COMPETENCE PRACTICE EXAMINATION

NON-AUDIT PRACTISING CERTIFICATE

DECEMBER 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

Income Tax

Standard personal income tax rates

Income band	Taxable amount	Rate
K1 to K54,000	first K54,000	0%
K54,001 to K57,600	next K3,600	25%
K57,601 to K82,800	next K25,200	30%
Over K82,800		37.5%

Income from farming for individuals

K1 to K54,000	first K54,000	0%
Over K54,000		10%

Company income tax rates

On income from manufacturing and other	30%
On income from farming	10%
On income from mineral processing	30%
On income from mining operations	30%

Income from farming for individuals

K1 to K54,000	first K54,000	0%
Over K54,000		10%

Company Income Tax rates

On income from manufacturing and other	30%
On income from farming	10%
On income of Banks and other Financial Institutions	30%
On income from mineral processing	30%
On income from mining operations	30%
On income from manufacture of products made out of copper cathodes	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 –	Standard wear and tear allowance	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%

Rental Income Tax

Annual Rental Income	
K800,000 or below	4%
Above K800,000	12.5%

Presumptive tax for transporters

Seating capacity	**Tax per annum**	**Tax per quarter**
	K	K
Less than 12 passengers and taxis	1,080	270
From 12 to 17 passengers	2,160	540
From 18 to 21 passengers	4,320	1,080
From 22 to 35 passengers	6,480	1,620
From 36 to 49 passengers	8,640	2,160
From 50 to 63 passengers	10,800	2,700
From 64 passengers and over	12,960	3,240

Property transfer tax

Rate of tax on realised value of land, land and buildings and shares	5%
Rate on realised value of intellectual property	5%
Rate of tax on realised value on a transfer or sale of a mining right	10%
Rate of tax on realised value on a mineral processing licence or an interest in the mineral processing licence;	10%

Value Added Tax

Registration threshold	K800,000
Standard Value Added Tax Rate (on VAT exclusive turnover)	16%

Customs and Excise duties on used motor vehicles

	Aged 2 to 5 years		Aged 5 years and over	
Motor vehicles for the transport of ten or more persons, including the driver	**Customs duty K**	**Excise duty K**	**Customs duty K**	**Excise duty K**
Sitting capacity of 10 but not exceeding 14 persons including the driver	17,778	22,223	8,889	11,112
Sitting capacity exceeding 14 but not exceeding 32 persons	38,924	0	13,840	0
Sitting capacity of 33 but not exceeding 44 persons	86,497	0	19,462	0
Sitting capacity exceeding 44 persons	108,121	0	43,248	0

	Aged 2 to 5 years		Aged 5 years and over	
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Sedans				
cylinder capacity not exceeding 1000 cc	12,490	10,824	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	16,058	13,917	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	16,545	21,508	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	10,528	13,687
Cylinder capacity exceeding 3000 cc	22,561	29,329	12,032	15,642
Hatchbacks				
cylinder capacity not exceeding 1000 cc	10,705	9,278	7,136	6,185
Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	14,274	12,371	8,564	7,422
Cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	15,041	19,553	8,423	10,950
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	16,545	21,508	10,523	13,687

Cylinder capacity exceeding 3000 cc	19,553	25,419	12,032	15,642
Station wagons				
cylinder capacity not exceeding 2500 cc	16,545	21,508	9,024	11,731
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	18,049	23,463	13,357	17,598
Cylinder capacity exceeding 3000 cc but not exceeding 2500 cc	22,561	29,329	18,049	23,463
SUVs				
Cylinder capacity not exceeding 2500 cc	21,057	27,374	9,024	11,732
Cylinder capacity exceeding 2500 cc but not exceeding 3000 cc	24,065	31,284	13,357	17,598
Cylinder capacity exceeding 3000 cc	28,577	37,150	18,049	23,463

	Aged 2 to 5 years		**Aged 5 years and over**	
Motor vehicles for the transport of goods -with compression-ignition internal combustion piston engine (diesel or semi-diesel):	**Customs duty**	**Excise duty**	**Customs duty**	**Excise duty**
	K	**K**	**K**	**K**
Single cab				
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	21,926	9,501	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	26,311	11,402	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	30,697	13,302	17,541	7,601
Double cabs				
GVW exceeding 3 tonnes but not exceeding 5 tonnes	30,697	13,302	24,119	10,452
Double cabs GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes, **with spark ignition internal combustion piston engine**	33,766	14,632	26,531	11,497
Panel Vans				
GVW not exceeding 1.0 tonne	13,353	5,786	7,630	3,061
GVW exceeding 1.0 tonne but not exceeding 1.5 tonnes	15,348	6,651	8,770	3,801
GVW exceeding 1.5 tonnes but not exceeding 3.0 tonnes	17,541	7,601	15,348	6,651
GVW exceeding 3.0 tonnes but not exceeding 5.0 tonnes	21,926	9,501	17,541	7,601
Trucks				
GVW up to 2 tonnes	13,907	10,662	6,413	4,916
GVW exceeding 2.0 tonnes but not exceeding 5.0 tonnes	15,453	11,847	7,726	5,923
GVW exceeding 5.0 tonnes but not exceeding 10.0 tonnes	24,724	18,955	9,272	7,108
GVW exceeding 10.0 tonnes but not exceeding 20.0 tonnes	30,905	23,694	11,744	9,004

GVW exceeding 20 tonnes	51,898	0	19,462	0
GVW exceeding 20 tonnes, **with spark ignition internal combustion piston engine**	37,086	28,432	13,907	10,662

Surtax

On all motor vehicles aged more than five (5) years from year of manufacture K2,000

Customs and Excise on New Motor vehicles

Duty rates on:

1. Motor cars and other motor vehicles (including station wagons) principally designed for the transport of less than ten persons, including the driver:

Customs Duty:

Percentage of Value for Duty Purposes	30%
Minimum Specific Customs Duty	K6,000

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	
Cylinder capacity of 1500 cc and less	20%
Cylinder Capacity of more than 1500 cc	30%

2. Pick-ups and trucks/lorries with gross weight not exceeding 20 tones:

Customs Duty

Percentage of Value for Duty Purposes	15%
Minimum specific Customs Duty	K6,000

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	10%

3. Buses/coaches for the transport of more than ten persons

Customs Duty:

Percentage of Value for Duty Purposes	15%
Minimum Specific Customs Duty	K6,000

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	
Seating Capacity of 16 persons and less	25%
Seating Capacity of 16 persons and more	0%

4. **Trucks/lorries with gross weight exceeding 20 tonnes**

Customs Duty:

Percentage of Value for Duty Purposes	15%

Excise Duty:

Percentage of Value for Duty Purposes for Excise Duty Purposes	0%

2022 NON-AUDIT COMPETENCE PRACTICE EXAMINATION (CPE)

QUESTION ONE

Mukosha Associates is a firm of chartered accountants. It is registered with the Zambia Institute of Chartered Accountants (ZiCA) and provides non-audit services. You were recently promoted as a Senior Manager in the firm, and you are responsible for the following assignments:

(1) Evaluation of professional and ethical issues

The Managing Partner has sent you this email:

To: Senior Manager

From: Managing Partner

Subject: **Evaluation of professional and ethical issues**

Hello

The following matters relating to our clients need urgent attention:

(1) **Bibi Ltd** – Mukosha Associates is considering acquiring a canteen which provides meals to Bibi Ltd's employees.

(2) **Integrated Plc –** The Chief Executive Officer (CEO) for Integrated Plc has written to me to see if Mukosha Associates would be interested in advertising in the company's magazine.

