NON-AUDIT COMPETENCE PRACTICE EXAMINATION (CPE)

SOLUTION ONE

SECTION A

(1) Evaristo Plc

(a) Accounting treatments

Inventory valuation

According to IAS 2 Inventory, valuation of inventory must be at the lower of cost or net realizable value (NRV). Hence correct inventory value will be:

	K
Closing inventory at cost	700,000
Damaged inventory at cost	(30,000)
Damaged inventory at NRV (K21,000 – K3,000)	18,000
Correct value of closing inventory	688,000

The statement of profit or loss will be 'credited' with K688,000 when determining cost of sales and the statement of financial position will be 'debited' with K688,000 under current assets.

[Award marks as follows:

½ mark for reference to IAS 2

½ mark for adjustment of K30,000

1 mark for adjustment of K18,000

½ mark for correct closing inventory]

Court case

The provision must be calculated according to IAS 37 Provisions, Contingent Liabilities and Contingent Assets guideline. The most probable single likely outcome is normally considered to be the best estimate of the liability, that is, K80,000 in this case. This is particularly the case as the possible outcomes are either side of this amount. The

K80,000 will be an expense for the year ended 31 December 2021 and recognized as a provision.

[Award marks as follows:

½ mark for reference to IAS 37

1 mark for K80,000]

Revaluation of property

The relevant accounting standard is IAS 16 Property, Plant and Equipment. Properties are treated as 'component assets' for depreciation purposes. The two components are a land component and a buildings component. The buildings component is depreciated and the land component is not. In this case, buildings component is K3 million (K4 million – K1 million) on 1 January 2021 so the depreciation charge for the year ended 31 December 2021 is K60,000 (K3 million X 1/50).

Since the property is carried under the revaluation model its carrying value at 31 December 2021 will be K5 million. The difference between its market value of K5 million and its carrying value immediately before the revaluation of K3.94 million (K4 million – K60,000) will be reported in other comprehensive income (i.e. credited to a revaluation surplus and shown as a component of equity). The balance on this reserve at 31 December 2021 will be K1.06 million (K5 million – K3.94 million).

[Award marks as follows:

½ mark for reference to IAS 16

1 mark for correct depreciation charge (K60,000)

½ mark for correct carrying amount (K5 million)

1 mark for correct revaluation surplus (K1.06 million)]

Capitalization of employee cost

It is extremely rare for employees to be included as assets in the statement of financial position of a company. This is because accounting for human resources as assets would present serious problems. The IASB's Framework for the Preparation and Presentation of Financial Statements defines an asset as 'a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity'. It is not clear whether employees (or rather, the right to obtain their services) meet this definition. Employees provide access to future economic benefits, but it is doubtful whether an entity can control them. Employees are free to leave the employer if they choose to do so. An asset can only be recognized if it can be valued at a monetary amount with sufficient reliability. There would be practical problems in valuing the benefit obtained from an employee's services. The most obvious 'cost' of an employee is their salary, their other benefits and their training, but following the accruals concept, this must be recognized in the income statement in the period to which it relates. In theory, it would be possible to 'value' an employee by calculating the present value of the expected future economic benefits obtained from their services, but this would be highly subjective. Even if an employee's services could be reliably measured, it would then be necessary to estimate an amortization period – another highly subjective exercise. These problems almost certainly outweigh the benefits of human resource accounting. Therefore, the Managing Director's insistence must not be entertained.

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

Share issue

This will be accounted for according to the guidance given in IFRS 9 Financial Instruments. The internal costs should be recognized as an expense in profit or loss as they were not incremental costs; they would have been incurred in any event.

The professional fees were directly attributable to the transaction and K3,900 should be deducted from equity (K6,000 net of 35% tax).

The double entry to record this transaction should be:

Details	Debit	Credit
	K	K
Cash (K90,000 less K6,000)	84,000	
Tax liability (K6,000 X 35%)	2,100	
Share capital		30,000
Share premium (W)		56,100

Working:

Share premium = [(30,000 X (K3 – K1)] – K6,000 X 65%) = K56,100

[Award marks as follows:

½ mark for reference to IFRS 9

1 mark for correct cash amount (K84,000)

1 mark for correct tax liability (K2,100)

½ mark for correct share capital (K30,000)

Up to 1 ½ marks for correct share premium (K56,100)]

Bond

This will be accounted for according to the guidance given in IFRS 9 Financial Instruments. It will be important to calculate the effective interest rate and then use it to find the amount for finance cost which will be recognized as an expense in the statement of profit or loss and financial asset which will be shown in the statement of financial position, under non-current assets.

