases over five (5) years. This is not correct as there would only be a liability if the Directors intended to sell the related mixing machine, which they do not. Thus in the year ended 31 March 2021, K375,000 (K3 million/8) should be credited to the statement of profit or loss and K2.625 million should be shown as deferred income (K375,000 current and K2.25 million non-current) in the statement of financial position. The K200,000 should be reversed. The accounting entries will be:

  Reversal

Debit	Equity	K200,000	
Credit	Non-current liability		K200,000

Correct treatment

Debit	Non-current liability	K750,000	
Credit	Equity		K375,000
Credit	Current liability		K375,000

- Impairment loss – According to IAS 36 *Impairment of assets,* impairment loss is the difference between the carrying amount and the recoverable value. Recoverable is the higher of the value in use and the fair value. In the case of Mandebwe Ltd, the details are as follows:

	K	K
Carrying value		900,000
Value-in-use	750,000	
Fair value (net) (800,000 – 20,000)	780,000	
Recoverable amount (higher)		780,000
Impairment loss		120,000

Accounting entry for adjustment K30,000 (K150,000 – K120,000)

Debit	Non-current assets	K30,000	
Credit	Equity		K30,000

- Deferred tax – The date of Government announcement of the tax change is beyond the period of consideration in IAS 10 *Events after the reporting period*. Thus, this would be neither an adjusting nor a non-adjusting event. The increase in the deferred tax liability will be provided for in the year ended 31 March 2022. Had the announcement been before 30 June 2021, it would have been treated as a non-adjusting event requiring disclosure of the nature of the event and an estimate of its financial effect in the notes to the financial statements. The Trainee Manager is therefore correct and no adjustment is required.

- Leave pay – IAS 19 *Employee benefits* requires that an accrual be made for holiday entitlement carried forward to next year.

Number of days c/fwd: 50 X 10 X 90% = 450 days
Number of working days: 50 X 250 = 12,500 days

Accrual = 450/12,500 X K3 million = K108,000

Correct accounting entry

Debit	Equity	K108,000	
Credit	Current liability		K108,000

(d) Mandebwe Ltd

Summary statement of financial position as at 31 March 2021

		K'000	**Marks**
Assets			
Non-current assets	(12,580+30)	12,610	1
Current assets		4,600	½
Total assets		17,210	½
Equity and liabilities			
Equity	(12,440+500-200+375+30-108)	13,037	3 ½
Non-current liabilities	(1,665+200-750)	1,115	1 ½
Current liabilities	(3,075-500+375+108)	3,058	2
Total equity and liabilities		17,210	

(2) **Lufina Plc**

(a) **Zoom fatigue and symptoms of Zoom fatigue**

Zoom fatigue is the term used to describe the extreme exhaustion resulting from mental and physical focus required in online virtual meetings in general and not necessarily only on Zoom platforms.

Symptoms of Zoom fatigue include:

- Strained eyes from continuous focus on the screen
- Neck and shoulder tension arising from leaning forward to feel more connected in the meeting
- Headaches which can be either tension headaches or migraines
- Low engagement in meetings
- Stress due to bad connections

[Award marks as follows:

Up to 2 marks for definition

1 mark for each symptom – Maximum 4 marks]

(b) **Measures which Lufina Plc may put in place during the annual general meeting (AGM) to minimize effects of Zoom fatigue**

Some of the measures which can be put in place to minimize effects of Zoom fatigue include:

- Allow for interludes (breaks) in between the AGM
- Make meetings shorter and concise
- Turning off video to allow shareholders and other participants to have a comfortable position to sit through, stretch their neck and even get up to walk around the room
- Check internet connections at least 30 minutes before the commencement of the AGM

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

(c) **Holding the Annual General Meetings (AGMs) via Zoom platforms**

Advantages of holding Annual General Meetings via Zoom platforms include:

- Enables companies meet the legal requirements amidst the COVID-19 pandemic
- May save time and money
- Likely to be more focused as compared to traditional AGMs

A number of companies are now holding Annual General Meetings (AGMs) using a number of online virtual platforms, including Zoom platforms. The Companies Act 2017, PART VI permits the use of electronic means to hold meetings. Section 56(2) states that, "A meeting called in accordance with this part, at which voting will be conducted or documents tabled, may be held by teleconferencing or other electronic means."