(3) **Mutondo Enterprises** – A quality control review on the actuarial valuations done by Mukosha Associates for Mutondo Enterprises has revealed that the pension provision for last year was understated by K2 million. It has been suggested that this should be ignored to avoid the reputation of the firm being called into question.

(4) **Kapi Ltd** – Mukosha Associates has been retained as liquidator for Kapi Ltd. The court has fixed the fee as 0.5% of the disposal value of any assets sold.

(5) **Mwangala** – Mwangala is a long standing client of Mukosha Associates. He has deposited K5 million with Mukosha Associates. He has instructed the firm to quickly buy securities in listed companies and after two (2) months sell them and send the proceeds net of 2% commission to his business associate in the Democratic Republic of Congo.

As part of your on-the-job training, I would like you to perform an evaluation of the professional and ethical issues and recommend action(s) that must be taken.

Mande Plc is Zambia's most trusted manufacturer of heavy duty vehicles mainly used in the mining industry. The following issues have arisen during the preparation of Mande Plc's draft financial statements for the year ended 31 December 2021:

(i) A single class of twenty (20) heavy duty vehicles held as inventory was valued at its cost of K70 million at 31 December 2021. In January 2022, fifteen (15) heavy duty vehicles of this inventory was sold for K45 million on which Mande Plc's sales staff earned a commission of 3% of the selling price.

(ii) Mande Plc is in the process of computing the provisions required for:

Product warranty claims

The product warranty claims relate to fifty (50) heavy duty vehicles supplied with a one-year warranty. The estimated outcomes of the liability are:

65% of sales will have no claim

20% of sales will require a K1,320,000 repair

15% of sales will require a K2,150,000 repair.

Closure of a division

On 30 November 2021, the directors of Mande Plc decided to close down a division. This decision was announced to the employees affected on 15 December 2021 and the actual closure occurred on 31 March 2022, prior to the 2021 financial statements being authorized for issue.

Expenses and other items connected with the closure were as follows:

	K million
Staff retraining (actual)	15
Profit on sale of property	5
Redundancy costs (estimated)	60
Operating loss for the four (4) months to 31 March 2022	3
(estimated at 31 December 2021)	

The actual operating loss for the four (4) months to 31 March 2022 was K8 million and the actual redundancy costs were K52 million. The directors want to know the amount of the restructuring provision to be recognized in the financial statements of Mande Plc, for the year ended 31 December 2022.

(iii) The Board of Directors (BOD) is considering adopting an accounting policy which will mean there will be no amortization of intangible assets.

(iv) Included in the financial assets of Mande Plc is a ten-year 7% loan. At 31 December 2021, the borrower was in financial difficulties and its credit rating had been downgraded. Mande Plc has adopted IFRS 9 *Financial Instruments* and the loan asset is currently held at amortised cost of K29 million. Mande Plc now wishes to value the loan at fair value using current market interest rates. Mande Plc has agreed for the loan to be restructured; there will only be three more annual payments of K8 million starting in one year's time. Current market interest rates are 8%, the original effective interest rate is 6.7% and the effective interest rate under the revised payment schedule is 6.3%.

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.

(3) Njamba Youth Consortium (NYC)

Njamba Youth Consortium (NYC) is an organization for the youth in Kitwe, which was established in 2014. The organization's ethos is to promote entrepreneurship and self-confidence among youths. This is developed from a consensus, led by the Board of Trustees (BOT) and the Chief Executive Officer (CEO) of NYC and informed by the views of the youths' parents.

The government of the Republic of Zambia recently granted NYC mining rights for the extraction of chrome from the grey mountain in Kitwe. The Minister of Mines and Mineral Development has emphasized the need for transparency and accountability.

NYC's information systems are highly decentralized. Each department keeps its own records on a stand-alone PC using basic word processing and spreadsheet packages. The information is passed to other departments using memory sticks.

The financial statements for NYC are prepared using full IFRSs and are audited. The trustees are concerned about information overload, although the Finance Director believes this is good for transparency and accountability. They also think the audit does not add any value to NYC and must be discontinued. The annual turnover for NYC has never exceeded K18 million.

It has been suggested that NYC considers:

- Improving its information systems by installing a network across the organization to link the departmental PCs. A single database would be created to store all the information. The PCs would then be linked to the internet mainly in order to facilitate data transfer both internally and externally.
- Any suitable alternative to full IFRSs.
- Discontinuation of audit services.

The trustees of NYC are keen on implementing the aforementioned suggestions and have appointed Mukosha Associates to give professional advice.

(4) Rosette Plc

The Chairperson of the board of directors (BOD) recently attended a business seminar in Livingstone at which corruption was extensively discussed. The seminar was organized by the Zambia Institute of Chartered Accountants (ZiCA) South Members' Chapter and the Managing Partner for Mukosha Associates was one of the presenters.

The company is about to hold its Annual General Meeting (AGM) with shareholders and the Chairperson is aware that some of the serious corruption allegations in Rosette Plc involve shareholders who supply various goods and services to the company. The Internal Audit function has identified various red flags regarding actual and suspected corruption. The Director of Internal Audit recently told the Audit Committee that some red flags indicate that corruption has occurred while others indicate a greater increased vulnerability to corruption. A number of employees in the Procurement Department have also reported to the Audit Committee pressure from stakeholders, especially shareholders, to act unethically or illegally on the job.

In an effort to address this vice, the BOD has engaged Mukosha Associates to prepare a detailed report on the impact of corruption on Rosette Plc which will be discussed at the AGM. Although, a few directors feel that this is a waste of resources because the reality is that laws making corrupt practices criminal may not always be enforced. They argue that Rosette Plc may lose some lucrative contracts with suppliers.

(5) Buffalo Academy

Buffalo Academy, which is located on Kariba Islands, is wholly owned by the Ministry of Defence. It provides various training and logistical services to the defence forces and private security companies. It is currently preparing its financial statements for the year ended 31 December 2021. The newly appointed Director of Finance has requested Mukosha Associates to provide professional advice regarding the accounting treatment for the following:

- On 31 December 2021, Buffalo Academy acquired specialist military equipment from Europe. The following costs were incurred:

	K'000
Purchase cost	30,000
Import taxes	2,000
Refundable purchase taxes	3,000
Directly attributable costs to bring the asset to its present location and condition	500
Major spare parts	2,000
Stand-by servicing equipment	5,000

- On 1 January 2021, the government of the Republic of Zambia granted K120 million to Buffalo Academy to be used to improve water and sanitation systems at the training centre. The grant agreement requires the grant to be spent in the current year or be returned.

- The Ministry of Defence has identified historical buildings and monuments which belong to the Ministry of Defence. The historical buildings and monuments have been classified as non-operational heritage assets. These have been handed over to Buffalo Academy.

- Buffalo Academy spent K4 million during the year to develop an automated assessment tool. The new assessment tool will significantly cut costs, increase output and will recover all its development costs.

Buffalo Academy operates with excess of liabilities over assets and the new Director of Finance, who previously worked for a private limited company, is concerned about its going concern status. Buffalo Academy uses accruals basis International Public Sector Accounting Standards (IPSASs).

The new Director of Finance has requested you to explain the link between IASs/IFRSs and IPSASs, and discuss, using appropriate accounting standards, the differences between the financial statements of a public sector entity and the financial statements of a profit-making entity.

