



COMPETENCE PRACTICE EXAMINATION

NON-AUDIT PRACTISING CERTIFICATE

DECEMBER 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 2¹/₂ 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.

2021 NON-AUDIT COMPETENCE PRACTICE EXAMINATION (CPE)

QUESTION ONE

Mweempe & Co. is registered with the Zambia Institute of Chartered Accountants (ZiCA). You are one of the Managers in the firm, and the following scenarios relate to six (6) of your clients:

(1) Evaristo Plc

The following issues have arisen during the preparation of Evaristo Plc's draft financial statements for the year ended 31 December 2021:

(i) Closing inventory is valued at K700,000 at cost for the year. Included in this amount is inventory that cost K30,000 but during the inventory count it was identified that these goods had become damaged and as a result the selling price was reduced. The goods are now believed to have a selling price of K21,000 and will incur rectification costs of K3,000.

(ii) The company has an outstanding court case concerning a customer claiming damages for losses due to faulty components supplied by Evaristo Plc. The estimated outcomes are:

15% chance of no damages awarded

55% chance of damages of K80,000

18% chance of damages of K100,000

12% chance of damages of K150,000

(iii) On 1 January 2021, Evaristo Plc bought a property, consisting of land and buildings, for K4 million (land element K1 million). The estimated market value of the property on 31 December 2021 was K5 million (land element K1.2 million). The estimated useful economic life of the buildings on 1 January 2021 was 50 years. This estimate remains valid. The company uses the revaluation model to measure properties.

(iv) The Managing Director of Evaristo Plc has insisted that since employees are the most important asset, the company should find a way of reflecting these assets in the statement of financial position. The Finance Director is under pressure to capitalize K600,000 which was incurred on training fifty (50) employees.

(v) Evaristo Plc issued 30,000 new K1 shares which have a fair value of K3 per share for cash. Professional fees in respect of the share issue were K6,000 and are deductible for

tax purposes. The tax rate is 35%. The Management of Evaristo Plc estimates that costs incurred internally for time incurred working on the share issue are K4,000.

(vi) Evaristo Plc purchased a bond for K257,069 on 1 January 2021. It will be redeemed on 31 December 2025 for K1,000,000. The bond is held at amortised cost and carries no coupon.

The following annuity factors are given:

Year	6%	7%	8%	9%	10%
1	0.943	0.935	0.926	0.917	0.909
2	1.833	1.808	1.783	1.759	1.736
3	2.673	2.624	2.577	2.531	2.487
4	3.465	3.387	3.312	3.240	3.170
5	4.212	4.100	3.993	3.890	3.791
6	4.917	4.767	4.623	4.486	4.355

The Accountant-In-Charge (AIC) of this assignment would like you to advise him on how the above transactions should be dealt with in the financial statements with reference to International Financial Reporting Standards where appropriate.

(2) Lisa Multi-Purpose Cooperative (LMPC)

The President of the Zambia Institute of Chartered Accountants (ZiCA) delivered a speech at a symposium whose theme was "Driving change, choose to challenge". The symposium was graced by the Vice-President of the Republic of Zambia. The ZiCA President stated that the institute was ready to help the government design systems that will bring about the needed change in public service. She went on to say, "More than ever, we must be resilient and choose to challenge in order to drive true change. Your Honour the Vice-President, as business and finance professionals, we are challenged with the opportunity to safeguard public interest, as good public financial management systems are important for democratic governance, macroeconomic stability, effective use and equitable distribution of national resources."

The directors of LMPC are keen on changing its systems and have appointed your firm to design a new procurement system which will address issues of cost, quality and time. As a member of the team responsible for the design of the new procurement system, you

have been asked to provide a few details to assist in the initial deliberations for the team. You should assume the system will be highly computerized.

(3) Veronique Ltd

The Managing Partner has sent you this email:

To: Manager

From: Managing Partner

Subject: Professional and Ethical issues

Hello

We are currently planning the performance of a number of assignments (including preparation of financial statements) for Veronique Ltd. However, the following issues have been brought to my attention:

(1) Veronique Ltd's liquidity position – this has been described by the directors as "unsatisfactory" mainly as a result of high gearing. The notes to the financial statements have not adequately disclosed this fact. The directors feel any further disclosure would be excessive and confusing to users.

(2) Key performance indicators on corporate social responsibility – the company's narrative reporting on corporate social responsibility is not supported by performance indicators.