The effective interest rate is computed as follows:

K1,000,000/ K257,069 = 3.890

From the table, 3.890, corresponds to an interest rate of 9%.

Hence, the finance cost will be computed as follows

K257,069 X 9% = K23,136

The amount for the financial asset will be computed as follows:

K257,069 + K23,136 = K280,205

[Award marks as follows:

½ mark for reference to IFRS 9

Up to 2 marks for correct effective (9%)

1 mark for correct finance cost (K23,136)

1 mark for correct financial asset (K280,205)]

(b) Features of accounting records

According to section 246 (1) of the Companies Act 2017, the directors shall cause accounting records to be kept that:

- Correctly record and explain the transactions of the company; and
- Shall enable the financial position to be determined with reasonable accuracy; and statements of the company to be readily and properly audited.

[Award 1 mark for each feature – Maximum 2 marks]

(2) E-procurement

(a) Help the government design systems

Section 5 (2) (i) of the Accountants Act 2008, states that the institute (ZiCA) shall advise the Government on matters relating to the economic development of Zambia. Hence, the Zambia Institute of Chartered Accountants is within its legal mandate to help the government design systems. This will significantly contribute to economic growth and job creation.

[Award marks as follows:

1 mark for reference to Accountants Act 2008

1 mark for correct advice]

(b) Stages of e-procurement and benefits

E-procurement is the term used to describe the electronic methods used in every stage of the procurement process, from identification of requirement through to payment. It can be broken down into the stages of e-sourcing, e-purchasing and e-payment.

- **E-sourcing** – covers electronic methods for finding new suppliers and establishing contracts. Not only can e-sourcing save administrative time and money, it can enable companies to discover new suppliers and to source more easily from other countries. Issuing electronic invitations to tender and requests for quotations reduces administration overheads, potentially costly errors, as the re-keying of information is minimized and the time to respond.
- **E-purchasing** – covers product selection and ordering. Buying and selling online streamlines procurement and reduces overheads through spending less on administration time and cutting down on bureaucracy. E-purchasing transfers effort from a central ordering department to those who need the products. Features of an e-purchasing system include electronic catalogues for core/standard items, electronic purchase orders despatched automatically through an extranet to suppliers and detailed management information reporting capabilities.
- **E-payment** – includes tools such as electronic invoicing and electronic funds transfers. Again, e-payment can make the payment processes more efficient for both the purchaser and supplier, reducing costs and errors that can occur as a result of information being transferred manually from and into their respective accounting systems. These efficiency savings can result in cost reductions to be shared by both parties.

[Award marks as follows:

Up to 3 marks for meaning of e-procurement

1 mark for each valid point on e-sourcing – Maximum 3 marks

1 mark for each valid point on e-purchasing – Maximum 3 marks

1 mark for each valid point on e-payment – 3 marks]

(3) Potential professional and ethical issues in Veronique Ltd and recommendations

Professional/Ethical issues	Explanations	Recommendations
(1) Veronique Ltd's liquidity position – this has been described by the directors as "unsatisfactory". 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.	According to IFRS 7 *Financial Instruments: Disclosures*, Veronique should have included additional information about the high gearing sufficient to enable the users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.	The directors must disclose information as guided by IFRS 7.
(2) Key performance indicators on corporate social responsibility – the company's narrative reporting on corporate social responsibility is not supported by performance indicators	It can argued that these corporate responsibility disclosures are little more than a public relations exercise which could at worst mislead stakeholders in the company.	Quantitative disclosures should also be included so that there is a clear link to the business performance and strategy.
(3) Loan application – The Finance Director (FD) wishes to capitalize development expenditure to ensure that the loan application meets the bank's criteria.	The criteria in IAS 38 *Intangible assets* is very clear on capitalization of development expenditure. Acting otherwise could be considered both unethical and unprofessional and bring the Finance	The IESBA code will be an essential point of reference in this situation, since it sets out boundaries outside which accountants should not stray. The IAS 38 treatment should be applied.

