COMPETENCE PRACTICE EXAMINATION

NON-AUDIT PRACTISING CERTIFICATE

JUNE 2022

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.

Taxation table for the 2022 Non - audit competence exam

Standard personal income tax rates

Income band	Taxable amount	Rate
K1 to K48,000	first K48,000	0%
K48,001 to K57,600	next K9,600	25%
K57,601 to K82,800	next K25,200	30%
Over K82,800		37.5 %
Income from farming for individuals		
K1 to K48,000	first K48,000	0%
Over K48,000		10%

Company Income Tax rates

On income from manufacturing and other	35%
On income from farming	10%
On income of Banks and other Financial Institutions	35%
On income from mineral processing	30%
On income from mining operations	30%
On income from manufacture of products made out of copper	15%

Mineral Royalty

Mineral Royalty on Copper

Range of Norm Price	Mineral Royalty Rate
Less than US$4,500	5.5% of norm value
From US$4,500 to less than US$6,000	6.5% of norm value
From US$6,000 to less than US$7,500	7.5% of norm value
From US$7,500 to less than US$9,000	8.5% of norm value
From US$9,000 and above	10% of norm value

Mineral Royalty on other minerals

Type of mineral	Mineral Royalty Rate
Base Metals (Other than Copper, Cobalt and Vanadium)	5% of norm value
Cobalt and Vanadium	8% of norm value
Energy and Industrial Minerals	5% of gross value
Gemstones	6% of gross value
Precious Metals	6% of norm value

Capital Allowances Implements, plant and machinery and commercial vehicles:

Wear and Tear Allowance –	Plant used normally	25%

Used in Manufacturing and Leasing	50%
Used in farming and agro-processing	100%
Used in mining operations	20%

Non- commercial vehicles

Wear and Tear Allowance	20%

Industrial Buildings:

Wear and Tear Allowance	5%
Initial Allowance	10%
Investment Allowance	10%

Low Cost Housing **(Cost up to K20,000)**

Wear and Tear Allowance	10%
Initial Allowance	10%

Commercial Buildings

Wear and Tear Allowance	2%

Farming Allowances

Development Allowance	10%
Farm Works Allowance	100%
Farm Improvement Allowance	100%

Presumptive Taxes

Turnover Tax 4%

Presumptive Tax for Transporters

Seating capacity	Tax per annum	Tax per day
	K	K
From 64 passengers and over	10,800	29.60

From 50 to 63 passengers	9,000	24.70
From 36 to 49 passengers	7,200	19.70
From 22 to 35 passengers	5,400	14.80
From 18 to 21 passengers	3,600	9.90
From 12 to 17 passengers	1,800	4.90
Less than 12 passengers and taxis	900	2.40

2022 NON-AUDIT COMPETENCE EXAMS

QUESTON ONE

Kachelo & Co is a firm of Chartered Accountants registered with the Zambia Institute of Chartered Accountants. The firm holds a non-audit practicing certificate and specializes in the provision of a wide range of non-audit services. Your name is Ken Beenzu and you are a director in Kachelo & Co.

For the current year, you have been assigned to deal with the following engagements:

1. **Fedix Mutati – Consultation on the correctness of the tax charged on his retirement**
2. **Kopa Minerals Limited (KML) – Computation of mining profits and taxation payable – This would be the first time that Kachelo & Co would be dealing with mineral taxation issues**
3. **Kopa Minerals Limted – Consultation on accounting treatment of land in Zambia**

FEDIX MUDADI

You have received the following email from Mr. Fedix Mudadi

Dear Uncle Ken

I trust family is keeping well. I spoke to aunt last week and she said you were out of town.

I need your assistance in two matters.

a) Personal matter

Following my retirement from Afro Gem last year, I ended up paying more than K40,000 in taxes. I do not understand how from my salary of only K28,100 per month, I should end up paying so much tax. Additionally, I do not understand how the withholding tax relating to my investments has been accounted for. I understand you accountants can do some "magic" to reduce my tax.

Let me just say that it will be worth your while depending on how much tax you are able to save me.

I will forward my employment details separately.

b) Kopa Minerals Limited

You may also be aware that I have since joined Kopa Minerals Limited as their general manager. I have used my influence to get them to appoint your firm to assist us in determining taxation obligations for 2021 and advise on accounting for land in Zambia. I understand you have already finalized this with my boss. By the way my boss has prepared a special gift for aunt – an emerald necklace!

My boss has questioned the competence of our existing advisors, who sometimes has accused KML of not complying with environment regulations as issued by the Zambia Environmental Management Agency (ZEMA). They have also not been able to help us understand how minerals are classified for tax purposes

Let me know if you need any further information or details

Your loving nephew

Fed

Information obtained about Mr Fedix Mutat's previous employment

Fedix Mudadi had been employed by Afro Gem Limited at a monthly salary of K28,100. Afro Gem is engaged in the exploration of minerals in Zambia.

His salary was increased by 12% with effect from 1 April 2021. His other conditions of service provided for a housing allowance of 21% of his basic salary, transport allowance of 10% of the basic salary and medical allowance of K1,200 per month. Afro Gem Limited had always paid life assurance premiums amounting to K510 per month on his behalf.

On 1 May 2021, he received a Labour Day award as the most committed employee. The award comprised of a Laptop valued at K11,000 and cash amounting to K6,000. As a long serving employee of Afro Gem Limited, Fedix received a long-term service award amounting to K6,000in cash.

On 31 October 2021 Fedix retired from employment. Upon his retirement, he received the following:

	K
Repatriation pay	**25,000**
Leave pay	**22,000**
Accrued service bonuses	**54,200**
Pension refunds	**400,000**

Half of the pension refunds were employee's pension refunds and the other half were employer'spension refunds.

During the tax year 2021 he incurred the following expenses:

	K
Medical expenses	**8,000**
Income tax paid under PAYE	**131,400**
Donation to political parties	**16,000**
Donation to approved public benefit organization	**14,000**
School fees for his children	**21,300**
Professional subscription	**3,200**

He had always contributed NAPSA at 5% of his gross salary. During the year to 31 December 2021,the company deducted employee's National Health Insurance Scheme Contributions (NHISCs) from his earnings at the rate of 1% of his basic salary and paid employer's NHISCs at the rate of 1% of his basic salary on his behalf.