(3) Loan application – The Finance Director (FD) wishes to capitalize development expenditure to ensure that the loan application meets the bank's criteria.

(4) One of the Partners in Mweempe & Co. is related to the Finance Director.

(5) Recruitment of Director of Internal Audit – the board of Veronique Ltd has requested Mweempe & Co. to recruit the Director of Internal Audit.

Kindly explain the potential professional and ethical issues and recommend suitable actions to take.

Thank you.

(4) Yemata Ltd

Yemata Ltd was incorporated in 2020 and is involved in large scale extraction and sale of copper. The company is preparing its first annual report and wishes to include a sustainability report in order to differentiate it from competitors. The draft sustainability report has identified the director responsible for environmental issues and has adequately highlighted two specific environmental issues experienced during the year.

The directors of Yemata Ltd have asked Mweempe & Co. to generally review the suitability of the draft sustainability report and make any recommendations which may be considered necessary.

(5) Lukonde Ltd

Lukonde Ltd has been your client for over six (6) years. The company has been making losses but the owner, Lukonde seems unconcerned and boasts of huge bank and cash balances. You have been summoned by the police to answer questions relating to suspected money laundering.

(6) Lusaka City Council (LCC)

The President of the Republic of Zambia says the allocation of K25.7 million of community development fund (CDF) per constituency was not a mistake but a deliberate move. He has warned that corruption will not be tolerated. LCC has just adopted the accruals based IPSAS (International Public Sector Accounting Standards) to enhance accountability and transparency. Mweempe & Co. provides accounting services to LCC. The Director of Finance has requested the firm to provide professional advice regarding the reporting method (whether to use function of expense method or the nature of expense method) to use and the accounting treatment for the following:

- Capital grant – the Central Government has provided a grant in the sum of K3 million for the construction of an Old People’s home in Mutendere. The grant agreement clearly stipulates that if the money is not spent as specified, the money will need to be returned.
- LCC has made a written pledge to contribute a substantial sum of money toward the construction of a new performing arts centre in one of its communities. The Executives of LCC appeared in a press conference to announce the pledge. With the LCC’s consent, the public benefit organization that is building the arts centre has cited the LCC’s pledge in its materials soliciting additional pledges for construction. Under the local law, pledges to public benefit organisations are not legally enforceable.

SECTION A

Required:

(1) Using the information above regarding Evaristo Plc:

(a) Explain the required accounting treatment of issues (i) to (vi) by Evaristo Plc in its financial statements for the year ended 31 December 2021. (19 marks)

(b) State two (2) features of accounting records which meet the legal requirements. (2 marks)

(2) With reference to the information given regarding Lisa Multi-Purpose Cooperative (LMPC):

(a) Advise whether it is appropriate for the Zambia Institute of Chartered Accountants (ZiCA) to help the government design systems. (2 marks)

(b) Explain what is meant by e-procurement and the key stages of e-procurement system which should be included when designing the new e-procurement system. (12 marks)

(3) Explain the potential professional and ethical issues in Veronique Ltd and recommend suitable actions to take. (15 marks)

[Total: 50 marks]

SECTION B

Required:

(4) Using the information provided on Yemata Ltd, evaluate the suitability of the draft sustainability report and make any recommendations which may be considered necessary. (14 marks)

(5) Making reference to appropriate legislation in respect of the issues regarding Lukonde Ltd:

(a) Advise whether Mweempe & Co. should give the police the requested information. (6 marks)

(b) Outline the elements of a money laundering programme which clearly identifies and explains the accountants' obligations. (15 marks)

(6) Using the information given in respect of Lusaka City Council (LCC), and suitable International Public Sector Accounting Standards (IPSASs), recommend the:

(a) Reporting method to use. (5 marks)

(b) Correct accounting treatment for:

(i) Capital grant. (5 marks)

(ii) Pledge. (5 marks)

[Total: 50 marks]

QUESTION TWO

Abraham & Associates (AA) is registered with the Zambia Institute of Chartered Accountants (ZiCA). You are a Financial Consultant in Abraham & Associates (AA) in the business advisory department. You are in charge of various assignments for the following clients:

- (1) Zebra Plc
- (2) Impala Ltd
- (3) Kafeka
- (4) Zambia Institute of Chartered Accountants (ZiCA)
- (5) Lion Ltd

Zebra Plc

Zebra Plc is a large, public company, whose business activity is events management, involving the organization of conferences, meetings and celebratory events for companies. Zebra Plc was founded ten (10) years ago by Rufina Nakengo and her brother, Peter, who still own the majority of the company's shares. Rufina Nakengo is the Chairperson of the board while Peter is the Chief Executive Officer (CEO). Zebra Plc is listed on the Lusaka Securities Exchange (LuSE) and has engaged Abraham Associates (AA) to review its corporate governance structures.