	Directors' integrity into question.	
(4) One the Partners in Mweempe & Co. is related to the Finance Director.	This could seriously threaten independence and objectivity, especially that both occupy very senior positions. There could be direct and significant influence over the preparation of the financial statements.	The Partner who is related to the Finance Director should not be part of the team responsible for the assignment.
(5) Recruitment of Director of Internal Audit – the board of Veronique Ltd has requested Mweempe & Co. to recruit the Director of Internal Audit.	This could create a self-interest threat. This is a significant management responsibility.	Mweempe & Co.'s involvement could be limited to reviewing a shortlist of candidates, providing that the Veronique Ltd has drawn up criteria by which they are to be selected.

[Award marks as follows:

Up to 2 marks for each valid explanation – Maximum 10 marks

1 mark for each valid recommendation – Maximum 5 marks]

SOLUTION ONE

SECTION B

(4) Yemata Ltd

Suitability of the draft sustainability report and make any recommendations

Sustainable development can be defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs (World Commission on Environment and Development 1987)

Sustainability is an attempt to provide the best outcomes for the human and natural environments both now and into the indefinite future with reference to the continuity of economic, social, institutional and environmental aspects of human society, as well as the non-human environment.

The three perspectives of sustainability are economic, social and environmental.

The economic perspective recognizes that the earth's resources are finite and so economic development must be limited. Sustainability means that the organization must plan for long term growth and be neutral in its use of resources. There is no evidence that the company has considered this perspective apart from the fact it is profit motivated and wants, therefore, to survive as a company.

The social perspective recognizes that organizations have an impact on their communities and may also change the social mix of a community. For example, if the company was to move the administrative headquarters out of town, the company could have an impact on the community – the company will deny the community jobs.

The environment perspective recognizes that organizations have an impact on the environment and that lack of environmental concern means an overall decrease in earth's resource base. The lack of video-conferencing for example, means that the company's executives use air travel un-necessarily, decreasing the amount of fossil fuels and increasing carbon dioxide emissions.

The Suitability of the draft sustainability report only gives details on the environment perspective and no details are given on the other perspectives. This means the report significantly falls short of what stakeholders would consider as a suitable sustainability report. The directors of Yemata Ltd should seriously consider using an expert.

[Award marks as follows:

1 mark for definition of sustainable development

1 mark for sustainability

Up to 3 marks for each perspective – Maximum 9 marks

1 mark for each point on recommendation – Maximum 3 marks]

(5) Lukonde Ltd

Money laundering

(a) Advice

If a ZiCA member is requested to assist the police, the taxation or other authorities by providing information about a client's affairs in connection with enquiries being made, he should first enquire under what statutory authority the information is demanded. In Zambia, this could either be under the Financial Intelligence Centre Act or the Prohibition and Prevention of Money Laundering Act.

Unless he is satisfied that such statutory authority exists he should decline to give any information until he has obtained his client's authority. If the client's authority is not forthcoming and the demand for information is pressed the member should not accede unless advised by his legal advisor.

This is meant to ensure that the duty of confidentiality is not unnecessarily breached.

[Award marks as follows:

Up to 2 marks for appropriate reference to the Financial Intelligence Centre Act or the Prohibition and Prevention of Money Laundering Act

1 mark for statutory authority

1 mark for decline

Up to 2 marks for duty of confidentiality]

(b) Elements of a money laundering programme

The relevant legislation is the Financial Intelligence Centre Act.

Procedures	Explanations
(1) Appoint a Compliance Officer	The Compliance Officer should be suitably qualified and experienced as stated in the Act.
(2) Train individuals	Individuals should be trained in the firm's obligations under law, and their personal obligations. They must be made aware of the firm's identification, record-keeping and reporting procedures.
(3) Establish internal procedures appropriate to forestall and prevent money laundering, and make relevant individuals aware of the procedures	Procedures should cover client acceptance, gathering customer due diligence (CDD) information, internal reporting lines etc.
(4) Verify the identity of new and existing clients and maintain evidence of identification (i.e. customer due diligence measures)	The firm should be able to establish that the new clients are who they claim to be. Typically, this will include taking copies of evidence such as passports, driving licences and utility bills. For a company, this will include identities of directors and certificates of incorporation.
(5) Maintain records of client identification, and any transactions undertaken for or with the client.	Special care needs to be taken when handling clients' money to avoid participation in a transaction involving money laundering.
(6) Report suspicions of money laundering to appropriate enforcement agencies.	It will important to use the recommended procedures and standard disclosure forms.

