COMPETENCE PROFESSIONAL EXAM - NON-AUDIT

QUESTION ONE

SUGGESTED SOLUTIONS

1) With regard to the request to provide training on IPSAS

a) The difference between cash accounting and accruals accounting

Cash accounting is when expenditure is accounted for when paid and revenue accounted for when earned. Accruals accounting is where expenditure is accounted when incurred, not when earned, and revenue is accounted for when earned and not when received.

b) Advantages associated with accruals accounting

An increasing number of governments and intergovernmental organizations produce financial statements on the accrual-basis of accounting in accordance with IPSAS or IPSAS-similar standards. The advantages of applying accrual accounting include:

- The information contained in accrual accounting IPSAS financial statements is considered useful, both for accountability and for decision-making purposes.

- Financial reports prepared in accordance with IPSAS allow users to assess the accountability for all resources the entity controls and the deployment of those resources, assess the financial position, financial performance, and cash flows of the entity and make decisions about providing resources to, or doing business with, the entity.

- The current economic crisis and the severe fiscal constraints being experienced by many governments has underscored the need for governments to transparently report all their assets and liabilities. IPSAS facilitates the alignment with best accounting practices through the application of credible, independent accounting standards on a full accrual basis. It improves consistency and comparability of financial statements as a result of the detailed requirements and guidance provided in each standard.

- Accounting for all assets and liabilities improves internal control and provides more comprehensive information about costs that will better support results-based management.

2) In relation to Pembe Fisheries

a) STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31ST DECEMBER 2022

		(K'000)
OPERATING ACTIVITIES		
Profit before tax		440
Adjustments for:		
- Add back finance cost	50	
- Less gain on investment property	(60)	
- Increase in inventory (1,210 – 810)	(400)	
- Decrease in receivables (540 – 480)	60	
- Increase in trade payables (2,210 -65)	1,560	
- Loss on disposal of asset (wk 1)	90	
- Add back depreciation on PPE	280	

		1,580

Net cash inflow from operating activities		2,020
Interest paid	(50)	
Taxation paid (wkg (iii)	(60)	
	--------	
		(110)
INVESTING ACTIVITIES		
Purchase of PPE (wkg 1)	(1,440)	
Investment income (60 – 20)	40	
Proceeds on sale of asset (wkg 1)	150	

Net cash outflow from investing activities		(1,250)
FINANCING ACTIVITIES		
Loan repaid (430 -50)	(380)	
Dividend paid (1,310 + 280 – 1,440)	(150)	

Net cash out flow from financing activities		(530)

Net cash inflow during the year		130
Net cash b/d		(120)

Net cash c/d		10
		====

WORKINGS

i) Property plan and equipment ('000)

Balance b/d	1.860	Balance c/d	2,880
Revaluation	100	Disposals	240
Acquistions – bal	1,440	Depreciation –note (i)	280

Disposals account ('000)

Property	240	Loss – P/L note (i)	90
		Proceeds – bal	150

Revaluation reserve account ('000)

Balance c/d	150	Balance b/d	50
		PPE – bal	100

ii) Investment properties ('000)

Balance b/d	400	Balance c/d	420
Gain P/L	20		

iii) Taxation

Bal b/d	50	C/d	0
Bal c/d	150	Bal b/d	100
Taxation paid	60	P/L	160

b) **Comment on the movement of cash between the two years**

The cash position has improved from an overdraft or cash deficit of K120,000 in 2021 to a positive cash flow of K10,000 in 2022. The improvement in cash management may be attributable to:

- Net cash inflow from operating activities mainly from what appears to be more efficient working capital management with more credit secured with suppliers
- No additional financing during the year
- Investment in new assets was financed internally
- With no external financing, Pembe managed to repay part of the existing loan and still a dividend of K150,000)

3) In relation to Mr. Milos Jumbe

a) MILOS JUMBE
PERSONAL INCOME TAX COMPUTATION FOR THE YEAR 2022

	Total	Non- farming	Farming
	K	K	K
Profit from retail trade	1,084,305	1,084,305	
Trading loss b/f	(990,000	(990,000)	
	94,305	94,305	
Profit from farming	1,482.000		1,482,000
Income from property	0	0	0
	1,576,305	94,305	1,482,000
Less tax – free income	(54,000)	(54,000)	0
	1,522.305	40,305	1,482,000
Tax on non- farming income			
25% x K3,600	900		
30% x K25,200	7,560		
37.5% x K11,505	4,314		

	12,774		
Tax on farming income1			
10% x K1,482,000	148,200		

	160,974		
Less tax already paid			
Provisional income tax	(14,550)		
Final income tax payable	146,424		

b) Due date when this tax must be paid

The final income tax of K146,424 for the year 2022 should be paid not later than 21 June 2023, being the 21 June that follows the end of the tax year 2022

c) Revised tax implications of his rental income

The tax regime has been reformed with those in receipt of rentals of K800,000 and below per annum being charges at 4% per annum. Individuals and companies receiving rentals of K800,000 per annum will pay tax at the rate of 12.5%

Rental income has now been isolated as a separate source of income and will not be bundled with other income sources.