He received the following investment income during the year ended 31 December 2021:

	K
Dividends from MNC Plc a mining company	**6,000**
Dividends from CDF Limited a private company	**7,650**
Royalties	**63,750**
Bank interest	**2,000**

Rental income	**99,000**
Treasury bill interest	**10,200**

The amounts of investment income represent the actual amounts of cash received by Fedix. Withholding tax had already been deducted at source.

KOPA MINERALS LIMITED - TAXATION

After retiring from Afro Gem, Fedix was hand--picked and appointed as appointed General Manager of Kopa Minerals Limited (KML), following excellent commendations from the chairman of Afro Gem who stated… "Fedix's understanding if mining in Zambia is exceptional"

Kopa Minerals Limited (KML) Plc is a Zambian resident company engaged in mining. The company extracts copper in North-Western province of Zambia. The following is the statement of profit or loss for the year ended 31 December 2021:

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	K
Revenue	**(1)**	**34,200,300**
Cost of sales	**(2)**	**(18,720,180)**
Gross profit		**15,480,120**
Operating expenses	**(3)**	**(7,392,448)**
Other income	**(4)**	**400,000**
Profit before tax		**8,487,672**
Income tax expense	**(5)**	**(2,546,302)**
Profit for the year		**5,941,370**

The following additional information is relevant:

(1) The revenue shown in the statement of profit or loss is the norm value of the copper exported for mineral royalty tax purposes. The copper prices averaged US$8,100 per metric tonne duringthe year ended 31 December 2021. Mineral royalty tax was calculated correctly and paid on therelevant due dates.

(2) Included in cost of sales is mineral royalty tax paid during the year ended 31 December 2021. Other expenses included in cost of sales are construction of Clinic in the mine township at a costof K3,000,000, construction of community school in mine township at a cost of K1,200,000 and repairs to old mining equipment K500,000. The balance is made up of revenue expenses whichare all allowable for tax

purposes.

(3) Included in operating expenses is depreciation K430,000, amortization K180,000, entertaining major customers K400,000, entertaining employees K670,000, donation to an approved public benefit organization K230,000, donation to political party K300,000 and gifts to suppliers of food hampers (costing K190 each) totaling K190,000. The balance consists of revenue expenses which are all allowable for tax purposes.

(4) Other income include Dividends from Zambian companies K180,000 (gross), profit on sale of mining plant K40,000, rental income K80,000 (gross) and royalties K100,000 (gross). Withholding tax has been deducted at source from the investment income. The mining plant was sold for K110,000 and it had an income tax value of zero (0) at 1 January 2021.

(5) Income tax expense shown in the statement of profit or loss represents the amount of provisionalincome tax paid for the tax year 2021.

(6) There were no assets qualifying for capital allowances at 1 January 2021. During the year ended31 December 2021, the company acquired the following capital assets from Zambian suppliers and paid for them in Zambian kwacha:

Bought mining equipment	**K2,000,000**
Bought Delivery trucks	**K1,500,000**
Bought four (4) Motor cars (2,900 cc)	**K1,300,000**

The motor cars are used by four (4) directors on the personal-to-holder basis. It has been agreedwith the commissioner General that each motor car is used 30% for private purposes.

KOPA MINERALS LIMITED (KML) – ACCOUNTING FOR LAND

KML owns several pieces of properties both for sale and as investment properties. The management is aware that ZiCA has recently issued guidance on the treatment of land in Zambia. This guidance is of particular interest to KML as it clarifies some long standing doubts

Requirements

1) **With reference to the request from Mr. Fedix Mutata**
   a) **Evaluate**
      i) **SIX Ethical and other professional issues arising from the request** **(15 marks)**
      ii) **Recommend appropriate action** **(9 marks)**

   b) **Calculate the amount of withholding tax paid on each investment income and the total withholding tax paid for the tax year 2021.** **(6 marks)**

   c) **Compute the income tax payable by Fedix Mudadi for the tax year 2021, stating clearly which items are taxable and which ones are not** **(20 marks)**

2) **Kopa Minerals Limited (KML) - TAXATION**
   a) **Explain the five categories into which minerals are classified for tax purposes and basis of valuation** **(10 marks)**

   b) **Calculate the adjusted mining profit for Kopa Minerals Limited (KML) Plc for the tax year 2021.** **(20marks)**
   c) **Calculate the income tax payable for the tax year 2021.** **(5 marks)**

3) **KOPA MINERALS LIMITED – Accounting for Land**

   With reference to the recent guidance issued by ZiCA on accounting for land, provide answers and justifications to the following five questions

   a) **When there is a 14- or 99-year lease should we amortise that land over the lease period?** **(3 marks)**

   b) **Does substance over form apply on amortization of leasehold land?** **(3 marks)**

   c) **When does the right to use the asset expire?** **(3 marks)**

   d) **If the Government of the Republic of Zambia (GRZ) will likely**

renew the lease after 14 or 99 years, does this constitute an infinite asset? (3 marks)

e) **Is there reasonable certainty that the lessee will obtain ownership at the end of the lease term?**
(3 marks)

Taxation table for the 2022 Non - audit competence exam

Standard personal income tax rates

Income band	Taxable amount	Rate
K1 to K48,000	first K48,000	0%
K48,001 to K57,600	next K9,600	25%
K57,601 to K82,800	next K25,200	30%
Over K82,800		37.5 %
Income from farming for individuals		
K1 to K48,000	first K48,000	0%
Over K48,000		10%

Company Income Tax rates

On income from manufacturing and other	35%
On income from farming	10%
On income of Banks and other Financial Institutions	35%
On income from mineral processing	30%
On income from mining operations	30%
On income from manufacture of products made out of copper	15%