Hence, it is legally allowed to hold AGMs via electronic platforms.

[Award marks as follows:

1 mark for each valid advantage – Maximum 2 marks

1 mark for section 56(2)

1 mark for allowed]

SECTION B

(3) **Anonymous disclosure**

According to section 40 of the Accountants Act 2008, a Member may make an anonymous disclosure in accordance with this section and the disclosure is protected by this Act.

A Member making an anonymous disclosure shall identify themselves to the head of an investigating authority and request that the Member's identity be kept confidential by the investigating authority.

The Accountants Act 2008 states that investigating authority means:-

Auditor General;

The Anti-Corruption Commission;

The Drug Enforcement Commission;

The Investigator-General;

The Investigator-General of Police;

The Police Public Complaints Authority; and

The Judicial Complaints Authority;

The Zambia Institute of Chartered Accountants (ZiCA) is not an investigating authority. Hence, the anonymous disclosure should be made to the Anti-Corruption Commission.

[Award marks as follows:

Up to 2 marks for reference to the Accountants Act 2008 or any other relevant legislation

Up to 2 marks for investigating authority

Up to 2 marks for disclosure should be made to Anti-Corruption Commission]

(4) **Zambia Revenue Authority (ZRA)**

(a) **Exchange and non-exchange transactions in the context of public sector accounting**

An exchange or exchange-like transaction is one in which each party receives and sacrifices something of approximate equal value. IPSAS 9 *Revenue from Exchange Transactions* gives detailed guidance on exchange transactions. It defines an exchange transaction as one in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value to another entity in exchange. For example, provision of medical services in public sector hospitals in return for payment and sale of publications.

A non-exchange transaction is one in which one party receives something of value without directly giving value in exchange. IPSAS 23 *Non-Exchange Transactions* gives detailed guidance on non-exchange transactions. It defines non-exchange transaction as transactions where an entity receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange. Taxation and donations are some of the examples of non-exchange transactions.

[Award marks as follows:

1 mark for reference to IPSAS 9

Up to 2 marks for correct definition of exchange transaction

1 mark for each valid example – Maximum 2 marks

1 mark for reference to IPSAS 23

Up to 2 marks for correct definition of non-exchange transaction

1 mark for each correct example – Maximum 2 marks]

(b) **Correct accounting treatment**

(i) **Land for the construction of a dry port**

The Zambia Revenue Authority (ZRA) recognizes the land as an asset in the statement of financial position of the reporting period in which it obtains control of that land. The land should be recognized at its fair value in accordance with IPSAS 17. The restriction does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore, ZRA must recognize revenue in respect of the land in the statement of financial performance of the reporting period in which the land is recognized as an asset.

[Award marks as follows:

1 mark for reference to IPSAS 17

1 mark for capitalization at fair value

1 mark for does not meet the definition of a liability

1 mark for recognition of revenue]

(ii) Mpendwa House

The Zambia Revenue Authority (ZRA) also uses part of Mpendwa House as administrative offices and therefore only the part of Mpendwa House let qualify as an investment property, according to IPSAS 16 *Investment Property.*

The part used for administrative offices should be accounted for under IPSAS 17 *Property, Plant and Equipment.* It must be capitalised and depreciated accordingly. The rental income should be treated as other income.

[Award marks as follows:

1 mark for reference to IPSAS 16

1 mark for not investment property

1 mark for reference to IPSAS 17

1 mark for property, plant and equipment

1 mark for treatment of rental income as other income]

(5) **Upgrades**

(a) **Software quality**

Importance

Software quality is simply the degree of excellence of the software. In the case of Francis Bank Ltd, quality accounting and management information systems may significantly improve planning, decision making, control and reporting within the company. This could result in reduced costs and increased profitability. This means users will be getting value for their money.

Software quality is also about long-term design potential, and poor build quality will impede system development in the future, as well as complicating maintenance and upgrades.