SECTION A

Required:

(1) Respond to the Managing Partner's e-mail by clearly evaluating the professional and ethical issues and recommending suitable actions to take. (15 marks)

(2) Explain the required accounting treatment of issues (i) to (iv) by Mande Plc in its financial statements for the year ended 31 December 2021. (24 marks)

(N.B. Include any relevant supporting computations)

(3) With reference to the information given regarding Njamba Youth Consortium (NYC):

(a) Discuss any two (2) main risks associated with memory sticks and suggest appropriate measures which can be put in place to safeguard them. (4 marks)

(b) Explain any two (2) main advantages of having a unified database. (4 marks)

(c) Advise the trustees regarding any suitable alternative to full IFRSs and whether Njamba Youth Consortium (NYC) should discontinue audit services. (3 marks)

[Total: 50 Marks]

SECTION B

Required:

(4) Prepare a report to be used at the Annual General Meeting (AGM) for Rosette Plc in which you clearly discuss the impact of corruption on Rosette Plc. (18 marks)

(5) Using the information given in respect of Buffalo Academy:

(a) For benefit of the new Director of Finance, explain the link between IASs/IFRSs and IPSASs, and discuss, using appropriate accounting standards, four (4) differences between the financial statements of a public sector entity and the financial statements of a profit-making entity. (12 marks)

(b) Advice the new Director of Finance on the accounting treatment for the four (4) matters given in the scenario. (16 marks)

(c) Discuss whether Buffalo Academy could be considered as a going concern. (4 marks)

[Total: 50 Marks]

QUESTION TWO

Natwange Accountants (NA) is registered with the Zambia Institute of Chartered Accountants (ZiCA). The firm provides both assurance and non-assurance services. You are a Senior Financial Advisor in NA in the consultancy and business advisory department. You are in charge of the following non-assurance assignments:

(1) Review of corporate governance structures for Filimina Ltd

(2) Tax advice for four (4) clients

(3) Computation of income tax payable for Mathews Mbonge

(4) Briefing notes for ZiCA presentation

(5) Discussion of the statement by the MD of Kunda Ltd

(6) Computation of VAT, PTT and company income tax for Purple Plc

Review of corporate governance structures for Filimina Ltd

Filimina Ltd is a medium sized retailer of electrical goods with twenty (20) outlets spread throughout the Republic of Zambia. The company was incorporated in the Republic of Zambia in the year 1995. It has a Board of Directors (BOD) which is mainly responsible for developing and promoting the company's vision, purpose, culture, values and ethical behaviors. The Board of Directors (BOD) consists of equal numbers of EDs and NEDs, including the Chairperson.

The positions of Board Chairperson and Chief Executive Officers (CEO) are held by two (2) different people. The Board Chairperson is a former Director of Finance for Filimina Ltd who retired a year ago. The CEO recently joined the company after his contract with the National Electricity Company was terminated. Filimina Ltd has no senior independent director as it is considered irrelevant.

According to the company's Articles of Association, the CEO is appointed by the majority shareholder, who is an experienced electrical engineer. The majority shareholder is not a director. The CEO holds a non-executive position on the Board of Directors (BOD) of NA while the Managing Partner holds a non-executive position on the Board of Directors (BOD) of Filimina Ltd.

Every year, the performance of the Board of Directors (BOD) as a whole, its committees and its members is evaluated as a mechanism to tackle weaknesses, maximise strengths and improve board effectiveness. The evaluation is conducted by the internal auditors. However, a number of shareholders have been asking questions on the effectiveness of corporate governance structure. As a result, Filimina Ltd has engaged

NA to review its corporate governance structures. This is the first time that NA will be reviewing corporate governance structures for a client.

Tax advice for four (4) clients

Client one – The client is a sole trader who retired from formal employment on 30 November 2021. On 28 December 2021, he bought a block of flats for K4 million and a shop for K500,000. The client is not registered for any tax with the Zambia Revenue Authority (ZRA). During the tax year 2022, he expects his turnover from the shop to be K325,000 and rental income from the block of flats to be K980,000.

Client two – The client is a mining company listed on the Lusaka Securities Exchange (LuSE). The statement of profit or loss for year ended 31 December 2022 show interest expense of K12,300,000. The company's Tax Earnings Before Interest, Tax, Depreciation and Amortisation (Tax EBITDA) has been correctly computed as K34,600,000. The client wants to know the treatment of the interest expense for taxation purposes.

Client three – The client regularly exports goods to a group company based in Congo DR. The exported goods are used as inputs in one of its production processes. All intra-company transfers of goods are made at a transfer price equal to the marginal cost of production of the supplying company plus a mark-up of 50%. During the year ended 31 December 2022, the client exported goods to the group company at a transfer price of K3,750,000. The fixed production overheads in respect of these goods has been determined as K700,000. These goods are included at the transfer price in sales revenue in the financial statements of client three. The client sells these goods on the Zambian market at full production cost plus a profit mark-up of 20%. The client wants to know the tax implication of this transaction.

Client four – The Zambia Revenue Authority (ZRA) undertook an audit of the client and advised of an incorrect tariff code being used for importation of ethyl alcohol and spirits and further advised of the correct tariff code to be applied, which attracted a higher rate of duty. Following subsequent discussions with the ZRA, an assessment of K3 million was issued by the ZRA in March 2022, which included duties, taxes and penalties, and VAT for importations for prior years. In the light of this assessment, the client made an appeal to the ZRA, which resulted in the above assessment being set aside as incorrect and the Commissioner-General (CG) of the ZRA in July 2022 issued a full and final demand of K1.1 million, which was paid on 1 August 2022, at which point the matter was considered closed. However, in December 2022, the ZRA issued a notice overturning the full and final settlement decision of the CG and issued in its place an assessment of K2.5 which is the original assessment plus accrued interest and VAT less the settlement paid to ZRA. The client wants you to advice on the actions to take.

The Audit Committee Chairperson has advised that the client should simply pay the K2.5 million in order to avoid unnecessary wrangles with ZRA.

Computation of income tax payable for Mathews Mbonge

Mathews Mbonge is employed by Kalulu Engineering Ltd on a four (4) year contract, which commenced on 1 January 2020. Mathews Mbonge was entitled to an annual salary of K550,000, and a housing allowance of 30% of his basic salary. The company additionally paid him monthly life insurance premiums of 5% of his basic salary.

Throughout the tax year 2022, he was provided with a 2800 cc Toyota Prado car on a personal to holder basis, which was acquired by the company two (2) years ago at a cost of K750,000. The company paid all the motor car running expenses including fuel in relation to the car which amounted to K6,900 per month. He had private use of the car of 60%. Mathews Mbonge is provided with a company owned house which has a market value of K6.2 million and had it been let out, the company would have charged commercial rent of K8,500 per month. Mathews Mbonge paid his utility bills in connection with this living accommodation of K3,700 per month.

The company runs an unapproved share option scheme and on 1 January 2022, Mathews Mbonge exercised 40,000 options at a predetermined price of K2.25 per share when the share price on that date was determined to be K3.50 per share.

During the year 2022, the company deducted employee's National Health Insurance Contributions (NHISCs) at the rate of 1% of his basic salary per month from his employment income and contributed employer's NHISCs at the rate of 1% of his basic salary on his behalf.

The company additionally deducted employee's NPSA contributions of 5% of his relevant employment earnings per month from his employment income and paid employer's NAPSA contributions of 5% of his relevant employment earnings on his behalf. The company further deducted PAYE amounting to K274,598. Mathews Mbonge made donations of K5,000 to a public benefit organization in the tax year 2022.

In the tax year 2022, Mathews Mbonge also received copyright royalties and dividends from Zambian sources amounting to K25,500 and K85,000 respectively.

Mathews Mbonge has requested you to give advice on the final income tax payable for tax year 2022.