Mineral Royalty

Mineral Royalty on Copper

Range of Norm Price	Mineral Royalty Rate
Less than US$4,500	5.5% of norm value
From US$4,500 to less than US$6,000	6.5% of norm value
From US$6,000 to less than US$7,500	7.5% of norm value
From US$7,500 to less than US$9,000	8.5% of norm value
From US$9,000 and above	10% of norm value

Mineral Royalty on other minerals

Type of mineral	Mineral Royalty Rate
Base Metals (Other than Copper, Cobalt and Vanadium)	5% of norm value
Cobalt and Vanadium	8% of norm value
Energy and Industrial Minerals	5% of gross value
Gemstones	6% of gross value
Precious Metals	6% of norm value

Capital Allowances Implements, plant and machinery and commercial vehicles:

Wear and Tear Allowance –	Plant used normally	25%

Used in Manufacturing and Leasing	50%
Used in farming and agro-processing	100%
Used in mining operations	20%

Non- commercial vehicles

Wear and Tear Allowance	20%

Industrial Buildings:

Wear and Tear Allowance	5%
Initial Allowance	10%
Investment Allowance	10%

Low Cost Housing **(Cost up to K20,000)**

Wear and Tear Allowance	10%
Initial Allowance	10%

Commercial Buildings

Wear and Tear Allowance	2%

Farming Allowances

Development Allowance	10%
Farm Works Allowance	100%
Farm Improvement Allowance	100%

Presumptive Taxes

Turnover Tax 4%

Presumptive Tax for Transporters

Seating capacity	**Tax per annum** K	**Tax per day** K
From 64 passengers and over	10,800	29.60
From 50 to 63 passengers	9,000	24.70
From 36 to 49 passengers	7,200	19.70
From 22 to 35 passengers	5,400	14.80
From 18 to 21 passengers	3,600	9.90
From 12 to 17 passengers	1,800	4.90
Less than 12 passengers and taxis	900	2.40

2022 NON -AUDIT COMPETENCE EXAM

QUESTION ONE

ZED ASSOCIATES

ZED Associates is a firm of chartered Accountants registered with ZICA to provide non-audit services. Your name is Bitson Saka and you are one of the directors in the firm. For the current year you have been assigned to deal with the following engagements

- **Chamber of Commerce for SME's (Small and Medium size enterprises – Taxation services**
- **Abacus Construction Limited (ACL) – Accounting services**
- **Chimsoro Farms – Taxation services**

A. **Chamber of Commerce for SME's**

In order to promote your business by association, you firm joined the Chamber of Commerce for SME's as a corporate member. A lot of the members are concerned that with the new dawn government with their emphasis on the "rule of law", it was imperative that they are fully aware of the tax implications of their business. The general membership of the Chamber of Commerce included transport and bus operators, marketeers and small-scale farmers.

You have been invited to make presentation and answer some questions on the following taxation issues:

a) Turnover tax
b) Presumptive tax for taxi operators

B. **Abacus Construction Limited (ACL)**

Abacus Construction Limited (ACL) was incorporated five years and is in the business of construction of roads, bridges and other infrastructure. It was formed by Mr. Ndigani Banda, the former chair person of the Road Development Agency (RDA) at the Ministry of works of supply. Using his contacts and knowledge of the construction industry, Mr Banda has managed to successfully grow the company and is now listed as a B class supplier for small to medium size construction projects by the government. Mr. Banda is the managing director and chairman of the company

Mr Banda has been informed by the RDA that in order to maintain this grade, he must now submit an audited set of financial statements for the year ended 31 March 2022. However, the financial statements need to be completed before the auditors can be invited. Although ACL has employed a management accountant and an assistant, they do not have the requisite experience to deal with all the accounting issues.

Your firm has now been approached to assist with the finalization of the financial statements and clarify on some ethical and professional issues

The management accountant has provided the following trial balance for the year ended 31st March 2022, together supporting notes

	K'000	K'000
Equity shares of 50 ngwee each (note (i))		
45,000		
Share premium (note (i))		
5,000		
Retained earnings at 1 April 2021		
5,100		
Leased property (12 years) – at cost (note (ii))	48,000	
Plant and equipment – at cost (note (ii))	47,500	
Accumulated amortisation of leased property at 1 April 2021		
16,000		
Accumulated depreciation of plant and equipment at 1 April 2021		
33,500		
Inventory at 31 March 2022	25,200	
Trade receivables (note (iii))	28,500	
Bank		
1,400		
Deferred tax (note (iv))		
3,200		
Trade payables and provisions		
27,300		
Revenue		
350,000		
Cost of sales	298,700	
Lease payments (note (ii))	8,000	
Distribution costs	16,100	
Administrative expenses	26,900	
Bank interest	300	
Current tax (note (iv))	800	
Suspense account (note (i))		
13,500		
	500,000	500,000

The following notes are relevant:

i) **The suspense account**

This represents the corresponding credit for cash received for a fully subscribed rights issue of equity shares made on 1 January 2022. The terms of the share issue were one new share for every five held at a price of 75 ngwee each. The price of the company's equity shares immediately before the issue was K1·20 each.

ii) **Non-current assets:**

Leased property

To reflect a marked increase in property prices, ACL decided to revalue its leased property on 1 April 2021. The Directors accepted the report of an independent surveyor who valued the leased property at K36 million on that date. ACL has not yet recorded the revaluation. The remaining life of the leased property is eight years at the date of the revaluation. ACL makes an annual transfer to retained profits to reflect the realisation of the revaluation reserve.

Finance leases

On 1 April 2021, ACL acquired an item of plant under a finance lease agreement that had an implicit finance cost of 10% per annum. The lease payments in the trial balance represent an initial deposit of K2 million paid on 1 April 2021 and the first annual rental of K6 million paid on 31 March 2022. The lease agreement requires further annual payments of K6 million on 31 March each year for the next four years. Had the plant not been leased it would have cost K25 million to purchase for cash.

Plant and equipment

Plant and equipment (other than the leased plant) is depreciated at 20% per annum using the reducing balance method.

No depreciation/amortisation has yet been charged on any non-current asset for the year ended 31 March 2022.