[Award marks as follows:

1 mark for any valid improvement

1 mark for reduced costs/increased profitability

1 mark for value for money

1 mark for long-term]

Key aspects of quality

The key aspects of quality in software generally include:

- Functionality – This involves meeting the expectations of the users by the software performing the tasks expected of it correctly, and doing what the user wants it to do.
- Reliability **–** This is concerned with software producing expected outputs and not being out of service frequently or for extended periods.

- Usability **–** This means that the software is easy to use, resulting in few errors.
- Build quality - The software should exhibit features of good build, such as ease of maintenance, flexibility in use, expandability, and portability between platforms.

[Award up to 2 marks for each aspect – Maximum 8 marks]

(b) **Explanations of the meaning of physical, human and systems aspects of security to Francis Bank Ltd's accounting and management information systems**

- **Physical aspects –** These relate to the security risks to which the computer hardware is exposed. These risks mainly come from outside the system and include theft, fire, dust, humidity, flooding and wind and earth movement damage to the building housing the computer.

- **Human aspects –** These include risks from inside and outside the organisation and risks arising from both intentional and unintentional actions. For example hacking, spilling drinks into equipment, accidental changes to data etc.

- **Systems aspects –** These relate to risks which are inherent in the system itself and include loss of software and possibly damage to equipment, all caused by system malfunctioning brought about by either hardware or software failure or errors.

[Award up to 2 marks for each valid explanation – Maximum 6 marks]

(c) **Advice**

Francis Bank Ltd is a public interest enterprise. The public and other key stakeholders expect the company to strictly follow laws and regulations, including those pertaining to procurement. Francis Bank Ltd wants to engage in direct bidding (single sourcing).

According to the Public Procurement Act, 2008, section 32 (1), the objective of direct bidding shall be to achieve timely and efficient procurement, where the circumstances or value do not justify or permit the use of competition. However, according to section 32 (2), direct bidding may be used where:

- The goods, works or consulting or non-consulting services are only available from a single source and no reasonable alternative or substitute exists;

- Due to an emergency, there is urgent need for the goods, works or services making it impractical to use other methods of procurement because of the time involved in using those methods;

- Additional goods, works or services must be procured from the same source because of the need for compatibility, standardisation or continuity.

- An existing contract could be extended for additional goods, works or services of a similar nature and no advantage could be obtained by further competition; or

- The estimated value of the goods, works or services does not exceed the prescribed threshold.

If corruption could be established, then according to section 74 (3), a bidder or supplier who commits an act of corruption shall be prosecuted in accordance with the provisions of the Anti-Corruption Commission Act.

The Directors have indicated that the upgrades are urgently required. However, other stakeholders may not consider the upgrades as an emergency given that the systems are still operational. Hence, in order to avoid future problems, it may be advisable to halt the process and follow the right procedure. The upgrades must not be approved since more work still needs to be done.

[Award marks as follows:

1 mark for reference to the Public Procurement Act,2008

1 mark for direct bidding (single sourcing)

1 mark for each condition – Maximum 5 marks

1 mark for not appropriate

1 mark for no approval]

SOLUTION TWO

SECTION A

(1) **Corporate governance of Mutale Ltd**

Weaknesses	Explanations	Recommendations
(1) Abraham owns 80% of the shareholding and is the Chairperson of the Board of Directors (BOD).	Abraham is too powerful and may abuse his power to dominate decision-making. It is unlikely that anyone would have the courage to question his decisions. Any possible dissenting voices are silenced. This effectively allows him to make decisions that are in his interests contrary to good corporate governance practice.	Mutale Ltd should appoint an independent non-executive director (NED) as Chairperson.
(2) Abraham's wife is a qualified engineer and was recently appointed as the Chairperson of the Audit Committee.	Abraham's wife is part of the day to day operations of the company. She is unlikely to be independent and in fact may not even have the experience and skills required for such a very sensitive role.	Abraham's wife must be replaced with an independent non-executive director (NED); preferably one with recent accounting knowledge. In addition, Abraham's wife should not be part of the Audit Committee.
(3) Abraham's youngest son is the Head of Finance and Internal Audit.	The Internal Audit function may not be independent and are unlikely to carry out any meaningful audit regarding the finance function.	The Internal Audit function should be detached from the finance function, and the Head of Internal Audit should report to the Audit Committee.
(4) The Board of Director's (BOD's) performance is appraised at the end of the three (3) year term.	Three (3) years is too long and it is likely that any underperformance may be difficult to reverse. Board members may relax.	Appraisal should be done on a annual basis in order to be effective.