[Award up to 2 ½ marks for each element – Maximum 15 marks]

(6) Lusaka City Council (LCC)

Suitable International Public Sector Accounting Standards (IPSASs)

(a) Reporting method to use – IPSAS 1 Presentation of Financial Statements, the choice between the function of expense method and the nature of expense method depends on historical and regulatory factors and the type of the entity. Both methods provide an indication of those costs that might very, directly or indirectly, with the outputs of the entity. Each method of presentation has its merits for different types of entities. This Standard requires management to select the most relevant and reliable presentation. However, as information on the nature of expenses is useful in predicting future cash flows, additional disclosures are required when the function of expense classification is used.

[Award marks as follows:

Up to 2 marks for appropriate reference to IPSAS 1

1 mark for both methods could be used

1 mark for management judgement

1 mark for nature of of expenses]

(b) Correct accounting treatment

(i) Capital grant – IPSAS 23 Revenue from non-exchange transactions (Taxes and Transfers) states that grants are often provided with limitations on how money should be spent or assets utilized. The standard separates such 'stipulation' into conditions and restrictions.

- Conditions – where the money must be spent as specified or returned to the donor (in other words a performance obligation)
- Restrictions – where there is a more general requirement to spend the money in a specified area but not return it if this is not achieved.

For transactions where the recipient entity considers that the donor/grant – giver has imposed conditions (like in the case of LCC), they will set up a liability for the obligation generally to the value of the money received, which will be reduced as the conditions are satisfied in accordance with the agreement. This should the treatment for the grant received by Lusaka City Council (LCC).

[Award marks as follows:

1 mark for reference to IPSAS 23

1 mark for each stipulation – Maximum 2 marks

Up to 2 marks for recommendation]

(ii) Pledge – According to IPSAS 19 Provisions, Contingent Liabilities, and Contingent Assets, an obligation can be created either legally or constructively. Although the pledge may not be legally enforceable, by participating in the press conference and by allowing its name to be used in the solicitation, the entity has indicated that it has accepted an obligation to honour its pledge and has created a valid expectation on the part of the arts centre that it will do so (i.e., its actions have given rise to a constructive obligation). Lusaka City Council (LCC) has a constructive obligation and should therefore recognize a provision.

[Award marks as follows:

Up to 2 marks for reference to IPSAS 19

1 mark for legal obligation

1 mark for constructive obligation

1 mark for provision]

NON-AUDIT COMPETENCE PRATICE EXAMINATION (CPE)

SOLUTION TWO

SECTION A

(1) Zebra Plc

Governance deficiencies	Explanations	Recommendations
(1) Rufina Nakengo is the Chairperson of the board while brother is the Chief Executive Officer (CEO).	The independence and objectivity of Rufina Nakengo is highly questionable given that she is a majority shareholder and Chairperson of the board. This	An independent non-executive director should be appointed Chairperson of the board, not Rufina Nakengo.

	simply means that the family has unfettered powers of decision-making.	
(2) Non-executive directors (NEDs) have a restricted role and only scrutinize strategy and performance of executive management.	The role of the NEDs is quite narrow and Zebra Plc may not be benefiting from their wide experience. This could be affecting the performance of the company.	The role of the NEDS should be broadened. Among other things, it could very important for NEDs to satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust.
(3) Although the Finance Director is still active, he is in poor health.	It would seem that since share price improves when the Finance Director's health is questioned, then his continued stay may not be in the best interests of shareholders.	The Finance Director should consider retirement in order to allow for the creation of an improved governance structure.
(4) Voting on board elections is not confidential.	The lack of confidential voting is a major governance concern. This unnecessarily impedes on the basic right of the shareholders and it is very difficult to gauge the benefit that shareholders get from not having this right.	Confidential voting should be allowed.