Non-executive directors (NEDs) have a restricted role, and only scrutinize strategy and performance of executive management. To avoid the situation where the remuneration committee (consisting of NEDs) is solely responsible for determining the remuneration of the NEDs, the board and shareholders determine the NEDs remuneration within the limits set out in the company's constitution. NEDs' remuneration consists of a basic salary and no performance related element is awarded.

Although the Finance Director is still active, he is in poor health. Unusually, it would appear that any press releases relating to the deterioration of his condition are met with a sharp increase in share price.

Voting on board elections is not confidential. When a position is vacated for whatever reason, the nomination committee commission searches for successful replacements using consultants or agencies, whose recommendation are never questioned.

Impala Ltd

Impala Ltd is a Zambian resident farming company, which was incorporated in the Republic of Zambia in 2007. The company's statement of profit or loss for the year ended 31 December 2021 is as follows:

	Notes	K	K
Gross profit			900,000
Add:			
Dividends received	1	80,000	
Royalties received	2	36,000	
Profit on the sale of land	3	<u>50,000</u>	
			<u>166,000</u>
			1,066,000
Less:			
Loss on sale of tractor	4	12,000	
Depreciation on non-current assets		143,200	
Impairment loss		5,000	
Entertaining auditors		2,000	
Advertising		10,000	
Premium paid	5	8,000	
Other allowable expenses		<u>379,000</u>	
			<u>(559,200)</u>
Profit before taxation			506,800
Income tax expense	6		<u>(40,000)</u>
Profit for the period			<u>466,800</u>

Notes

1 – Dividend received

The dividend received was from Kudu Plc, a company that is incorporated in a foreign country. The dividend shown in the statement of profit or loss is the gross amount. The summarized statement of profit or loss of Kudu Plc for the year ended 31 December 2021 is as follows:

	K	K
Profit before interest and tax		2,140,000
Income tax expense		<u>(535,000)</u>
Profit after tax		1,605,000
Dividends paid		
Net	997,120	
Withholding tax	<u>218,880</u>	
		<u>(1,216,000)</u>
Retained profits		<u>389,000</u>

All the above figures are in Zambian Kwacha.

2 – Royalties received

The company received royalties from another Zambian company. The gross amount is shown. Withholding tax had been withheld at source at the appropriate rate.

3 – Profit on the sale of land

The land was acquired at a cost of K388,750 in 2010 and was sold for K438,750, after deducting the estate agent fees of 2.5% of the sales value. There was no value determined by the government valuations department as it was traditional land.

4 – Loss on sale of tractor

The tractor was sold for K33,000. The tractor was bought on 4 December 2020 for K60,000. The company is yet to account for any balancing adjustments.

5 – Premium paid

The company obtained a right for the use of a trade mark on 1 January 2021. The company paid a premium of K8,000 as consideration for grant of the right. The right will be exploited by the company over a ten (10) year period.

6 – Income tax expense

The income tax expense shown in the statement of profit or loss above represents the provisional tax paid by the company in respect of the tax year 2021.

7 – Capital allowances

A total amount for capital allowances has been agreed with the Commissioner-General as K174,300. This does not include the balancing adjustment for the tractor which was sold.

Additional information

On 31 October 2021, Moses Mutale who had been employed by Impala Ltd as an Accountant retired. The annual salary was K122,400. In addition, he was entitled to the following monthly allowances:

	K
Housing allowance	2,550
Medical allowance	600

In the tax year 2021, Moses Mutale received the following cash amounts, in addition to his entitlements mentioned above:

Date	Details	K
12 January 2021	Bonus (due on 25 December 2020)	6,000
25 April 2021	Long service award	10,000
1 May 2021	Labour day award	2,000

The payments made by Moses Mutale during the tax year 2021 included Pay As You Earn (PAYE) K32,500, NAPSA contributions K5,100 and membership subscription to the Zambia Institute of Chartered Accountants (ZiCA) K3,000.

Upon his retirement, he received accrued leave pay K25,500 and pension K2,160,000.