(5) Board of Director's appraisal is done by the Chief Executive Officer (CEO).	The Chief Executive Officer's (CEO's) objectivity is highly questionable, given that the Board of Directors (BOD) is also responsible for appraising his performance. There is a serious self interest threat and it unlikely that appraisals are done objectively.	Mutale Ltd should use an external third party to conduct the evaluation as this will bring objectivity to the process.
(6) No appraisal is performed for individual Directors.	It is possible that some Directors may not be effective even if the whole BOD is effective and vice versa. Ineffectiveness will continue being on the board.	An annual appraisal for individual Directors should be introduced.
(7) The Head of Finance and Internal Audit and Chief Executive Officer (CEO) decide on the remuneration for all executive directors (EDs).	Good corporate governance practice requires that Directors should not set their own remuneration due to them having a clear self interest which may prompt them to award themselves excessive pay packages.	A Remuneration Committee consisting of non-executive directors (NEDs) should be responsible for setting the remuneration for all executive directors (EDs). There should be a clear policy on remuneration and the Remuneration Committee should have access to its own external advice or consultants.

[Award marks as follows:

½ mark for identification of deficiency – Maximum 3 marks

1 mark for valid explanation – Maximum 6 marks

1 mark for recommendation – Maximum 6 marks]

(2) **Musa Plc**

(a) **Pool car and personal-to-holder cars**

For the purposes of taxation, a motor car is classified as a pool car if:

- It is not available for use by one employee or director to the exclusion of all others

- It is not normally kept overnight at, or near the residence of one employee or director

- It is specifically meant for business use, with any private use being incidental to the business use.

The motor car being so driven should be owned by or leased by the employer for the purpose of provision for use by employees and/or directors.

A personal to holder motor car on the other hand is a car provided to an employee or director without any restrictions imposed on its use by the employee or the director and normally involves payment by the employer of all running expenses of the vehicle.

Where a personal to holder motor car is provided to an employee, the benefit is taxed on the employer and not on the employee. The benefit added back when computing taxable business profits for the company depends on the cylinder capacity of the vehicle as follows:

Cylinder capacity	*Amount disallowed*
	K
2,800cc and above	40,000
1,800cc but below 2,800cc	30,000
Less than 1,800cc	18,000

No taxable amounts arise on either the employee or the company where the car provided is a pool car.

(b) **Maximum capital allowances**

Computation of capital allowances on implements plant and machinery for the tax year 2021

	Value	Allowances	
	K	**K**	**Marks**
Old Manufacturing Plant			
Income tax value b/f	Nil		
Disposal Proceeds (Limited to cost)	(600,000)*		
Balancing charge	(600,000)	(600,000)	2
New Manufacturing Plant			
Purchase cost (870,000 x 25/29)	750,000		
Wear and tear allowance @ 50%	(375,000)	375,000	2
Income tax value c/f	375,000		
Office Furniture			
Purchase cost	90,000		
Wear and tear allowance @ 25%	(22,500)	22,500	1
Income tax value c/f	36,000		
Delivery Van			
Purchase cost (580,000 x 25/29)	500,000		
Wear and tear allowance @ 25%	(125,000)	125,000	2
Income tax value c/f	375,000		
Pool Car			
Purchase cost	300,000		
Wear and tear allowance @ 20%	(60,000)	60,000	1
Income tax value c/f	240,000		
Managing Director's Car			
Purchase cost (400,000 x 1.16)	464,000		
Wear and tear allowance @ 20%	(92,800)	92,800	2
Income tax value c/f	371,200		
Total Capital allowances		75,300	2