Briefing notes for ZiCA presentation

The Managing Partner of Natwange Accountants (NA) was recently appointed as the Chairperson of the Technical Committee of the Zambia Institute of Chartered Accountants (ZiCA). He has been asked by the ZiCA Council to present a paper on suspicious transaction reporting and independent testing at the pre-AGM workshop. He has requested you to prepare briefing notes which clearly addresses the request by the ZiCA Council. The fee for the pre-AGM workshop is K2,500 per participant.

Discussion of the statement by the MD of Kunda Ltd

The management of Kunda Ltd has invited Natwange Accountants (NA) to submit a proposal for their consideration in respect of the preparation of the financial statements for the year ended 30 September 2022. However, the following statement was made by the Managing Director (MD), in relation to the proposal:

"I am looking for a firm of accountants who will give me a low fee of K20,000 and complete the work within two (2) weeks. I hope that the financial statements prepared will result in a smooth statutory external audit so that the audit fee is also reduced".

The estimated cost of this engagement is K23,500. The Managing Partner is willing to accept this engagement.

Computation of VAT, PTT and company income tax for Purple Plc

Purple Plc is a Zambian resident company which is registered for Value Added Tax (VAT). It deals in both taxable and exempt supplies. The following information has been extracted from the management accounts for the month of December 2022:

	K'000	**K'000**
Sales		320,000
Opening inventory	20,600	
Purchases	214,500	
	235,100	
Closing inventory	(37,000)	
Cost of sales		(198,100)
Gross profit		121,900
Expenses:		
Bad debts written off	3,000	
Overheads	74,000	
Miscellaneous expenses	48,000	

	(125,000)
Net loss	(3,100)

The following additional information is also relevant:

(1) Taxable supplies as a proportion of total sales amount to 80%. Zero-rated supplies are K30 million. 90% of the standard rated supplies were made to customers who are registered for Value Added Tax (VAT) purposes.

(2) Purchases include exempt supplies whose value is K50 million. The remainder of the purchases is standard rated for VAT purposes.

(3) Closing inventory includes inventory valued at a cost of K1 million instead of the net realizable value of K750,000.

(4) Bad debts were written off on 31 December 2022. The figure consists of three (3) invoices of K1 million each in respect of which payment was due on 31 March 2021, 25 June 2021 and 1 November 2021 respectively. The figures are VAT inclusive.

(5) Overheads are all standard rated supplies and the amount shown is VAT inclusive. An amount of K44 million for depreciation is included in the overheads.

(6) The figure for miscellaneous expenses is made up of:

	K'000
Telephone bills	9,400
Diesel	20,300
Technical services by a foreign company*	18,300
Total	48,000

*N.B. The foreign company has not appointed a tax agent in Zambia.

Unless stated otherwise, all the above figures are VAT exclusive.

On 31 December 2022, Purple Plc sold 400,000 ordinary shares it held in Eureka Ltd, a company that is not listed on the Lusaka Securities Exchange (LuSE). The market value of the shares in Eureka Ltd on that date was determined using the Net Asset Valuation method. The Commissioner-General (CG) agreed to this method of share valuation for the purposes of assessing property transfer tax (PTT).

The summarized statement of financial position of Eureka Ltd, as at 31 December 2022 was as shown below:

	K'000
Assets	
Non-current assets (carrying value)	8,340
Net current assets	1,716
Total assets	**10,056**
Equity and liabilities	
K1 ordinary shares	4,000
Reserves	3,640
Non-current liabilities	
6% loan notes	2,416
Total equity and liabilities	**10,056**

All assets were estimated to be realizable at their book value and the loan notes are redeemable at a premium of 5% in five years' time.

Purple Plc's tax adjusted profit figure before capital allowances and loss relief for the tax year 2022 was K50 million. The provisional tax paid was K13 million. At 1 January 2022, all assets, except a Mitsubishi Truck had income tax values (ITVs) of zero. The Mitsubishi Truck was purchased in August 2019 at a cost of K250,000 (VAT exclusive). During the year, Purple Plc incurred expenditure amounting to K1.044 million (VAT inclusive) on the construction of new administration offices for its Finance function and further incurred expenditure of K74,000 (VAT exclusive) on office furniture for the administration offices. On 5 November 2022, old office furniture was sold for K130,000 (VAT exclusive) which initially cost K145,000 (VAT inclusive). For the year ended 31 December 2021, the company incurred tax adjusted loss of K1.5 million.

SECTION A

Required:

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

(a) Identify and explain five (5) governance deficiencies. (10 marks)

(b) Provide recommendations to address each deficiency, to ensure compliance with good corporate governance principles. (5 marks)

(2) Advise the four (4) clients, with appropriate supporting computations, where relevant, of the tax treatment of matters given in the scenario. (16 marks)

(3) Calculate the final income tax payable by Mathews Mbonge for tax year 2022 and clearly explain what it relates to. (12 marks)

(4) With reference to the information given in respect of the briefing notes for ZiCA presentation, prepare briefing notes which clearly addresses the request by the ZiCA Council. (7 marks)

[Total: 50 Marks]

SECTION B

Required:

(5) Discuss the statement by the Managing Director (MD) of Kunda Ltd from a commercial point of view. (6 marks)

(6) Using the information regarding Purple Plc:

(a) Advise Purple Plc regarding the VAT treatment of the technical advisory services provided by a foreign company. (6 marks)

(b) Compute the VAT payable for the month of December 2022. (14 marks)

(c) Calculate the value of the 400,000 shareholding of ordinary shares, using the net asset valuation basis and calculate the amount of property transfer tax (PTT) arising on the disposal of the shares. (6 marks)

(d) Calculate the company income tax payable for the tax year 2022. (18 marks)

[Total: 50 Marks]

END OF PAPER

NON-AUDIT COMPETENCE PRACTICE EXAMINATION (CPE)

SOLUTION ONE

SECTION A

(1) Evaluation of professional and ethical issues

Professional and ethical issues	Evaluations	Action(s) to take
(1) Close business relationship with Bibi Ltd	The acquisition of a canteen which provides meals to Bibi Ltd's employees would create a significant self-interest threat to independence. Mukosha Associates would like to impress Bibi Ltd in order to protect this business relationship. In addition, Mukosha Associates may not have the required expertise or knowledge.	Given that the interest is significant, Mukosha Associates should not enter into the business relationship unless they resign as providers of non-audit services.
(2) Advertising in the company's magazine	Accountancy firms are allowed to advertise their services and products. However, the advertising medium should not reflect adversely on the member, ZiCA or the accountancy profession. It is also possible that the advert may fall short of regulatory or legislative requirements.	The Managing Partner should clearly explain the ethical implications to the Chief Executive Officer (CEO) and politely decline the offer.
(3) Understatement of pension provision	Members are required to behave with integrity in all professional and business relationships. Overlooking previous errors would be dishonest and the integrity of Mukosha Associates may be brought into serious question. Personal interest must not override integrity.	The matter must be reported to management and possibly those charged with governance so that the necessary corrections are made.
(4) Contingent fees	This will create a self-interest threat and	Given that contingent fees are a common feature in

	Mukosha Associates may deliberately fix high disposal values. This will be in direct conflict with the fundamental principles of integrity and professional behaviour.	liquidations, Mukosha Associates must engage experts to determine the disposal value.
(5) Suspected money laundering	The transaction appears to be an attempt by Mwangala to clean "dirty money". Mukosha Associates must not handle suspected proceeds of criminal activities. This is against professional and legal provisions. Professional behavior requires that members comply with relevant laws and regulations and avoid any conduct that discredits the profession.	Mukosha Associates must submit a report to the Financial Intelligence Centre (FIC). The report is referred to as a suspicious transaction report (STR). An STR should be submitted with the FIC within 3 working days after forming the suspicion. The STR should be submitted to the FIC by the designated compliance officer electronically through the FIC's STR portal.