Expenses wholly and exclusively incurred on the property are no longer deductible as the tax is on the gross rental

Due Date
Rental income is accounted for on a monthly basis and is due by the 14^{th} of the following month in which the rental income is receivable

Accordingly, since Mr Jumbe's annual rental income is below K800,000 his rental tax for the year is K 2,880 (72,000 x 4%)

4) In relation to KMC

a) Ethical and other professional issues

b) Recommended action

	Ethical and professional issue	Action
1	**Best firms around – Self interest** Mr. Kalungwishi has lauded the firm as one of the best firms. This is misleading and may suggest that other firms are not good enough. All firms licensed by ZICA are deemed to have requisite competence and capability. This seeming innocent pleasantry may a generate a self-interest threat with the firm wishing to protect this reputation with Mr. Kalungwishi	Zadabwe & Co, while appreciative of the complement should remind the client of expected standards of all licensed firms and should not allow this apparent accolade to affect their objectivity
2	**"Fix" taxation issues – Tax evasion** The statement from Mr. Kalungwishi seems to suggest that their tax issues should be "fixed" anyhow – legally or otherwise	The client should be reminded that the firm can only help the client to explore legitimate tax avoidance opportunities. Otherwise the engagement should be declined

	While there is nothing against justifiable tax avoidance using prudent tax planning, tax evasion is illegal.	
3	**Familiarity threat** It would appear like Mr Chibwe and Mr. Kalungwishi are familiar with each from ZRA "times" through long association	This familiarity should be assessed and should it be found to be significant, Mr. Chibwe should not be allowed to be part of the team providing professional services to KMC
4	**Intimidation** Mr. Kalungwishi attitude towards the Accountant reeks of intimidation. It should be expected that the accountant should be provided with all the information considered necessary for accounting purposes. This also questions the integrity of Mr. Kalungwishi	It is very likely this threatening attitude can be extended to the firm. This situation should be considered carefully and if deemed to be significant, the firm should withdraw from providing professional services
5	**K15 million - Money Laundering** This appears an unusual deposit, both in terms of the amount and the fact that it was a cash deposit. Additionally, the movement of this cash within a period of 10 days is suspicious and may suggest money laundering. This is compounded by the fact that Mr. Kalungwishi does not wish to discuss it	The firm has an obligation under the Financial Intelligence Centre Act to report any confirmed suspicions of money laundering, failure to which the firm will be guilty of a crime and professional misconduct. The firm is also required to carry out suitable due diligence procedures before accepting to act for a prospective client

c) Possible sanction for Mary Mpuku

Firstly, it would be necessary to determine whether Mary as a registered accountant, is guilty of professional misconduct. According to the Accountants Act, where the Disciplinary Committee, after due inquiry, finds a registered accountant guilty of professional misconduct, it may impose one or more of the following penalties, that is to say it may-

(i) order the cancellation of her practising certificate or registration or ZICA membership

(ii) censure her;

(iii) caution her;

In addition, Mary may be found guilty for failure to exercise the obligation to report a suspicious money laundering activity in accordance with the Financial Intelligence Centre Act.

5) In relation to KMC

a) Total amount of royalty tax paid by KMC in the charge year 2022

Mining royalty tax relating to copper is valued at Norm value, based on a five tier system. The royalty is based on the copper produced and sold in a month at the rate determined by the price at which the copper was sold. The question has provided that the price varied at different times during the year. Accordingly, the royalty tax is computed as below:

DATE	PERIOD	SALES **(K'000)**	PRICE PER TONNE ($)	RATE	ROYALTY TAX **(K'000)**
1st Jan – 31st march	3 months	7,312	6,500	7.5%	548.400
1st April – 30th Aug	5 months	12,188	5,000	6.5%	792,188
1st Sept – 31st Dec	4 months	9,750	4,500	4.5%	438,750
Total royalty tax paid					**K1,779,338**

Tax treatment when computing taxable profits for the same year

Royalty tax is a deductible expense and is included in cost of sales

b) Calculation of the company income tax payable on the mining profits for the year 2022