* VAT exclusive value = K696,000 X 25/29 = K600,000

Computation of Industrial Building Allowances (IBAs)

	Value K	Allowances K	Marks
Total cost	3,020,000		
Less cost land	(400,000)		1
Less Government grant	(450,000)		1
Qualifying expenditure	2,170,000		
Initial allowance @ 10%	(217,000)	217,000	1
Investment allowance @ 10%	(217,000)	217,000	1
Wear and tear @ 5%	(108,500)	108,500	1
Income tax value c/f	1,627,500		
Total capital allowances		542,500	2

Total allowances (K75,300 + K542,500) = K617,800

(c) **Musa Plc**
Computation of the tax adjusted business profits

	K	Marks
Profit before capital allowances	4,085,000	1
Less: Capital allowances	(617,800)	1
Taxable business profit	3,467,200	2

(d) **Musa Plc**

Company Income tax Computation for the tax year 2021

	K	Marks
Taxable business profits	3,467,200	
Total taxable Income	3,467,200	1

	K	
Income tax		
K3,467,200 X (35% - 5%)	1,040,160	1
Less tax already paid:		
Less Provisional income tax	(820,000)	1
Final company income tax payable	220,160	1
Due date: 21 June 2022		1

SECTION B

(3) **Kasonde Plc**

(a) **Lifting the veil of incorporation**

Incorporation veils members from outsiders' views, but the veil may be lifted in some circumstances so creditors and others can seek redress directly from members. The veil may be lifted by statute to enforce the law, to prevent the evasion of obligations and in certain circumstances where companies trade as a group. The fact of the separate corporate personality of a company prevents outsiders from taking action against its members (even though the outsider can find out who they are and how many shares they hold) has led to comparison with a veil. The corporate personality is the veil, and the members are shielded behind this "veil of incorporation". However, the internal affairs of the company are never completely concealed from view since publicity has always accompanied incorporation. In addition there are several situations when the law is prepared to lift the veil of incorporation either to go behind the corporate personality to the individual members, or to ignore the separate personality of several companies in a group in favour of the economic entity constituted by the group as a whole.

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

(b) **Tax planning, tax avoidance and tax evasion**

Tax planning can be defined as the minimizing or deferring of tax liabilities by utlising various provisions of the law.

Government in many cases provides various deductions and exemptions which can be used to minimise or reduce a taxpayer's tax liability. Tax planning is often achieved by utilising such exemptions and/or reliefs but it can also be achieved by structuring a transaction in a different way. Examples of this would be:

- Trading through a limited company rather than an unincorporated entity
- Gifting into trust rather than direct to an individual
- Leasing rather than buying an asset
- Running a business in partnership with a family member rather than employing them

Tax planning ensures an individual **uses their financial resources most efficiently** by minimising their tax liabilities while **complying wholly with the law** and applying the law in the way it was intended.

Tax avoidance

There is a thin line of difference between tax planning and tax avoidance and the two terms are sometimes used interchangeably.

Tax avoidance can be defined as acting within the law, sometimes at the edge of legality, to **minimise, eliminate or defer tax** that would otherwise be legally owed. It involves a taxpayer **taking advantage of loopholes** or weaknesses and mismatches in tax law to minimise or defer tax liabilities, thereby **obtaining a tax advantage that was not originally intended** by legislation.

Tax avoidance is **legal** and not an offence, but it **defeats the intention or purpose of the law** and therefore, to discourage its practice, the Government may issue **anti-avoidance tax legislation.**

Anti-avoidance legislation aims at sealing the loopholes in the tax legislation so as to prevent taxpayers from taking advantage of them, and thereby reducing their tax liabilities lawfully.

Tax evasion

Tax evasion refers to the use of **illegal** means to avoid or reduce tax liabilities. The aim of the taxpayer practicing tax evasion is to **defraud** the Government of the revenue.

Such illegal means of reducing tax liabilities may include but are not limited to the following:

- **Deliberate concealment of income**, including overstatement of tax credits or exemptions and suppression of profits. This results in the disclosure of income which is not the actual income earned by the taxpayer.