[Award mark as follows:

Up to 2 marks for evaluation – Maximum 10 marks

1 mark for appropriate action – Maximum 5 marks]

(2) Mande Plc

(a) Accounting treatments

(i) **Inventory valuation**

According to IAS 2 *Inventory*, valuation of inventory must be at the lower of cost or net realizable value (NRV). Hence, the subsequent sale is considered to be an adjusting event as guided by IAS 10 *Events after the reporting period.* Fifteen (15) heavy duty vehicles out of a single class of twenty (20) heavy duty vehicles represent 75% (15/20 X 100%). The inventory amounts to K52,500,000 (K70,000,000 X 75%) and this was sold for K43,650,000 (K45,000,000 X 97%). Thus a large proportion of a class of inventory was sold at a loss after the reporting period. This would appear to give evidence of conditions that existed at 31 December 2021 i.e. that the net realizable value, thus this is an adjusting event. If it is estimated that the remaining inventory will be sold at similar prices and terms as that already sold, the net realizable value of the whole of the class of inventory would be calculated as:

K45,00,000/75% = K60,000,000 less commission of 3% =K58,200,000.

Thus the carrying amount of the inventory of K70,000,000 should be written down by K11,800,000 to its net realizable value of K58,200,000.

In the unlikely event that the fall in the value of the inventory could be attributed to a specific event that occurred after the date of the statement of financial position then this would be a non-adjusting event.

[Award marks as follows:

1 mark for reference to IAS 2

1 mark for reference to IAS 10

Up to 2 marks for adjustment of K11,800,000

1 mark for correct closing inventory value]

(ii) **Provisions**

Warranty claims

The provision must be calculated according to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* guideline. The provision for the product warranty claims should be calculated on an expected value basis at K29.325 million as follows:

Estimated repair costs	Probability	Expected value
K		K
0	0.65	0
1,320,000	0.20	264,000
2,150,000	0.15	322,500
Expected value of repair per heavy duty vehicle		586,500

Estimated provision for all the heavy duty vehicle = K586,500 X 50 vehicles = K29.325 million.

[Award marks as follows:

1 mark for reference to IAS 37

Up to 2 marks for computations

1 mark for correct provision]

Closure of division

The only item which can be included in the provision is the redundancy costs, measured at their actual amount of K52 million.

IAS 37 prohibits the recognition of future operating losses, staff retraining and profits on disposals of assets.

[Award marks as follows:

1 mark for reference to IAS 37

1 mark for recognition of actual redundancy costs

1 mark for non recognition of future operating losses, staff retraining and profits on disposal of assets]

(iii) **Accounting policy**

Amortization of intangible assets over their useful lives should reflect the pattern in which economic benefits are expected to be enjoyed by Mande Plc though straight line method is a default. Moreover, classification of intangible assets into indefinite life and finite life will determine whether the asset is subject to amortization. If Mande Plc classifies its intangible assets as indefinite life then no amortization will be required. However, if they are classified as finite life then they will need to amortise them. Thus the policy will only be in conformity with the provisions of IAS 38 *Intangible Assets*, when Mande Plc will only have intangible assets classified as indefinite life, in which case the impairment reviews must be done annually.

[Award marks as follows:

1 mark for reference to IAS 38

1 mark for default method

1 mark for classification

1 mark for amortization

1 mark for impairment]

(iv) **Impairment of loan (Financial instrument)**

The loan is a financial asset held at amortised cost under IFRS 9 *Financial Instruments*. Mande Plc wishes to value the loan at fair value. However, IFRS 9 states that the classification of an instrument is determined on initial recognition and that reclassifications, which are not expected to occur frequently, are permitted only if the entity's business model changes.

Financial assets are subsequently measured at amortised cost if both of the following apply.

- The asset is held within a business model whose objective is to hold the assets to collect the contractual cash flows.
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

All other financial assets are measured at fair value.

Mande Plc's objective for holding the debt instrument has not changed, and so it cannot measure it at fair value but must continue to measure it at amortised cost.

The impairment loss on the loan is calculated using the original effective interest rate as:

	Km	Km
Carrying value		29
Present value of future cash flows		
Year 1: K8m X 1/1.067	7.5	
Year 2: K8m X $1/1.067^2$	7.03	
Year 3: K8m X $1/1.067^3$	6.59	
		21.12
		7.88

DEBIT Profit or loss	**K7.88m**	
CREDIT Financial assets		**K7.88m**

[Award marks as follows:

1 mark for reference to IFRS 9

1 mark for reclassification

1 mark for conditions for amortised cost

1 mark for entity's business model changes

Up to 2 marks for computations

1 mark for appropriate entry]

(3) Njamba Youth Consortium (NYC)

(a) **Main risks and safeguards**

- Viruses – Memory sticks can transfer viruses between different PCs. To protect against this, NYC should ensure that up-to-date anti-virus software is installed on all its PCs, and all memory sticks are scanned for viruses before any data from them is loaded onto a PC.
- Stolen or lost – Memory sticks could be lost or stolen. This should be addressed by a copy of the final departmental report being saved on the departmental PC before it is transferred on the memory stick.

[Award marks as follows:

1 mark for each risk – Maximum 2 marks

1 mark for each safeguard – Maximum 2 marks]

(b) **Main advantages of unified database**

- Control over data and security – Storing all data on one network rather than having local repositories in each department should improve control over the data. For example, all the data can be backed up centrally, rather than relying on each department to back up its own data. Equally, standard templates for the department reports can be created on the network, which the department heads then fill in, thereby ensuring consistency in the way information is presented between departments.

- Transfer of information – This will significantly increase the ease with which information can be transferred between the departments and the office, and will reduce the risk of data (currently transferred on memory sticks) being lost.
- Data sharing – Under the new system, NYC's computers will be linked to the internet, which will make it easier to submit information to key stakeholders, such as the government.

[Award 2 marks for each benefit – Maximum 4 marks]

(c) **Advice on alternative to full IFRS and discontinuation of audit services**

In the Republic of Zambia, micro and small entities are those with an annual turnover of less than K20 million. These entities must use the Zambian Financial Reporting Standard for Micro and Small Entities, and do not require an audit.

Njamba Youth Consortium (NYC) qualifies as a micro and small entity since its turnover of K18 million is less than the threshold of K20 million. Hence, it can stop using the full IFRS and adopt the Zambian Financial Reporting Standard for Micro and Small Entities. This will definitely address the issue of information overload.

As already stated, the audit is not a requirement for micro and small entities and as such there will be no illegality in discontinuing audit services. However, in the interest of accountability and transparency, the trustees should consider replacing the audit engagement with a review engagement even if the level of assurance gained from it is not as high as from an audit engagement.

[Award marks as follows:

1 mark for K20 million threshold

1 mark for correct application to NYC

1 mark for valid advice]

SOLUTION ONE

SECTION B

(5) Rosette Plc

REPORT

To: Board of Directors – Rosette Plc

From: Senior Manager – Mukosha Associates

Subject: **Impact of corruption on Rosette Plc**

Date: December 2022

1.0 Introduction

This report has been written to clearly explain the impact of corruption on Rosette Plc.