(5) Consultants or agencies recommendations are never questioned.	Consultants or agencies may not know a lot about Zebra Plc. Their recommendations could be found wanting in some areas.	Recommendations must be questioned in order to ensure that the final decision takes into account all relevant information.

[Award marks as follows:

½ mark for identification of each deficiency – Maximum 2 marks

Up to 1 ½ marks for each valid explanation – Maximum 6 marks

1 mark for each valid recommendation – Maximum 4 marks]

(2) Impala Ltd

(a) Tax Treatment of dividend received from Kudu Plc

Since there is no double taxation agreement (DTA) with the country in which Kudu Plc operates, the gross dividends will be included when computing taxable income for the tax year. Double taxation relief (DTR) for foreign tax paid will then be given through unilateral credit relief. This is achieved by crediting the amount of foreign tax suffered against the Zambian income tax on the foreign income, provided that the amount of foreign tax being credited against the Zambian tax does not exceed the Zambian tax on foreign income. This means that the amount of foreign tax available for credit is taken as the lower of:

- The actual amount of foreign tax paid to foreign authorities
- The Zambian tax chargeable on foreign income

[Award marks as follows:

1 mark for unilateral credit relief

1 mark for details on how computed

1 mark for credit against Zambian income tax]

(b) Disposals

(i) Computation of balancing adjustments

	K	Marks
Income tax b/fwd	0	1
Disposal	(33,000)	1
Balancing charge	(33,000)	1

(ii) Property Transfer Tax (PTT)

- **Disposal of Land**

Land is a chargeable asset for PTT purposes. PTT is based on the realized value which is the higher of the actual price and the open market value. The gross value of the land is K450,000 (K438,750 X 100/97.5) and this will be taken as the realized value since there no value determined by the government valuations department as it was traditional land. The PTT paid was:

PTT = K450,000 X 5% = K22,500

[Award marks as follows:

1 mark for chargeable asset

1 mark for K450,000

1 mark for PTT of K22,500]

- **Sale of Tractor**

Chattels are not chargeable assets for PTT purposes. A Tractor is a chattel and therefore no PTT applies.

[Award 1 mark]

(c) Computation of tax adjusted business profits for the tax year 2021

	K	K	Marks
Net profit per accounts		506,800	½
ADD:			
Loss on disposal of tractor	12.000		½
Balancing charge	33,000		2
Depreciation	143,200		½
Impairment loss	5,000		½
Entertaining Auditors	2,000		½
Premium paid	8,000		½
		203,200	
		710,000	
LESS:			
Dividend received	80,000		½

Royalties	36,000		½
Profit on sale of land	50,000		½
Premium (8,000/10)	800		1
Capital allowances	174,300		½
		(341,100)	
Tax adjusted business profit		368,900	

(d) Impala Ltd

Computation of final company income tax payable for the tax year 2021

	K	**Marks**
Business profits	368,900	½
Royalties	36,000	½
Dividend	80,000	½
Taxable income	484,900	1
Income tax		
(36,000 + 80,000) X 35%	40,600	1
368,900 X 10%	36,890	1
	77,490	
LESS Double Taxation Relief (DTR)	(12,784)	2
	64,706	
LESS Tax already paid		
Provisional tax	(40,000)	½
WHT on Royalties (36,000 X 15%)	(5,400)	1
Final company income tax payable	19,306	2

Due date is 21 June 2022 1

Working

Double taxation relief (DTR)

Lower of:

- Foreign tax paid K80,000 X K218,880/K1216,000 = K14,400

- Zambian income tax on the foreign income

  Gross foreign income/ Total assessable income X Zambian tax charge

  K80,000/K484,900 X K77,490 = K12,784

DTR will be the lower amount, which is K12,784.