- **Deliberate misrepresentation** of material fact, manipulation of accounts, disclosure of unreal expenses for deductions, showing personal expenditure as business expenses etc.

- **Hiding** relevant documents.

- **Not maintaining complete records** of all the transactions.

- **Not reporting taxes** such as Value Added Tax, Pay as You Earn and withholding tax. These taxes are collected from others by the taxpayer and held in trust by the business, to be reported and paid to the Zambia Revenue Authority. Willfully using such taxes to fund a business instead of reporting the collection and paying the taxes when they are due is tax fraud.

The **distinction** between tax avoidance and tax evasion is not always that clear. For example, a tax avoidance scheme comprising a series of transactions solely designed to reduce the tax liability with no commercial gain to the taxpayer may be taken as illegal and therefore amount to tax evasion.

[Award marks as follows:

1 mark for what is meant by tax planning

1 mark for each example on tax planning – Maximum 2 marks

1 mark for what is meant by tax avoidance

1 mark for each example on tax avoidance – Maximum 2 marks

1 mark for what is meant by tax evasion

1 mark for each example on tax evasion – Maximum 2 marks]

(c) **Advice**

The additional income tax payable by each Director under each the option is as follows:

	Bonus	Dividend
	K	**K**
Proposed amount	100,000	100,000
Additional income tax		
@37.5%/15%	(37,500)	(15,000)
Net amount	62,500	85,000

The tax efficient option is dividend payment, as the net amount receivable by each Director will higher by K22,500 (K85,000 – K62,500).

This is not tantamount to tax evasion since it is perfectly acceptable tax planning to minimize tax liabilities. In fact, there is no exploitation of law, which would be the case if there was tax avoidance, and certainly no wrongdoing to amount to tax evasion.

[Award marks as follows:

1 mark for each correct tax amount – Maximum 2 marks

1 mark for each correct net income – Maximum 2 marks

1 mark for correct tax efficient option – Dividend payment

1 for correct advice – Not tax evasion]

(4) **Mwansa Ltd**

REPORT

To: Directors – Mwansa Ltd

From: Manager – Luke Accountants

Subject: **Balanced scorecard**

Date: June 2021

1.0 Introduction

This report has been written to clearly explain the importance of performance measurement and how Mwansa Ltd can use the balanced scorecard in performance measurement.

2.0 Importance of performance measurement

Performance measurement aims to establish how well something or somebody is doing in relation to a plan. The "thing" may be a machine, a factory, a subsidiary company or an organization as a whole. The "body" may be an individual employee, a manager or a group of people.

Performance measurement is a vital part of the control process. It also forms an important component of the reward system. Poor performance measurement could harm the company especially in the long-run. Good performance measurement could encourage mangers to take a long-term view so that "ideal" decisions are taken.

- Performance measurement is part of the overall control system, providing the essential feedback spur to any necessary control action
- It is a major input into communications to stakeholder groups, including the widening field of corporate reporting
- It is intimately linked to incentives and performance management systems, providing evidence of results against agreed objectives
- Motivation may be enhanced since managers will seek to achieve satisfactory performance in areas that are measured.

3.0 Balanced scorecard

The balanced scorecard was invented by Robert Kaplan and David Norton. They came up with 4 perspectives (financial, customer, internal business process, learning and growth) that the companies should be looking at.

Mwansa Ltd can use the balanced scorecard to measure its performance in the following ways:

3.1 The Financial Perspective

Mwansa Ltd can measure its success in terms of the financial perspective by using traditional ratio analysis. The ratios could be broken down into groups such as profitability, gearing, liquidity, working capital and investor ratios. In addition, Mwansa Ltd could develop its own financial-based ratios which it would consider useful.

3.2 The Customer Perspective

Mwansa Ltd should consider how it appears to its customers. Customers are interested in time, quality, performance and service, and cost. (Time could mean the time taken from an order being received to being delivered in the case of an existing product.) Appropriate targets could be set for each item for each division and then actual performance measured. Examples of possible measures would include: number of complaints, proportion of customers repeat buying, etc.