2.0 Meaning of corruption

The Anti-Corruption Act 2010 states that "corrupt" means the soliciting, accepting, obtaining, giving, promising or offering of a gratification by way of a bribe or other personal temptation or inducement, or the misuse or abuse of a public office for private advantage or benefit contrary to section ninety-nine of the Penal Code and "corruption" shall be construed accordingly. Corruption is basically aimed at obtaining undue advantages of any kind for the people involved or for others.

3.0 Impact of corruption on Rosette Plc

The impact of corruption on Rosette Plc may be summarized as follows:

- **Legal risks** – corruption is illegal and it is considered as a criminal offence. The employees involved could be imprisoned upon conviction. The employees could be key employees for Rosette Plc and this could affect its operations adversely.
- **Reputational risks** – Rosette Plc could be exposed to serious reputational risks and most stakeholders, including potential investors may not want to be associated with the company.
- **Financial costs** – corruption adds upwards to the cost of doing business and this undermines business performance.
- **Pressure to repeat offence** – it is possible that Rosette Plc may be experiencing repeat demands for corruption and the amounts demanded could be increasing. This could be having a negative impact on profitability.
- **Blackmail** – By engaging in corrupt practices, Rosette Plc's employees expose themselves to blackmail. Hence, the security of the company's employees and other assets are put at risk.
- **Impact on staff** – unethical behavior may erode staff loyalty to Rosette Plc and it can be difficult for staff to see why high standards should be applied within the company when it does not apply in the company's external relations. As a result, internal trust and confidence may be eroded.

4.0 Conclusion

Corruption is inherently wrong as it undermines the integrity of all involved and may significantly damage Rosette Plc's operations and reputation. The reality that laws making corrupt practices criminal may not always be enforced is no justification for accepting corrupt practices. To fight corruption in all its forms is simply the right thing to do.

[Award marks as follows:

Up to 2 marks for presentation

Up to 2 marks for introduction

Up to 2 marks for each impact – Maximum 12 marks

Up to 2 marks for conclusion]

(5) Buffalo Academy

(a) **Link between IASs/IFRs and IPSAS, and major differences between financial statements**

The International Public Sector Accounting Standards Board (IPSASB) policy is to **converge** the accrual basis IPSASs with IASs/IFRSs issued by the International Accounting Standards Board (IASB) where appropriate for public sector entities. **Departure** from the equivalent IAS/IFRS occurs when requirements or terminology in the IAS/IFRS are not appropriate for the public sector, or when inclusion of additional commentary or examples is necessary to illustrate certain requirements in the public sector context.

The **major differences** between the financial statements of a public sector entity and the financial statements of a profit-making entity are as a result of the difference in the requirements for IAS 1 *Presentation of financial statements* and IPSAS 1 *Presentation of financial statements*. These differences include:

- The financial statements prepared under IPSAS 1 compared to IAS 1 is that the statement used to report on financial performance is known as the "Statement of performance" which reports the surplus or deficit for the year, rather than as "Statement of profit or loss as per IAS 1. This difference reflects the fact that the main aim of a public sector entity is to deliver services to the public rather than to make profits and generate a return on equity for investors
- Although IPSAS 1 allows for other formats for the statement of financial position, the illustrative example given in IPSAS 1 arranges the statement so that assets less liabilities equity (capital). Under IAS 1, the statement of financial position is usually arranged as assets equal equity plus liabilities.
- The equity/net assets section of an statement of financial position prepared under IPSAS 1 is often different to that seen in the equity section of a statement of financial position prepared under IAS 1 due to the absence of share capital. Net assets/equity is made up of amounts contributed by the other entities (for example, taxes), less amounts used to deliver services or to fulfil the entity's other objectives.
- Under IPSAS1, there is a requirement to include a comparison of budget and actual amounts in the financial statements where the entity makes its approved budget publicly available. This comparison can be presented either as a separate additional financial statement or as a budget column in the financial statements,

or by disclosing that the budgeted amounts have not been exceeded, or it there are any instances where this is not the case, adding a footnote to the financial statements.

[Award marks as follows:

1 mark for IAS 1 & IPSAS 1

1 mark for reference to IPSASB policy on convergence

1 mark for accrual IPSAS

1 mark for departure

1 mark for additional commentary

1 mark for public sector examples

Up to 2 marks for each major difference – Maximum 6 marks]

(b) **Accounting treatments**

- IPSAS 17, *Property, Plant and Equipment* states that the cost of an item of property, plant and equipment shall be recognized as an asset if, and only if:

  • It is probable that future economic benefits or service potential associated with the item will flow to the entity; and
  • The cost or fair value of the item can be measured reliably.

  In this case, the specialist military equipment meets the criteria and Buffalo Academy must recognize the specialist military equipment in the statement of financial position at a cost of K32.5 million, the refundable purchase taxes must be excluded. In addition, since it is possible that the major spare parts and stand-by servicing equipment can only be used in connection with specialist military equipment, they must also be accounted for separately as property, plant and equipment. The capitalised amounts for spare parts and stand-by servicing equipment will be K2 million and K5 million respectively.
  The carrying amounts should be depreciated over the assets useful lives.

[Award marks as follows:

1 mark for reference to IPSAS 17

1 mark for meets criteria

1 mark for K32.5 million

½ mark for K2 million

½ mark for K5 million

1 mark for depreciation]

- IPSAS 23 *Non-Exchange Transactions* states that revenue should be recognized when control has passed to the receiving entity, on the basis of information which is sufficiently reliable. However, for transactions where the recipient entity considers that the donor/grant-giver has imposed conditions, 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. Hence, if the K120 million has been spent according to the agreement, the amount must be accounted for as revenue and if not, a liability must be created as guided by IPSAS 19 *Provisions*.

[Award marks as follows:

1 mark for reference to IPSAS 23

1 mark for control

1 mark for revenue if condition met

1 mark for liability if condition not met (IPSAS 19)]

- According to IPSAS 17 *Property, Plant and Equipment* non-operational heritage assets' future economic benefit or service potential is limited to their heritage characteristics. The recommended accounting treatment is that non-operational heritage assets shall not be recognised, however the Financial Statements shall disclose the description of non operational heritage assets held by the entity. Hence, Buffalo Academy should simply disclose the non operational heritage assets.

[Award marks as follows:

1 mark for reference to IPSAS 17

1 mark for limited to their heritage characteristics

1 mark for disclosure]

- IPSAS 31 *Intangible Assets* states that development costs shall be capitalised only if all the following can be demonstrated:
    - Technical feasibility and the intention to complete the asset for sale or use

- Availability of resources to complete the development
- Ability and intention to complete the asset and either use it or sell it ability to generate future economic benefits or service potential
- Ability to reliably measure the expenditure attributable to the development of the intangible asset.

If all these conditions are met, then the development cost of K4 million must be capitalized and if not, it must be expensed.

[Award marks as follows:

1 mark for reference to IPSAS 31

½ marks for each criterion – Maximum 2 marks

1 mark for capitalization or expense as appropriate]

(c) **Going concern assessment considerations for public sector entities**

In assessing whether the going concern assumption is appropriate, those responsible for the preparation of financial statements take into account all available information about the future, which is at least, but is not limited to, twelve months from the approval of the financial statements.

Assessments of the going concern assumption in the public are not solely predicated on solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the entity is nonetheless a going concern. For example, an assessment of its statement of financial position at the reporting date may suggest that the going concern assumption is not appropriate. However, there may be multi-year funding agreements or other arrangements in place that will ensure the continued operation of the entity.

Cessation of a public sector entity is most likely to result from a government policy decision. As long as this is not the case with Buffalo Academy, the entity could be considered as a going concern, even if it operates with excess of liabilities over assets.