KMC – Company tax payable for tax year 2022

	K'000
Profit before tax as reported	5,880
Add back	
- Depreciation	2,025
- Installation of street lighting	1,800

	9,705
Less	
- Dividend from Beta plc	(135)
- Capital allowances – working 1	(3,960)

Taxable mining income	5,610
	=====
Taxation at 30% (30% of 5,610)	1,683
Less provisional tax already paid	(1,409)

Taxation payable for 2022	274
	=====

1. Working of capital allowances

	K'000
Construction of boreholes (1,800 *20%)	360
Mining plant and machinery (11,625* 20%)	2,325
Other capital allowances - given	1,275

	3,960

COMPETENCE PRODESSIONAL EXAM - NON AUDIT

QUESTION TWO

SUGGESTED SOLUTIONS

1) In relation to SCARJ

(a) Ethical and other professional issues and (b) recommended action

	Ethical and other professional issue	Action
1	**ZRA meeting – Advocacy threat** According to ethical professional guidelines, attending a meeting with the client with another third party – in this case ZRA may constitute an advocacy threat where Manda & Co may be seen to be representing the client, thereby losing objectivity. There may be nothing wrong in attending this meeting purely in a professional capacity	It should be explained to Mr. Chabu that Manda & Co can only attend the meeting in its professional capacity and not to represent SCARJ. If this not accepted, then the invitation to attend the meeting should be declined
2	**Seeking another firm – Intimidation** Mr. Chabu had hinted that the appointment of Manda & Co is premised on the manager attending the meeting with ZRA. This constitutes intimidation	It should be explained to Mr. Chabu that Manda & Co cannot be coerced into accepting the appointment in any way. If Mr. Chabu insists on this course of action, then the assignment should be declined
3	**Disputed tax assessment – NOCLAR, possible errors** A disputed tax assessment may suggest that SCARJ has not complied with the applicable tax legislation, resulting in errors in the financial statements-i.e. tax expense and liability understated, as well as ensuing penalties and interest	Manda & Co should approach its work on the taxation transactions and balances with heightened professional skepticism to ensure that any errors are detected and properly corrected
4	**Sale of vehicle to a director – Integrity and possible error and fraud** This is a related party for which proper disclosures are required in accordance with IAS 24, Related Party Disclosures. If this is not done, it results in under disclosure. In addition, the fact that SCARJ intended to hide this from Manda & Co raises integrity questions, and also intention to commit fraud	Manda should ensure that IAS 24 disclosures are made. A discussion should be held as the motive behind the sale of the vehicle and the reason for not wanting to disclose this to Manda & Co. If the integrity concerns are considered significant, Manda & Co should withdraw from the assignment
5	**Self-interest threat - Purchase of desk and chair at half price (K575,000) – Gifts and hospitality** Purchase of the desk and chair at half price constitutes a gift equivalent to the discount, in this	Accordingly, Max should not have accepted the discount and should have checked with the manager on the assignment.

	case K575,000. In order to determine ethical question arising, the following should be considered • Motive behind the discount? • Is this level of discount extended to others? • How significant is it? It is not possible to determine the motive nor whether this is extended to others. However, K575,000 may be regarded as significant, especially for a junior accountant like Max. Whilst the professional guidelines do not out-rightly prohibit the exchange of gifts and other pleasantries, those considered significant should be declined	It should also be expected that Manda & Co have documented policies and procedures to guide the action of their members of staff.
6	**Loss of working paper – security and confidentiality** It is a professional requirement that a professional accountant should maintain the security and confidentiality of information obtained from the client to protect the relationship. The professional accountant is not permitted to share any information about the client without the client's permission in in specific exceptional circumstances permitted by the profession The rules of security and confidentiality have been breached, albeit accidentally	This issue should brought to the attention the SCARJ immediately and if there is need to report this matter to the police, this also should be done at the earliest opportunity. Manda & Co should take this opportunity to re-enforce security and confidentiality procedures around client information, especially where such information is expected to be used away from the client
7	**Questionable competence of Max – Professional competence** Professional guidelines prescribe that a professional accountant should not accept to undertake professional responsibilities for which they do not possess competence and capability. Max's competence has been questioned	It is possible that Max, as a junior will not possess the required level of competence and capability to deal with certain issues. However, there should adequate supervision and consultation procedures in place to deal with matters arising during the process of providing professional services It should have been expected that Max would refer certain matters to the manager instead of attempting to deal with them. Manda & Co should reinforce and explain such consultation procedures