3.3 The Internal Business Process Perspective

The customer and financial perspectives are important, but the internal business process perspective is also vital as it focuses on what the company must do to satisfy its customers and shareholders. Mwansa Ltd must decide what business processes have the greatest influence on achieving customer satisfaction and improving financial performance. Factors such as quality, cycle time, productivity and employee skills would be possible areas that Mwansa Ltd could look at. Again, Mwansa Ltd would establish targets and measure actual performance and where there was a significant difference would investigate and try to improve performance in the future.

3.4 The Learning and Growth Perspective

Once Mwansa Ltd has set up measures for customer satisfaction and the internal business process perspective, it is not enough to simply achieve those targets and then think that everything is OK. In today's modern business environment with rapidly changing political environments, changes in taste and fashion, technological changes and global customers and global competition, the company has to be continually thinking of the future and must be able to develop new products which will be attractive to the customer and which can be brought to the market in as a short a time as possible. Mwansa Ltd might look at its percentage of sales from new products, the number of patents from its research division, the lead time from a product being designed to being launched on the market. The learning and growth perspective also includes employee performance measures such as labour turnover, absenteeism and staff morale (perhaps measured by staff questionnaires).

4.0 Conclusion

For each of the four perspectives, goals need to be set and measures created to capture performance in achieving these goals. The scorecard is useful as it captures a wide range of data across the organization. However, it must be used with care as measures may conflict e.g. measuring revenue generation and also setting goals for business development work which is non-chargeable. Managers must be careful not to set too many measures such that important data gets lost. Non-financial managers may have difficulty interpreting financial measures but this is true of any performance measurement system.

[Award marks as follows:

1 mark for presentation

1 mark for introduction

1 mark for each valid point on financial perspective – Maximum 2 marks

1 mark for each valid point on customer perspective – Maximum 2 marks

1 mark for each valid point on internal business perspective – Maximum 2 marks

1 mark for each valid point on learning and growth Perspective – Maximum 2 marks

1 mark for conclusion]

(5) **Kasanga Ltd**

(a) **Property Transfer Tax (PTT) implications**

There will be no property transfer tax implications on the sale of the Tata Bus and the manufacturing machinery as they are not chargeable assets for property transfer tax (PTT) according to the PTT Act. However, commercial land and industrial building are chargeable assets.

Property transfer tax (PTT) will be payable on sale of the commercial land and industrial building on the realized values as follows:

- Commercial land
  PTT = 870,000 X 25/29 X 5% = K37,500

- Industrial building
  PTT = 3,480,000 X 25/29 X 5% = K150,000

[Award marks as follows:

1 mark for each correct explanation on chargeable assets – Maximum 2 mark

1 mark for each correct PTT – Maximum 2 marks]

(b) **VAT implications**

Value Added Tax (VAT) will be payable on the sale of assets as follows:

	K
Commercial land (K870,000 X 4/29)	120,000
Industrial building (K3,480,000 X 4/29)	480,000
Tata Bus (K812,000 X 4/29)	112,000
Manufacturing machinery (1,044,000 X 4/29)	144,000
Total	856,000

[Award 1 mark for correct VAT figure – Maximum 4 marks]

(c) **Income tax implications**

Balancing allowances or balancing charges will arise as follows:

Asset	**Value**	**Allowances**	**Marks**
	K	**K**	
Industrial building			
Income Tax Value (ITV) b/f	2,250,000		
Disposal value (K3,480,000 X 25/29)	(3,000,000)		1
Balancing charge	(750,000)	(750,000)	½
Tata Bus			
ITV b/f	620,000		
Disposal (K812,000 X 25/29)	(700,000)		1

Balancing allowance	120,000	120,000	½
Manufacturing machinery			
ITV b/f	0		
Disposal (1,044,000 X 25/29)	(900,000)		1
Balancing charge	(900,000)	(900,000)	½
Total		(1,530,000)	½

The net balancing charge will be added to the profit before tax when computing taxable profits. 1

There are no capital allowances on land. 1

END OF SOLUTIONS