Depreciation and amortisation are charged to cost of sales.

iii) **Fraud**

In March 2022, ACL's internal audit department discovered a fraud committed by the company's credit controller who did not return from a foreign business trip. The outcome of the fraud is that K4 million of the company's trade receivables have been stolen by the credit controller and are not recoverable. Of this amount, K1 million relates to the year ended 31 March 2021 and the remainder to the current year. ACL is not insured against this fraud.

iv) **Taxation**

ACL's income tax calculation for the year ended 31 March 2022 shows a tax refund of K2·4 million. The balance on current tax in the trial balance represents the under/over provision of the tax liability for the year ended 31 March 2021. At 31 March 2022, ACL had taxable temporary differences of K12 million (requiring a deferred tax liability). The income tax rate of ACL is 25%.

Ethical and professional issues for clarification

Your discussions with the management accountant and the management director have revealed the following issues that need to be clarified in terms of their ethical and other professional implications.

You have also become aware that the managing director is entitled to a generous bonus based on profit for the year

Plant and equipment

Included in plant and equipment is a gravel loader which started to show signs of internal damage following an accident in January 2022. It is probable that ACL will have to undertake a major repair sometime during 2023 to correct the problem. ACL does have an insurance policy but it is unlikely to cover the repairs. The Managing Director has refused to disclose the issue at 31st March 2022 since no repair costs have yet been undertaken although he is aware that this is contrary to international accounting standards. The MD does not think that the internal damage is an indicator of impairment. He argues that no provision for the repair to the factory should be made because there is no legal or constructive obligation to repair the factory.

Provisions

In the process of compiling the financial statements, you noticed that the amount included in trade payables as provisions balance as at 31 March 2022 is significantly lower than in the prior year. You made enquiries of the Management Accountant, who explained that the decrease was justified based judgement of the management director. However, you have become aware that substantial changes in safety laws and regulations in the construction industry were introduced from 1st January 2022. The laws require implementation of new safety measures, including training of staff. The estimated cost of retraining of K2 million has not been recognized

When the management director was approached for an explanation, he seemed upset and hinted that such enquiries were a waste of time and would not be looked at favourably when deciding on future appointments of tax and financial advisors

Kaoma Bridge

The managing director of ACL has told you that the company has been given a contract to construct a bridge in Kaoma at a price of K2,000,000. The construction is expected to take eighteen (18) months starting on 1 January 2022. He further said the company is however experiencing a decline in its profitability which might adversely affect its chance to secure a loan required to fund the construction. He has thus, suggested to recognise income expected from bridge construction in the company's financial statements for the year to 31 March 2022 though he is not sure of ethical issues this might raise.

Disclosure of information

ACL has a policy of not disclosing information relating to loans to directors. The managing director believes the policy helps ACL to protect its competitive advantage.

C. **CHIMSORO FARMS**

Chimsoro Nkandu is a sole trader who has been in business for many years. He runs farming and retail businesses. The turnover from each business has always exceeded K800,000. At the start of the tax year 2021, the estimated his tax adjusted business profits to be K225,000 from farming and the balance from the retail business. The total provision tax computed on both faming and retail businesses amounted to K192,660. The provisional income tax was paid on the relevant due dates.

The following are the actual results for the year ended 31 December 2021:Profit from farming K820,000

Profit from retail trade K600,000

The following additional information is available:

(1) The results from farming business are the tax adjusted profit before capital allowances. There were no implements, plant and machinery qualifying for capital allowances at 1 January 2021. Chimsoro incurred the following capital expenditure relating to farming business:

Purchase of Farm Tractor
Purchase of Irrigation pump
Construction of cow shed
Construction of a farm dwelling for a new

employee*
Expenditure on water conservation
Expenditure on prevention of soil erosion

***The amount spent was K10,000 more than the restricted amount**

(2) **Chimsoro received royalties amounting to K55,250 (Net). Withholding tax had already been deducted at source.**

(3) **The profit from retail trade is the final tax adjusted business profit after capital allowances.**
These were correctly computed as below

Item	Capital allowance amount K
Farm Tractor	61,200
Irrigation pump	32,600
Cow shed – farm improvement	40,000
Farm dwelling – new employee	20,000
Farm works – Water conservation	19,000
Farm works - Prevention of soil erosion	15,000
	- ------------
Total	187,800
	=======

Requirements

1) **Prepare brief notes on each of the following, as part of your presentation to the Chamber of Commerce for SME's**
   a) **Turnover tax, stating meaning, who is liable and tax rates applicable**

(3 marks)

b) **Presumptive tax implications for taxi operators – stating meaning ,three benefits and tax rates applicable**
(7 marks)

2) **With reference to ACL issues for clarification, evaluate ethical and other professional issues and recommend appropriate action relating to each of the following matters:**
   a) **Plant and equipment**
   (6 marks)
   b) **Provisions**
   (8 marks)
   c) **Kaoma bridge**
   (7 marks)
   d) **Disclosure of information**
   (4 marks)

3) **With reference to ACL's request to assist with the finalization of financial statements for the year ended 31st March 2022**
   a) **Compare and contrast**
      i) **A compilation engagement**
      (5 marks)
      ii) **An agreed upon engagement**
      (5 marks)

   and provide TWO examples for each

   b) **For each of the following items, discuss the accounting treatment that should be applied to each of the following items AND prepare a schedule of adjustments that should be made. Your answer should be supported by applicable International Financial Reporting Standards (IFRS)**
      i) **Suspense Account**
      (4 marks)
      ii) **Leased property**
      (5 marks)
      iii) **Finance Lease**
      (9 marks)
      iv) **Fraud discovered during the year**
      (4 marks)
      v) **Taxation**
      (4 marks)

4) **Chimsoro farms**

a) **Based on the provision tax computed**

i) **Determine the profits attributed to the retail business (6 marks)**

ii) **State the due date when the provisional income tax was paid and the amount paid on each due date (4 marks)**

b) **In respect of each of the following, determine the capital expenditure incurred relating to the farming business during the tax year 2021**

i) **Farm Tractor (2 marks)**

ii) **Irrigation pump (2 marks)**

iii) **Cow shed (2 marks)**

iv) **Farm dwelling (3 marks)**

v) **Farm improvement – water conservation (2 marks)**

vi) **Farm improvement – prevention of soil erosion (2 marks)**

c) **Taking into account the capital allowances already computed, calculate the amount of income tax payable by Chmsoro in the tax year 2021 (6 marks)**