[Award marks as follows:

1 mark liquidity/solvency test

1 mark for non-financial factors

1 mark for government policy

1 mark for appropriate conclusion]

NON-AUDIT COMPETENCE PRATICE EXAMINATION (CPE)

SOLUTION TWO

SECTION A

(1) Filimina Ltd

(a)&(b)

Governance deficiencies	Explanations	Recommendations
(1) The Board of Directors (BOD) consists of equal numbers of EDs and NEDs, including the Chairperson	Best governance practice requires the need to reduce unfavourable balance of power towards the EDs. If the Chairperson is also counted as a NED, then the EDs may dominate decision making as Chairperson must normally exercise impartiality.	The BOD should consist of half independent NEDs excluding the Chairperson – an additional NED must therefore be appointed.
(2) The Board Chairperson is a former Director of Finance for Filimina Ltd who retired a year ago	The Board Chairperson is expected to provide a detached and objective view of board decisions. In addition, he is expected to provide shareholders with an independent voice on	To reduce accusations of self-interest and self review threats, an independent NED with no previous connection with Filimina Ltd should be appointed Chairperson of the board.

	the board. In this case, the Board Chairperson may be faced with serious self-interest and self-review threats, which may undermine his independence and objectivity. He may not demand proper accountability.	
(3) The CEO recently joined the company after his contract with the National Electricity Company was terminated	The reasons for the termination of the contract are not given. If it involves wrong-doing, then this could result in serious reputational risks for Filimina Ltd.	It will be important to ascertain the reason for the termination of the contact. In addition, there is an urgent need to change the Articles of Association so that the Nomination Committee plays a major role in all board appointments.
(4) Filimina Ltd has no senior independent director as it is considered irrelevant	A senior independent director plays critically important roles in a number of situations, including the following: • Address matters of concern with shareholders which cannot or should not be dealt with through the normal channels. • Act as a sounding board for the Chairperson • Leading the evaluation of the Chairperson The absence of a senior independent director is therefore a	One NED should be appointed as senior independent director. The roles of the senior independent auditor should be set out in writing.

	significant deficiency, which is clearly apparent, especially when the board is undergoing stress.	
(5) The CEO holds a non-executive position on the Board of Directors (BOD) of Natwange Associates (NA) while the Managing Partner holds a non-executive position on the Board of Directors (BOD) of Filimina Ltd.	Cross directorships could undermine the NED independence in that a director reviewing performance of a colleague who, in turn, may play a part in reviewing his or her own performance, is a clear conflict of interests. Neither director involved in the arrangement is impartial and so temptation would exist to act in a manner other than for the benefit of the shareholders of the company on whose board they sit.	Cross directorships are explicitly forbidden by the Zambia Institute of Chartared Accountants (ZiCA) and many corporate governance codes of best practice. Hence, the directors in question must resign from one of the directorship.
(6) The performance evaluation is conducted by the internal auditors	The internal auditors may lack the required objectivity and experience. Hence, the evaluation results may not be reliable.	Filimina Ltd should use an independent external third party to conduct the evaluation since this will bring objectivity to the process.

[Award marks as follows:

½ mark for identification of each deficiency – Maximum 2 ½ marks

Up to 1 ½ marks for each valid explanation – Maximum 7 ½ marks

1 mark for each valid recommendation – Maximum 5 marks]

(2) Tax advice for four (4) clients

Client one

The client must register for turnover tax since the business income does not exceed the K800,000 threshold. The turnover tax for the shop will be K13,000 (K325,000 X 4%). However, the rental income will be taxed separately at 12.5% since the rental income exceeds the K800,000 threshold. The turnover tax on the rental income will be K122,500 (K980,000 X 12.5%).

[Award marks as follows:

½ mark turnover tax registration

½ mark for K800,000 threshold

1 mark for computation of turnover tax on turnover for the shop

1 mark for computation of turnover tax on rental income]

Client two

Anti-avoidance rules exist in respect of the deductibility of interest expense. Interest expense in excess of 30% of Tax EBITDA is disallowed and carried to the next year. In this case, 30% of the Tax EBITDA = K34,600,000 X 30% = K10,380,000. Hence, K1,920,000 (K12,300,000 – K10,380,000) of the interest expense will be disallowed. The unrelieved interest (disallowed interest) will be carried forward. Maximum carry over period is five (5) years.

[Award marks as follows:

½ mark for tax treatment

1 mark for computation of allowed amount

1 mark for computation of disallowed amount

½ mark for carry-over of unrelieved disallowed amount]

Client three

Exporting the goods to a group company at marginal cost plus 50% profit mark-up will reduce Zambian trading profits and hence Zambian company income tax.

A true market price will therefore have to be substituted for the actual transfer price used. The market price will be an arm's length one that would be charged if the parties to the transaction were independent of each other. This price will be the market price at which the company normally sells the goods on the open market. In this case, it is the full production cost plus 20% profit mark-up.

The company will be required to make the adjustment in its self-assessment income tax return. The adjustment would involve adding back to the trading profit the difference between the market price of K3,840,000 (**W**) and the actual transfer price used of K3,750,000. The amount of profit to be added back will be K90,000 (i.e. K3,840,000 – K3,750,000).

Working (W)

		K
Marginal cost	K3,750,000/1.50 =	2,500,000
Plus fixed production cost		700,000
Full production cost		3,200,000
Add profit mark-up K3,200,000 X 20%		640,000
Market price		3,840,000

[Award marks as follows:

Up to 2 marks for tax treatment

Up to 2 marks for correct market price

1 mark for self-assessment

1 mark for correct amount of profit to be added back]

Client four

The Income Tax Act makes provision for dealing with disputes arising from assessments and determinations as follows:

Within 30 days of the issue of an assessment, a taxpayer may notify the Commissioner-General (CG) of their objection in writing. Beyond this period, the objection will be considered late. The CG may make a determination either allowing or disallowing a late objection. If they decline, the taxpayer may appeal to the Tax Appeals Tribunal (TAT) on the grounds that the CG's determination was unreasonable. The CG is required to inform the taxpayer of their decision regarding the objection.

If the taxpayer is dissatisfied with the CG's decision, they may, within 30 days of the CG's notice, lodge an appeal with the Tax Appeals Tribunal (TAT).

The Appeal may be on a point of law or fact or both.

Where either party to the dispute is not satisfied with the decision of the Tax Appeals Tribunal (TAT), they may appeal to the Supreme Court which is the highest court in Zambia. The appeal to the Supreme Court shall not be on a point of fact, but only on a point of law.

Client four can therefore notify the CG of their objection in writing, if this has not been done. It is possible that an appropriate settlement could be reached. If they have already notified the CG and are not satisfied with the CG's decision, the client must, within 30 days of the CG's notice, lodge an appeal with the TAT.

If the client is not satisfied with the TAT's decision, the client may appeal to the Supreme Court on a point of law only. The advice by the Audit Committee Chairperson may not be in the best interest of the client and could be ignored.