Kafeka

You have received the following e-mail from a client, Kafeka (a sole trader):

"I intend to start trading on 1 December 2021 and immediately register for Value Added Tax (VAT) using the voluntary registration. However, I need your assistance regarding the requirements for voluntary registration and the preparation of the VAT return for the month of December 2021, including the computation of the maximum capital allowances claimable for the tax year 2021. All my sales are expected to be standard rated but I could start selling exempt items after three (3) months as well.

For the month of December 2021, the total sales are expected to be K30,000 (VAT exclusive), while standard rated purchases are expected to be K17,400 (VAT inclusive). In the month of December 2021, I plan to buy a Motor car for use in the business for K4,500 (VAT exclusive) and a Delivery van for K11,600 (VAT inclusive).

All purchases will be from VAT registered suppliers. I will be happy if you can also explain what is meant by withholding value added tax (WVAT) and how it operates."

Zambia Institute of Chartered Accountants (ZiCA)

ZiCA run the competence practice examinations (CPE) leading to certification. The examinations are currently assessed using conventional paper-based, written examinations. There are two examination sittings per year and these sittings are held in Lusaka and Kitwe.

The twice-yearly examinations schedule creates peaks and troughs in cash flow which the institute finds increasingly hard to manage. All examinations are set in English by contracted examiners who are paid for each examination they write. The examinations are five-hour (with 30 minutes break), open-book examinations marked by contracted markers.

The completed scripts are transported to the contracted markers by courier and the results are normally released after 8 weeks.

The Practice Review Manager at ZiCA has suggested e-assessment initiatives. She has suggested that all examinations should be assessed by multiple-choice examinations delivered over the internet. They can be sat anytime, any day, anywhere. Candidates can sit these examinations at home or at ZiCA offices. Anywhere where there is a personal computer and a reliable broadband connection.

The ZiCA management wants you to provide information on the benefits and cost implication of e-assessments for the competence practice examinations (CPE). This will be cardinal in ensuring approvals are obtained quickly.

Lion Ltd

The Finance Director of Lion Ltd contacted you this morning, saying: "I was alerted yesterday (14 November 2021) at 22:00 hours, about a fire that destroyed our inventory. The last time that inventory count had been done was on 1 November 2021, the last date of the statement of financial position, when the inventory was valued at K70,000. Purchases from then until 14 November 2021 amounted to K280,000 and sales in that period were K400,000. All sales were made at a uniform gross profit mark-up of 25%.

The inventory was insured and we are currently working on the documentation for the insurance claim. Your firm has been engaged to carry out a forensic accounting exercise and determine the value of inventory lost in the fire".

SECTION A

Required:

(1) In respect of the corporate governance of Zebra Plc:

(a) Identify and explain, in as much detail as possible, four (4) governance deficiencies. (8 marks)

(b) Provide recommendations to address each deficiency, to ensure compliance with good corporate governance principles. (4 marks)

(2) Using the information in respect of Impala Ltd:

(a) Explain the tax treatment of the dividend received from Kudu Plc, given that there is no double taxation agreement (DTA) between Zambia and the country in which Kudu Plc operates. (3 marks)

(b) For the disposals made during the tax year 2021:

(i) Calculate the balancing adjustments on the tractor which was sold. (3 marks)

(ii) Explain the Property Transfer Tax (PTT) implications. (4 marks)

(c) Compute the tax adjusted business profits for Impala Ltd for the tax year 2021. (8 marks)

(d) Calculate the amount of the final company income tax payable by Impala Ltd for the tax year 2021, and state the due date. (11 marks)

(3) Calculate the final income tax payable by Moses Mutale for tax year 2021. (9 marks)

[Total: 50 marks]

SECTION B

Required:

- (4) Using the information regarding Kafeka:
- (a) Explain what is meant by withholding value added tax (WVAT) and how it operates. (6 marks)
 - (b) Advise Kafeka on the VAT implications of selling exempt items. (3 marks)
 - (c) Compute the VAT payable for the month of December 2021. (6 marks)
 - (d) Compute the capital allowances for the tax year 2021. (6 marks)
- (5) Write a report to the management of the Zambia Institute of Chartered Accountants (ZiCA), clearly explaining:
- (a) Five (5) benefits of the suggested e-assessment. (10 marks)
 - (b) The cost implications of the suggested e-assessment. (6 marks)
- Professional marks available (3 marks)
- (6) With reference to the information given in respect of Lion Ltd:
- (a) Clearly explain what is meant forensic accounting. (4 marks)
 - (b) Compute the actual loss using the information given in the scenario. (6 marks)

[Total: 50 marks]

END OF PAPER