2022 NON AUDIT COMPETENCE EXAMS

Question 1

1) Ethical and professional issues

First time dealing with mineral tax – professional competence
This is the first time that Kachelo & Co is having to deal with mineral tax. This implies that the firm may not have the requisite competence to provide this service

Action
According to professional requirements, a professional accountant should not accept to provide professional services for which they do not have the requisite qualification and competence. Accordingly, Kachelo should ensure that they allocate a member of staff who has the relevant qualification and experience, otherwise the assignment should do not be accepted

Family relationship – familiarity
According to ethical guidelines, a familiarity threat exists when a professional accountant is engaged in a business transaction with a family member. This creates a self-interest and may affect the objectivity of "uncle Ken' to deal with this client without any bias

Action

Kachelo & Co should consider assigning this engagement to a different member of staff who has no close connection with either Fedix or Kopa Minerals Lmited

"Magic" to reduce tax
The suggestion that accountant s can play some 'magic' to reduce tax implies that there is an expectation that the accountant would reduce tax no matter what. In taxation business, there is nothing wrong in adopting strategies that avoid tax, but it is illegal to deliberately evade tax through misrepresentation of tax information. This is against the fundamental principles of integrity and professional behaviour

Action
It should be explained to Fedix that the firm can only explore means by which tax can be avoided and make it clear that any action that would attempt to evade tax would be illegal and would not be acceptable. Given that the tax has already been assessed, it is probably too late to find tax avoidance opportunities and this should be made clear to Fedix

Tax saving – contingency fee
Mr. Mudadi seems to imply that the fee to be paid for the tax assistance will be based on how much is saved. This is similar to a contingency fee, which is not allowed

Action
It should be explained to Mr. Mudadi that professional fees are computed based on specific criterial such as time spent, qualification of personnel and complexity of the assignment. It should be emphasized that contingency fees cannot be applied as a basis of determining fees. If this is not accepted, the request should be declined

Special gift – necklace
The gift presents a self- interest threat and may influence the objectivity of Ken in providing a professional service to KML. This is compounded by the existence of a familiarity threat

Action
Whilst there is nothing wrong in exchanging gifts between business associates, the size of the gifts and the motive behind the motive should be considered as they may be perceived as "bribes". The emerald necklace would be perceived to have significant value and therefore should be declined. Perhaps if Mr. Beenzu was not part of this assignment, this would be acceptable

ZEMA – Non compliance with laws and regulations
It is possible that KML may have not complied with ZEMA regulations in the past. This non-compliance is a serious ethical and professional threat relating to laws and regulations. Apart from the possible penalties and fines that may ensue, this also questions the integrity of KML, if the non-compliance is considered deliberate.

In addition, disagreements with the previous firm would also question the integrity of KML, assuming they were in breach of ZEMA requirements

Action
The professional accountant is cautioned against associated with clients who have negative publicity as this may put the profession into disrepute. Kachelo &Co should consider this threat very carefully before accepting to do business with KML Kachelo is advised to seek legal advice

a) **Withholding tax paid on investment income and the total withholding tax paid for the tax year 2021.**

Fedix Mudadi

Witholding tax payable for the year 2021	K
Dividends from MNC Plc	0
Dividends from CDF Limited (K7,650 x 15/85)	1,350
Royalties (K63,750 x 15/85)	11,250
Bank interest	0
Rental income (K99,000 x 10/90)	11,000
Treasury bills interest (10,200 x 15/85)	1,800

Total withholding tax paid	25,400
	=====

b) Income tax payable
Fedix Mudadi
Income tax payable for the tax year 2021

	K
Salary (K28,100 x 3) + (K28,100 x 1.12 x 7)	304,604
Housing allowance: (K304,604 x 21%)	63,967
Transport allowance (K304,604 x 10%)	30,460
Medical allowance (K1,200 x 10)	12,000
Life assurance premiums (K510 x 10)	5,100
Labour day award- Laptop	0
Labour day awards- cash	0
Long-term service award	6,000
Pension refund	0
Severance pay	0

Repatriation pay		0
Leave pay		22,000
Accrued service bonus		54,200
		498,331
Investment income		
Royalties (K63,750 x 100/85)		75,000
		573,331
Less:		
Donation to approved public benefit organizations	14,000	
Professional subscription	3,200	
		(17,200)
Taxable income		556,131
Computation		
First K48,000 @0%		0
Next K9,600 @25%		2,400
Next K25,200 @30%		7,560
Balance K473,331 @37.5%		177,499
Income tax liability		187,459
Less:		
PAYE	131,400	
WHT- Royalties (K75,000 x 15%)	11,250	
		(142,650)
Income tax payable		44,809

2) KOPA MINERALS LIMITED - Taxation issues

a) Minerals are classified in five categories as follows:

(i) Base metals

Means a non-precious metal that is either common or more chemically active, r both common and chemically active and includes iron, copper, nickel, aluminum, lead, zinc, tin, magnesium, cobalt, manganese, titanium, scandium, vanadium and chromium

These are valued at Norm Value –
Being the average London Metal Exchange price

(ii) **Energy minerals**

This means a natural occurring substance in the earth's crust used as a source of energy and includes coal, uranium and any other minerals used to generate energy but does not include petroleum

These are valued at Gross Value –
Being the realizable price for sale Free on Board at the point of export in Zambia or point of delivery within Zambia

(iii) Gemstones

These are non-metallic substances used in jewellery and they include amethyst, aquamarine, bery, corundum, diamond, emerald, garnet, ruby, sapphire, topaz, tourmaline and any other non-metallic substance, being a substance used in the manufacture of jewellery that the Minister by statutory instrument declares to be a gemstone