[Award marks as follows:

1 mark for reference to the Income Tax Act

1 mark for objection within 30 days, in writing, to ZRA

1 mark for appeal to Tax Appeals Tribunal (TAT) within 30 days

1 mark for appeal to Supreme Court]

(3) Mathews Mbonge

Personal Income Tax Computation for the tax year 2022

Employment Income		**Marks**
	K	
Salary	550,000	½
Housing allowance (K550,000 X 30%)	165,000	1
Life insurance premiums (K550,000 X 5%)	27,500	1
Income from share options (K3.50 – K2.25) X 40,000	50,000	1

Investment income

Copyright royalties (K25,500 X 100/85)	30,000	1
Taxable income	822,500	

Income tax	K	
K822,500		
(K54,000) X 0%	0	½
K768,500		
(K3,600) X 25%	900	½
K764,900		
(K25,200) X 30%	7,560	½
K739,700		
(K739,700) X 37.5%	277,388	1
0		
Income tax liability	285,848	
Less tax already paid		
PAYE	(274,598)	½
WHT on Copyright Royalties (K30,000 X 15%)	(4,500)	½
Final income tax payable	6,750	1

The final income tax payable of K6,750 is simply the additional income tax on the Copyright Royalties [K30,000 X (37.5 – 15)% = K6,750]. Other taxes were correctly paid under PAYE system. 3 marks

(4) Zambia Institute of Chartered Accountants (ZiCA) briefing notes

Briefing notes

To: Managing Partner

From: Senior Financial Advisor

Re: Suspicious transaction reporting and independent testing

Introduction

The following notes give details on suspicious transaction reporting and independent testing.

Suspicious transaction reporting

A firm is required to submit a report to the FIC were it has reason to believe or suspect that a transaction is linked to ML/TF/PF. The report is referred to as a suspicious transaction report (STR). A STR should be submitted with the FIC within 3 working days after forming the suspicion. The STR should be submitted to the FIC by the designated compliance officer electronically through the FIC's STR portal. The FIC has issued a prescribed STR form that a compliance officer should use to report STRs. The STR form can be downloaded from this link: https://www.fic.gov.zm/reporting.

Independent testing

The FIC Act requires firms to subject their internal AML/CTPF measures to independent audit. The objective of the audit is to review and verify the effectiveness of the measures implemented in accordance with the law. The independent audit should be undertaken by someone not responsible for the implementation of the compliance programme. In this regard, the firm's designated compliance officer should not undertake the audit of the compliance programme. Independent auditors can be sourced internally or externally as long as they possess the requisite knowledge, skill and are independent from the daily management of the compliance programme. The frequency, scope and intensity of the independent audit will vary based on the risk profile, changes to the business and findings from previous audits.

The FIC has issued guidelines on independent audit that can be found on this link: https://www.fic.gov.zm/reporting

Conclusion

The above notes should give a general guide on the presentation. It will be important to add a few practical examples so that the audience gets value for money.

[Award marks as follows:

1 mark for presentation

1 mark for introduction

1 mark for each valid point on suspicious transaction reporting – Maximum 2 marks

1 mark for each valid point on independent testing – Maximum 2 marks

1 mark for conclusion]

<u>SOLUTION TWO</u>

<u>SECTION B</u>

(5) Discussion of the statement by the MD of Kunda Ltd

The statement by the MD of Kunda Ltd could be discussed from two perspectives – Kunda Ltd's perspective and Natwange Accountants (NA)'s perspective.

Kunda Ltd's perspective

In the modern business environment competition is stiff. In an effort to boost profitability it is possible that Kunda Ltd could be pursuing a generic strategy of cost leadership, which involves cutting costs of production/service and in turn cutting selling prices. The cost of accountancy services may not be an exception.

Natwange Accountants (NA)'s perspective

NA may also be faced with stiff competition and the Managing Partner is prepared to treat the engagement as a loss leader in the hope of attracting more lucrative engagements in future. However, NA must do this without compromising its professional independence or its standards of quality.

Conclusion

The MD of Kunda Ltd's statement makes commercial sense and there may be need for Natwange Accountants (NA) to seriously consider lowballing for the engagement since it may open doors for other more profitable opportunities.

[Award marks as follows:

Up to 2 marks for Kunda Ltd's perspective

Up to 2 marks for Natwange Accountants' perspective

Up to 2 marks for conclusion]

(6) Purple Plc

(a) **Advice regarding the VAT treatment of the technical advisory services provided by a foreign company**

Since the foreign company has not appointed a tax agent, reverse VAT charge will apply. Reverse VAT is a transfer of liability to account for and pay Value Added Tax (VAT) on imported services from the person making the supply ("the supplier") to the person receiving the supply ("the recipient").

Purple Plc must calculate reverse VAT as output VAT. The reverse VAT cannot be recovered as input VAT.

This is an anti-avoidance tax legislation meant to level the playing ground for both foreign companies and local companies. Reverse VAT can be avoided by the foreign company appointing a tax agent who will act on behalf of the foreign company in invoicing the recipient of the service in Zambia.

[Award marks as follows:

1 mark for no tax agent

1 mark for reverse VAT charge

1 mark for definition of reverse VAT

1 mark for output VAT

1 mark for input VAT not recoverable

1 mark for anti-avoidance legislation]

(b) Purple Plc

Computation of VAT payable for the month of December 2022

	K'000	K'000	Marks
Output tax			
Standard rated supplies (W1) K226 million X 16%		36,160	2
Zero rated supplies K30 million X 0%		0	1
Reverse VAT charge K18.3 million X 16%		2,928	2
		39,088	
Input tax			
Standard rated purchases (W2)	26,320		1
Bad debts relief K2 million X 4/29	276		2
Overheads (K74 million – K44 million) X 4/29 X 80%	3,310		3
Diesel (Zero rated)	0		1
		(29,906)	
VAT payable		9,182	2

Workings

1. Standard rated supplies

80% X K320 million – K30 million = K226 million

2. Standard rated purchases (K214.5 million – K50 million) X 16% = K26.32 million

(c) Calculation of the value of 40,000 shares on a net asset basis, as at 31 December 2022:

	K'000
Total assets as per statement of financial position	10,056
Less: Payable to loan note holders on redemption [K2,416,000 X 1.05]	(2,537)
Total value of equity	7,519

Valuation of each ordinary share: K7,519,000/4,000,000 = K1.88 per share

The value of 400,000 shares will therefore be:

400,000 X K1.88 = K752,000

The realized value of the shares will be taken to be K752,000 as this is higher than their nominal value K400,000. The amount of property transfer tax payable will therefore be:

K752,000 X 5% = K37,600

[Award marks as follows:

Up to 3 marks for the value of equity

1 mark for realized value

2 marks for correct PTT]

(d) Purple Plc

Computation of tax adjusted business profits for the tax year 2022

	K'000	Marks
Profit given	50,000	1
Add:		
Net balancing charge	26	(W1)
	50,026	
Less:		
Loss relief	(1,500)	1

Taxable income	48,526	2
Company income tax		
K48,526,000 X 30%	14,558	1
Less tax already paid		
Provisional tax	(13,000)	1
Company income tax payable	1,558	2

Working

(1) Computation of capital allowances

	Values	Capital allowances	Marks
	K	K	
Old Office Furniture			
Income tax b/fwd	0		½
Disposal value (restricted to cost)			
(K145,000 X 25/29)	(125,000)		1
Balancing charge	(125,000)	(125,000)	1
Mitsubishi Truck			
Income tax b/fwd (K250,000 X ¼)	62,500		1
Wear & tear allowance (K250,000 X 25%)	(62,500)	62,500	1
Income tax c/fwd	0		
New administration offices			
Cost 1,044,000 X 25/29	900,000		1
Wear & tear allowance			
(K900,000 X 2%)	(18,000)	18,000	1
Income tax c/fwd	882,000		
New Office Furniture			
Cost	74,000		½

Wear & tear allowance			
(K74,000 X 25%)	(18,500)	18,500	1
Income tax c/fwd	55,500		
Net Balancing Charge for tax year 2022		(26,000)	2

END OF SOLUTIONS