(3) Moses Mutale

Computation of final income tax payable

	K	**Marks**
Salary (122,400 X 10/12)	105,000	1
Housing allowance (2,550 X 10)	25,500	1
Medical allowance (600 X 10)	6,000	1
Leave pay	25,500	½
	162,000	
LESS:		
Subscription	(3,000)	½
Taxable income	159,000	1
Income tax		
48,000 X 0%	0	½
9,600 X 25%	2,400	½
25,200 X 30%	7,560	½
76,200 X 37.5%	28,575	½
Income tax liability	38,535	
Less: Tax already paid		
PAYE	(32,500)	1
Final income tax payable	6,035	1

SOLUTION TWO

SECTION B

(4) Kafeka

(a) Withholding value added tax (WVAT)

Withholding value added tax is a mechanism to account for and pay value added tax (VAT) on the supply of goods and services by the person making the payment (i.e. the purchaser of goods and services) as opposed to supplier (i.e. the seller) accounting for the VAT on supplies.

The Commissioner-General by written notice appoints agents for purposes of withholding VAT on payments made to a VAT registered supplier. Once appointed the legal incidence of the VAT payable on all supplies made to the WVAT Agent is shifted from the supplier of the goods or services to the purchaser (The WVAT Agent). This means that the responsibility to ensure that all the VAT that is due on agents' purchases is properly accounted for and is remitted to ZRA by the due date shifts to the WVAT Agent.

All appointed agents for WVAT are required to withhold the tax (VAT) on payments made to taxable suppliers of goods and services and this is remitted to ZRA in the normal way that VAT is accounted for. WVAT agents are required to complete and file a schedule for the VAT withheld for each tax period.

The schedule is submitted electronically using the ZRA Tax online system by the 16th of the following month. The WVAT agent is required to pay the amount on the schedule in full by the due date whether payment has been made to the supplier or not.

The suppliers whose output VAT has been withheld by appointed agents are required to complete and file their returns in the normal way by declaring both supplies to appointed WVAT agents and to non-WVAT agents. The suppliers are required to ensure that all output tax invoice details are correctly declared and the output VAT schedule is correctly completed to facilitate matching with details held by the appointed agents. The WVAT schedule submitted by the WVAT agent is validated against the output declarations made by suppliers.

A WVAT agent is required to perform the following functions relating to tax on behalf of the registered supplier:

a) To furnish a tax return monthly and attach the WVAT schedule;

b) To pay any tax withheld by the due date;
c) To comply with any requirement by the Commissioner-General in respect of the business.

[Award marks as follows

1 mark for meaning of WVAT

1 mark for The WVAT Agent

1 mark for file a schedule for the VAT withheld

1 mark for submission of schedule and payment by the 16th of the following month

1 month for requirement to declare both supplies to appointed WVAT agents and to non-WVAT agents

1 mark for functions to be performed by WVAT agents]

(b) Implications of selling exempt supplies

This will bring in the concept of partial exemption. The input VAT attributable to exempt supplies will not be recoverable. In addition, a percentage of non-attributable input VAT will not be recoverable. Most businesses use the standard method to compute the percentage of non-attributable input VAT recoverable. In this method, the percentage relating to taxable supplies is recoverable. Other businesses could agree a special method to use with the Zambia Revenue Authority (ZRA).

[Award marks as follows:

1 mark for partial exemption

1 mark for treatment of non-attributable input VAT

1 mark for standard method/special method]

(c) Computation of VAT payable for the month of December 2021

	K	K	Marks
Output tax			
Sales (K30,000 X 16%)		4,800	1
Input tax			
Purchases (K17,400 X 4/29)	2,400		1
Motor car (irrecoverable)	0		1
Delivery van (K11,600 X 4/29)	1,600		1
		(4,000)	
VAT payable		800	2

(d) **Computation of capital allowances**

	Value	Capital allowances	Marks
	K	K	
Motor car			
Cost (K4,500 X 1.16)	5,220		1
Wear & tear allowance			
5,220 X 20%	(1,044)	1,044	1
Income tax value c/fwd	4,176		
Delivery van			
Cost (K11,600 X 25/29)	10,000		1
Wear & tear allowance			
10,000 X 25%	(2,500)	2,500	1
Income tax value c/fwd	7,500		

Total capital allowances for tax year 2021	3,544	1

(5) Zambia Institute of Chartered Accountants (ZiCA)

REPORT

To: Management – ZiCA

From: Financial Consultant – Abraham & Associates (AA)

Subject: E-assessment

Date: December 2021

1.0 Introduction

This report has been written to clearly explain the benefits of e-assessment and the cost implications of e-assessment.