These are valued at Gross Value –
Being the realizable price for sale Free on Board at the point of export in Zambia or point of delivery within Zambia

(iv) Industrial minerals

These are rocks or minerals other than gemstones, base metals, energy minerals or precious metals used in the natural state of after physical or chemical transformation and includes but is not limited to barites, dolomite, feldspar, fluorspar, graphite, gypsum, ironstone, when used as a fluxing agent kyanite, limestone, phyllite, gravel and any other mineral classified as an industrial mineral by statutory order

These are valued at Gross Value –
Being the realizable price for sale Free on Board at the point of export in Zambia or point of delivery within Zambia

(v) Precious metals

These are not defined in the Act but are high value metals and include, uncut gold, platinum, silver, palladium and selenium

These are valued at Norm Value –
Being the average London Metal Exchange price

b) Calculation of the adjusted mining profit

Kopa Minerals Limited

Adjusted mining profit for the tax year 2021

	K	K
Profit before tax		8,487,672
Add:		
Mineral royalty tax		
(K34,200,300 x 8.5%)	2,907,026	
Construction of clinic	3,000,000	
Construction of school	1,200,000	
Depreciation	430,000	
Amortization	180,000	
Entertaining customers	400,000	
Donation to political party	300,000	
Gifts to suppliers of food hampers	190,000	
Personal-to-holder car benefit		

(K40,000 x 4)	160,000	
		8,767,026
		17,254,698
Less:		
Dividends	180,000	
Profit on sale of mining plant	40,000	
Rental income	80,000	
Royalties	100,000	
Capital allowances	1,765,000	
		(2,165,000)
		15,089,698

Workings

(1) Capital allowances	K
Mining plant	
Balancing charge (0 – K110,000)	110,000
Clinic (K3,000,000 x 20%)	600,000
Community School (K1,200,000 x 20%)	240,000
Mining equipment (K2,000,000 x 20%)	400,000
Delivery trucks (K1,500,000 x 25%)	375,000
Motor cars (K1,300,000 x 20%)	260,000
Total capital allowances	1,765,000

c) Calculation of the income tax payable for the tax year 2021.

Kopa Minerals Limited
Income tax payable for the tax year 2021

	K
Adjusted mining profit	15,089,698
Add:	
Royalties	100,000
Taxable income	15,189,698
Income tax:	
Mining: K15,089,698 x 30%	4,526,909
Non-mining: K100,000 x 35%	35,000
Income tax liability	4,561,909
Less:	
Provisional income tax	(2,546,302)
WHT- Royalties (K100,000 x 15%)	(15,000)
Income tax payable	2,000,607

3) KOPA MINERALS LIMITED – Accounting for Land

ZICA guidance on accounting for Land

a) **When there is a 14- or 99-year lease should we amortise that land over the lease period?**

What is being amortised is a right to use the land and NOT the land. Such type of lease represents the right to use the asset. We amortise the amount paid in accordance with the requirements of IFRS 16, Leases. The amount is based on the net present value of lease payments payable over the lease term

b) **Does substance over form apply on amortization of leasehold land?**

Yes, it does apply. What we need to determine would be, is the right of use of the asset infinite or finite. In this case the right of use asset has a defined period of 14 years or 99 years, depending on the remaining period of the lease term

c) **When does the right to use the asset expire?**

The right to use the asset expires when the lease ends after 14 or 99 years, thereafter you will be required to pay an extension fee for the right to be extended beyond the 14- or 99-year period. This extension is at the discretion of the Government and not the lessee.

d) **If the Government of the Republic of Zambia (GRZ) will likely renew the lease after 14 or 99 years, does this constitute an infinite asset?**

If the renewal is highly likely this does not necessarily mean the asset has an infinite life, as the GRZ retains the final decision on whether to renew or cancel a lease. At the moment there seems to be no case where we may draw to definitive conclusions on whether the GRZ has cancelled leases.

e) **Is there reasonable certainty that the lessee will obtain ownership at the end of the lease term?**

No. There is no reasonable certainty that the lessee will obtain ownership at the end of the lease term. In Zambia the law states that all land belongs to the President. The GRZ also retains the right to renew the lease at its expiration.

Question 2

1) **Brief notes**
   a) Turnover tax

   Meaning
   This is a tax that is charged on gross sales/turnover (i.e. earnings, income, revenue, takings, yield and proceeds)

Who is liable?

Any person carrying on any business with an annual turnover of K800,000 or less. Any person whose business earnings are subject to withholding tax and it is not the final tax such as, rental income, commissions, interest earned by companies, royalties earned by residents, etc.

Rates applicable

Turnover per annum	Tax Rate
K800,000 or below	4 %

   b) Presumptive tax

Meaning
These are estimates of tax payable that are used in dealing with incomes or activities that are hard to tax, e.g. the informal sector.
Presumptive taxation offers the possibility of reducing tax evasion at low cost and broadening the revenue base.

Benefits – simplified process
- No filing of returns.
- No need for elaborate business records.
- Predictable amount of tax to be paid hence eases planning.

Rates
The rates below will apply:

Type of vehicle(sitting capacity)	Amount of tax per vehicle per annum effective 1st June 2018
64 seater and above	K10,800
50-63 seater	K9,000
36-49	K7,200
22-35	K5,400
18-21	K3,600
12-17	K1,800
Below 12 seater (including taxis)	K900

2) **Ethical and other professional issues**
   a) **Plant and equipment**

Ethical and professional issues

According to IAS 36, Impairment, an impairment review should be undertaken whenever there is an indication of impairment and at the end of each year. Internal damage of the machinery is an indicator of impairment

Refusing to comply with applicable accounting standards suggest that the managing director is happy to manipulate the financial statements for his own benefit. He is not willing to account for an impairment loss for the internal damage despite knowing that this is contrary to International Accounting Standards. The adjustments required to ensure the financial statements comply with International Accounting Standards will reduce profitability. It is true that the directors do have a responsibility to run the group on behalf of their shareholders and to try to maximise their return. This must not be to the detriment, though, of producing financial statements which are objective and faithfully represent the performance of the company.