2) In relation to SCARJ),

a) and b) Accounting treatment of various items and financial statements entries

1. The leased cutting and lathing machine

According to IFRS 16, Leases, a lessee recognizes an asset and liability at the inception of the lease based on the net present value of lease payment. Any direct costs related to the lease are capitalized as part of the cost of the asset. The asset is accounted for in accordance with IAS 16 – Property, Plant and Equipment - and amortization cost is applied to the liability

The figures to appear in the financial statements for the year ended 31 December 2022 are

Profit and Loss – working below	
	(K'000)
Finance cost	887
Statement of financial position – working below	
	(K'000)
Non- Current Assets	
Property and Machinery	
Cost	23,230
Less depreciation	(4,646)

Net book value	18.584
	=====
Non- current liability	
Lease obligation (18,617 – 5,000)	13,617
Current liability	
Lease obligation	5,000

Initial recognition

1. Record the right of use asset and lease liability
DR Right-of-use asset K22,730 million
CR Lease liability K22.730 million

2. Record the initial direct costs
DR Right-of-use asset K500,000
CR Cash K500,000

b) Right-of-use asset = 22.730 + 500 = 23.230 million

c) Subsequent measurement

Depreciate the asset over the earlier lease term of five years.
Expense (p.a.) = K23.230 / 5 = K4.646 million

d) Record finance lease payments and interest using the rate implicit in the lease

('000)

Year	B/f	Payment	Capital balance	Finance cost (5%)	C/f
1	22,730	-5,000	17,730	887	18,617
2	18,617	-5,000	13,617	681	14,298

ii) Constituency grant

According to IAS 20, Government grants, a grant can be accounted for either using the deferred credit method or deducting the grant from the cost of the asset. Since SCARJ has adopted the deferred credit method, the grant will be accounted as below

Figures to appear in the financial statements for the year ended 31 December 2022 are

Profit and Loss – working below

	(K'000)
Depreciation	25
Deferred credit	(12.5)

Statement of financial position – working below

	(K'000)
Non- Current Assets	
Property and Machinery	
Cost	500
Less depreciation	(25)

Net book value	475
	=====

Non- current liability
Deferred credit (250,000 less 12,500)   23.750

Workings

Initial recognition

1. Record the receipt of grant as a deferred credit
DR Bank K250,000
CR Deferred credit 250,000

2. Depreciate the asset over 20 years – 500,000/20
DR Depreciation expense K25,000
CR Accumulated depreciation K25,000

3. Amortise deferred credit over 20 years – 250,000 /20
   DR – deferred credit K12,500
   CR – Profit and loss   K12,500 to offset against depreciation

4 Subsequent measurement

Depreciate the asset over the earlier lease term of five years.
Expense (p.a.) = K23.230 / 5 = K4.646 million

iii) Defective desks

According to IAS 2 inventories, inventories should be valued at cost initially and then subsequently at the lower of cost and net realizable value

Figures to appear in the financial statements for the year ended 31 December 2022 are

Profit and Loss – working below

	(K'000)
Write down on desks	4.5
Write down on chairs	4.0

Statement of financial position – working below

	(K'000)
Current Assets	
Inventories (desks and chairs) (85,500 + 56.000)	141.5

Valuation

	Desks K'000	Chairs K'000
Selling price	750	400
Less gross margin	(150)	(100)
	--------	---------
Cost	600	300
	====	====
Net realizable value	750	400
Cost of reconstruction (30% of cost) original cost)	(180)	(120) (40% of
	-------	------
NRV	570	280
	===	====

In both cases, NRV will be lower than cost and therefore inventories should be valued at
NRV as follows

Quantity	150	200
	Desks K'000	**Chairs K'000**
Original cost – above	600	300
NRV – above	(570)	(280)
	------	------
Required write down per item	30	20
For the total desks	K4,500	K4,000
Restatement of inventories based on NRV	K85,500	K56,000

iv) Sale of motor vehicle to Mr Chabu

According to IAS 20, Related Party Disclosures. The following disclosure should be made in the financial statement

i) Existence of related party transactions

Sale of motor vehicle to the named director

ii) Names of related parties

In this case SCARJ and the named director, indicator that as a director, he has influence over SCARJ as he participates in decision making

iii) Related Balances reported in the financial statements

In this case indicating that an amount due from the named director is include in receivables

v) Contingent Asset

According to IAS 37, Provisions, Contingent Assets and Contingent Assets and Contingent Liabilities, a contingent liability should be provided for if it is assessed that it is certain or probable that SCARJ would be liable and the amount can be measured reliably. As the assessment is probable, a provision of K500,000 should be made