2.0 E-assessment

E-assessment is an electronic assessment tool which most examining bodies are now adopting.

3.0 Benefits of e-assessment

The benefits of e-assessment include the following:

- Enhanced candidates' experience – as they will receive the results immediately after completing their examination. The scenario indicates it currently takes 8 weeks to release the results to candidates. E-assessment will therefore reduce the wait time for candidates and improve the reputation of ZiCA. This could also lead to additional income as more professional accountants sign up for the competence practice examinations (CPE).
- Reduction in the cost of exam centres and invigilation as this will no longer be needed.
- Increased reach of competence practice examinations (CPE) through being available 'any day, anytime, anywhere' may lead to an increase in CPE registration worldwide and hence increased fee income.
- Courier costs will be eliminated completely.
- Elimination of checking and moderation costs as the papers will be marked automatically.
- Increased income from repeat candidates. Candidates that fail the exam currently have to wait six (6) months to retake their exam. The new system, however, would allow them to retake very quickly whilst the knowledge is still fresh in their mind. This may make them more likely to try again rather than to give up on the certification.

4.0 Cost implications of e-assessment

The main costs include:

- Redundancy costs may need to be paid to existing ZiCA staff that are no longer required for checking. Many of these costs will have to be incurred at the start of the process. This could be difficult for ZiCA to finance as they may not be a cash rich organization.
- Cost of equipment – there will be a number of costs involved in obtaining and operating the technology required, including cost of the computers used for the exams and the associated software, cost of providing technical support to candidates should the technology fail or the computer crash during the exam, cost of licences for both the examining software and the electronic marking software and on-line support costs to ensure help is available to react when technology fails.
- Cost of producing the multiple choice exam – a huge bank of multiple choice questions will have to be written in order to enable the exams to be run electronically in this way. This will involve a large upfront cost. Ongoing costs will also be incurred as these questions will have to be regularly revised and updated.
- Costs of preventing cheating – e-assessment creates a lot of potential for cheating. This could happen in a number of ways – as the exams can be taken 'anywhere', including at home, there is a risk that some candidates could use someone else to write the exam for them.
- Reputational damage – ZiCA is a professional body and as such is highly respected in the world of accountancy. If it is found that candidates are cheating then the exams will lose credibity and the reputation of ZiCA could be irreparably damaged.

5.0 Conclusion

The enthusiasm for e-assessment may mean that this project is adopted without sufficient consideration of the costs and benefits. This could potentially cause long-term problems for the ZiCA if these benefits never materialize or unexpected costs arise.

A formal business case and benefits management programme would ensure all costs and benefits are properly defined and monitored to ensure that benefits are actually realized

[Award marks as follows:

Up to 3 marks for presentation

2 marks for each benefit – Maximum 10 marks

2 marks for each cost – Maximum 6 marks]

(6) Lion Ltd

(a) Forensic accounting

Forensic accounting is the use of professional accounting skills in matters involving potential or actual civil or criminal litigation. The word forensic is defined in Black's Law

Dictionary as 'used in or suitable to courts of law or public debate'. Therefore, forensic accounting is litigation support that involves accounting.

Forensic accountants may be engaged in public practice, for example by insurance companies and banks. They may also be used in the public sector, for example by police forces and government agencies.

A forensic accountant is often involved in the following:

- Investigating and analyzing financial evidence
- Calculation of economic losses

They communicate their findings in the form of reports, exhibits and collections of documents. They also assist in legal proceedings, including testifying in court as an expert witness and preparing visual aids to support trial evidence.

In order to perform these services effectively, a forensic accountant must be familiar with legal concepts and procedures.

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

(b) Computation of loss

We can use the trading account to establish the lost inventory as follows:

	K	K
Sales		400,000
Opening inventory	70,000	
Purchases	280,000	
	350,000	
Closing inventory	?	
Cost of goods sold		?
Gross profit		?

Marks

The gross profit will be computed as follows:

25/125 X 400,000 = K80,000 2

Then, the cost of goods sold will be computed as follows:

K400,000 – K80,000 = K320,000 1

Finally, the lost inventory could computed as follows:

K350,000 – K320,000 = K30,000 3

END OF SOLUTIONS