It is likely that the managing director is motivated by bonus targets and is therefore unfairly trying to misrepresent the results of the company. The managing director must make sure that He is not unduly influenced by this self-interest threat.

Action to take

The managing director should be advised of the need to provide information that meets with the qualitative characteristics of useful information – i.e. information should be relevant and presented faithfully reflecting the requirements of applicable laws and regulations

Accordingly, the impairment of the machinery should be properly determined and accounted for in accordance with IAS 36, Impairment

b) Provisions

Ethical and professional issue

According to IAS 37 Provisions, Contingent Liabilities and Contingent Assets states that a provision should only be recognised if:

- there is a present obligation from a past event,
- an outflow of economic resources is probable, and
- the obligation can be measured reliably.

Therefore a provision should be recognised because ACL has an existing obligation to incur the training costs. The expenditure cannot be avoided as it is a legal requirement for the construction industry.

The users of ACL's financial statements, such as banks and shareholders, trust accountants and rely on them to faithfully represent the effects of a company's transactions. IAS 1 Presentation of Financial Statements makes it clear that this will be obtained when accounting standards are correctly applied.

Non recognition of a provision of K2 by ACL understate liabilities and overstate profits and this appears intentional. An incentive exist to depart from particular IFRS and IAS standards: most notably the bonus scheme. In this respect, the managing director has a clear self-interest threat to objectivity and may be in breach of *ZICAs Code of Ethics and Conduct.*

Intimidation threat

On being asked about the provision, the managing director seemed upset and hinted that such enquiries were a waste of time and would not be looked at favourably when deciding on future appointments of tax and financial advisors. This amounts to an intimidation threat

Action to take

ZED Associates is correct to challenge the managing director and has an ethical responsibility to Do so. Despite the fact that the managing irector is acting in an intimidating manner, ZES Associates should explain the technical issues to the director. If the director refuses to comply With accounting standards, then it would be appropriate to discuss the matter with other directors

ZED Associates should also consider whether the firm should continue to associate with ACL

c) Kaoma bridge

Ethical And Professional issues
According to professional requirements, accountants are required to comply with fundamental principles that in include:

Objectivity - Self interest
The self-interest to increase revenue and profitability in order to secure a loan required to fund construction of the bridge has influenced and biased the managing director's judgement of the accounting treatment to be applied. This is against the fundamental principle of objectivity

Professional behaviour
According to IFRS 15, Revenue from Contract with Customers, revenue should only be recognised once he related performance obligation is fulfilled. In the case of ACL, only 3 months of the eighteen months contract would have been performed by the year end date of 31st March 2022, representing just over K300,000 revenue. This results in a potential overstatement of about K1.7m. Professional behaviour requires accountants to comply with all laws, regulations and standards

Further, it can be argued that this is not in keeping with the qualitative characteristics of faithful presentation as revenue recorded is not based on performance completed

Integrity
If the action to overstate revenue is perceived to be deliberate, this also questions the integrity of the decision as not being honest and upright

Action
The managing director should be advised of the ethical implications of applying this accounting treatment as being against the fundamental principles and conceptual framework. The financial director should consider other users of ACL's financial statements. Apart from, ACL's management, the lender will be provided with information which is not true and fair

d) Disclosure of information

Ethical and other professional issues
According to professional requirements, accountants are required to comply with fundamental principles that in include:

Objectivity - Self interest
The self-interest of attempting to maintain and protect its competitive advantage has influenced and

biased the decision not to disclose information relating to loans between ACL and its directors. This is against the fundamental principle of objectivity

Professional behaviour
According to IAS 24, related Parties that transactions between related parties should be disclosed in terms of the parties involved, the nature of the transactions and the balances reported. Transactions between ACL and its directors are related party transactions

This results in under disclosure. Professional behaviour requires accountants to comply with all applicable accounting standards

Further, it can be argued that this is not in keeping with the qualitative characteristics of faithful presentation as the non-disclosure results in not providing relevant information to users

Integrity
If the action not to disclose is perceived to be deliberate, this also questions the integrity of the decision as not being honest and upright

Action

The managing director should be advised of the ethical and other professional implications of the decision not to disclose relevant information. The requirement to disclose related parties transaction information is designed to provide relevant information to a wider range of uses and not to protect the company

ACL should disclose information as required IAS 24

3)

a) **Assurance engagement and a non-assurance engagement**

Compilation engagement

According to the International Standard on Related Services (ISRS) 4410, the objective of a compilation engagement is for the accountant to use accounting expertise, as opposed to auditing expertise, to collect, classify and summarize financial information. This ordinarily entails reducing detailed data to a manageable and understandable form without a requirement to test the assertions underlying that information. The procedures employed are not designed and do not enable the accountant to express any assurance on the financial information. However, users of the compiled financial information derive some benefit as a result of the accountant's involvement because the service has been performed with professional competence and due care.

A compilation engagement would ordinarily include:

- The preparation of financial statements (which may or may not be a complete set of financial statements)
- The collection, classification and summarization of other financial information.

Agreed upon procedures

On April 3, 2020, the International Auditing and Assurance Standards Board (IAASB) released

International Standard on Related Services (ISRS) 4400 (Revised), its revised standard for performing agreed-upon procedures engagements.

In an agreed-upon procedures engagement, the practitioner performs the procedures that have been agreed upon by the practitioner and the engaging party, and the practitioner communicates those procedures and the related findings in the agreed-upon procedures report. A wide range of stakeholders use agreed-upon procedures reports for a variety of reasons; for example, regulators, funding bodies, creditors and others ask for agreed-upon procedures reports to support or complement information, such as audited financial statements or loan or grant applications.

Common agreed-upon procedures include:

- Fraud investigation - includes a forensic audit of embezzlement within or outside the company.
- Claims verification - provides a forensic audit of insurance claims from the insuree.
- Due diligence - provides a review of required financial, operational, legal, social & environmental as requested.

b) Accounting treatment AND schedule of adjustments

i) Suspense Account

The rights issue was 18 million shares (45,000/50 ngwee each x 1/5) at 75 ngwee = K13·5 million. This equates to the balance on the suspense account. This should be recorded as K9 million equity shares (18,000 x 50 ngwee) and K4·5 million share premium (18,000 x (75 ngwee – 50 ngwee)).

Required adjustment

DR Suspense Account	K13.5m	
CR Share capital		K9m
CR Share premium		K4.5m

Being correction of entries wrongly posted to the suspense account

ii) Leased property

According to IAS 16, Property, plant and equipment (PPE) should initially be recognized at cost. Subsequently, an entity may adopt either the cost model or fair value model. Under the fair value model, the asset is depreciated over its useful life. On revaluation, any surplus is transferred to other comprehensive income/ Additionally, an entity may adopt a policy of transferring a portion of realized revaluation reserve to the retained profits in the statement of changes in equity

Required Adjustment

DR Amortisation – P/L	**4,500**	
CR Revaluation reserve		**3,500**
CR Retained profits		**500**
CR Asset		**500**

Being accounting for results of revaluation, amortization of realization of revaluation surplus during the year

Non-current assets

Carrying amount 1 April 2021 (48,000 – 16,000)		32,000
Revaluation reserve	4,000	
Revalued amount 1 April 2021		36,000
Amortisation year to 31 March 2022 (over 8 years)		(4,500)
Carrying amount 31 March 2022		31,500

K500,000 (4,000/8 years) of the revaluation surplus will be transferred to retained earnings (reported in the statement of changes in equity).

iii) **Finance Lease**

According to IFRS 16, Leases, the right of control and use of an asset is transferred to the lessee when the rewards and risks associated with the asset are transferred to the lessee. At the inception of the lease the lessee makes the following entries

DR Asset
CR Liability
With the net present value of lease payments or fair value

The asset is then depreciated over the lease term and the liability is accounted for using amortised cost

Leased plant:

Fair value 1 April 2021		25,000
Deposit	(2,000)	
		23,000
Interest at 10%		2,300
Payment 31 March 2022		(6,000)
Lease obligation 31 March 2022		19,300
Interest at 10%		1,930
Payment 31 March 2013		(6,000)
Lease obligation 31 March 2013		15,230

Amortisation for the leased plant for the year ended 31 March 2022 is K5 million (25,000/5 years).

Required Adjustment

	(K'000)	
DR Asset	20,000	(net book value)

DR Interest expense – interest on lease	2,300		
DR Cost of sales – Depreciation of leased asset	5,000		
CR Lease payment		8,000	
CR liability – Lease obligation – Non current			15,230
CR liability – lease obligation – current			4,070

iv) Fraud discovered during the year

The discovery of the fraud represents an error part of which is a prior period adjustment (K1 million) in accordance with IAS 8 Accounting policies, changes in accounting estimates and errors. According to IAS 8, accounting errors discovered in the current period but committed in the previous period should be accounted for as a prior-year adjustment

Required Adjustment

DR Profit and loss 2021	K1m	
DR Administration expenses	K3m	
CR Receivables		K4

Being write off of receivables to administration expenses and previous year's profits

v) **Taxation**

According to IAS 12, Taxaion, a deferred tax liability arises when there are taxable differences. The deferred tax is computed using the liability method, i.e. based on the amount expected to be paid.

Deferred tax Provision required at 31 March 2022 (12,000 x 25%)	3,000
Provision at 1 April 2021	(3,200)
Credit (reduction in provision) to income statement	200

Required adjustment

	(K'000)	
DR Deferred tax	200	
DR Tax recoverable	2,400	
CR Profit or loss		200
CR Taxation expense		2,400

Being reversal of overprovision of tax for the year and accounting for the tax refund

4) Chimsoro farms

a) Based on the provision tax computed

i) Chimsoro

Profits attributed to the retail business

Total provisional tax paid	K
Total provisional tax paid	192,660
Farming income tax : 225,000 x 10%	22,500

Balance tax retail business tax	170,160

======

Computed as

First K48,000 @ %	0
Next K9,600 @25%	2,400
Next K25,200 @30%	7,560
	9,960
Balance K427,200 @37.5%	160,200
	170,160

The amount that provides a tax of 160, 200 at 37.5% is 427,200

Therefore the total profits attributable to the retail business is K510, 000 (48,000+9,600+25,200+427,200)

Provisional income tax paid 192,660

ii) Due date of payment and the amount paid

Instalment	Quarter ended	Amount K	Payment made not later than
1st	31st March 2021	48,165	10th April 2021
2nd	30th June 2021	48,165	19th July 2021
3rd	30th September 2021	48,165	10th October 2021
4th	31st December 2021	48,165	10th January 2022

b) Capital expenditure incurred relating to the farming business during the tax year 2021

Item	Capital allowance amount K	Capital allowance rate	Capital expenditure to provide the capital allowance at the rate applicable k
Farm Tractor	61,200	100%	61,200
Irrigation pump	32,600	100%	32,600
Cow Hed – farm improvement	40,000	100%	40,000
Farm dwelling – new employee	20,000	100%	30,000 (20,000 +10,000)
Farm works – Water conservation	19,000	100%	19,000
Farm works - Prevention of soil erosion	15,000	100%	15,000

Total	187,800		
	=======		

c) Chimsoro Nkandu
Income tax payable for the tax year 2021

	Total Income	Non-farming Income	Farming Income
	K	K	K
Taxable farming profits	820,000	-	820,000
Taxable profit from retail trade	600,000	600,000	-
Royalties (K55,250 x 100/85)	65,000	65,000	-
	1,485,000	665,000	820,000
Less:			
Capital allowances (given)	(187,800)	-	(187,800)
Taxable income	1,297,200	665,000	632,200
Computation			
Non-farming income			
First K48,000 @0%			0
Next K9,600 @25%			2,400

Next K25,200 @30%	7,560
Balance K582,200 @37.5%	218,325
	228,285
Farming income: K632,200 @10%	63,220
Income tax liability	291,505
Less:	
Provisional income tax (a)	(192,660)
WHT- royalties (K65,000 x 15%)	(9,750)
Income tax payable	89,095