Figures to appear in the financial statements for the year ended 31 December 2022 are

Profit and Loss – working below

	(K'000)
Provision for legal costs	500

Statement of financial position – working below

	(K'000)
Current Liabilities	
Provision	500

3) In relation to Mr. Chabu

a) COMPUTATION OF WITHHOLDING TAX PAID IN THE TAX YEAR 2022

Dividends from KAGEM (K10,200 x 0%)	nil
Dividends from FFAN Ltd (K21,250 x 15/85)	3,750
Dividends from RADDISON Plc	nil
Fixed deposit Interest	nil
Royalties (K34,000 x15/85)	6,000
Interest from Government bonds (K42,500 x15/85)	7,500
Treasury Bill discounts (K12,750 x 15/85)	2,250
Tax payable	29,500

Apart from WTH on royalties, all others are regarded as final payments

b) MR CHABU

PERSONAL INCOME TAX COMPUTATION FOR THE TAX YEAR 2022

	K	K
Employment income		
Salary (K144,000 x 11/12)		132,000
Housing allowance		
(K144,000 x 20% x11/12)		26,400
Transport allowance		
(K144,000 x 5% x 11/12)		6,600
Education assistance allowance		
(K500 x 5 x 11)		27,500
Domestic utility		
(K400 x 11)		4,400
Accrued leave pay		3,000
		199,900
Less allowable deductions		
Donation to approved charity	3,000	
Capital allowances on motor car		
(K70,000 x 20%) x 40%	5,600	
Motor car running expenses		
(K5,000 x 11) x 40%	22,000	
		(30,600)
		169,300
Investment income		
Royalties		
(K34,000 x 100/85)		40,000
Total income		209,300
Income Tax		
K54,000 x 0%		nil
K3,600 x 25%		900
K25,200 x 30%		7,560
K126,500 x 37.5%		47,438
		55,898
Less tax already paid:		
WHT on royalties		
(K40,000 x 15%		(6,000)
PAYE		(43,498)
Tax payable		6,400

c) **Compute and discuss the accounting treatment for**

1. **NAPSA contribution for the tax year 2022**

NAPSA

Employees' contributions to the National Pensions Authority (NAPSA) and any other pension funds are not tax deductible when computing taxable employment earnings

Employer's NAPSA contributions are calculated at 5% of the employee's earnings subject to the social security contribution ceiling. Employer's contributions are also calculated at 5% of employee's earnings, again subject to the social security contribution ceiling

Gross earnings for the purpose of computing NAPSA contributions refer to any benefit given by an employer in exchange for the employee's service, including the basic salary plus all allowances, bonuses, commissions, overtime pay, leave pay, commuted leave days, severance pay etc.

Employee's NAPSA contributions are not deductible from the gross emoluments when computing the taxable emoluments, whilst the employer's NAPSA contribution made on behalf of the employee does not give rise to any taxable benefit on the employee.

For the year 2022, the earnings ceiling for the purposes of NAPSA contributions is K293,232 per annum (i.e K24,436 per month). This means that the maximum employee's NAPSA contribution for tax year 2022 is K14,661.60 per annum (i.e. 5% of K293,232) or K1,221/80 per month (i.e. 5% of K24,436) The maximum employer's contribution is also K14,661.60 per annum or K1,222.80 per month

For 2021 earnings based on 2022 rates

Earnings

		Kwacha
• **Total earnings above**		**199,900**
NAPSA @ 5%	**- employee**	**9,995**
NAPSA @ 5%	**- employer**	**9,995**

ii. **NHIMA contribution for the year 2022**

NATION HEALTH INSURANCE MANAGEMENT AUTHORITY (NHIMA) – contributions

Contributions to the National health Insurance Scheme or to any other medical or health scheme are not deductible when computing taxable employment earnings

The statutory employee's National Health Insurance Scheme Contributions (NHiSC's) or NHIMA contributions are calculated at the rate of 1% of the employee's monthly basic pay. The statutory employer's National Health Insurance Scheme Contributions (NHiSC's) or NHIMA contributions are also calculated at the rate of 1% of the employee's monthly basic pay.

Employee's NHIMA contributions are not deductible from the gross emoluments when computing the taxable emoluments, whilst the employer's NHIMA contribution made on behalf of the employee does not give rise to any taxable benefit on the employee.

The employer has a statutory obligation under the law to remit both the employees' NHIMA contributions deducted from the employer's earnings and the employer's contributions by the 10^{th} day following the end of the month in which the employee's earnings relate

For 2021 earnings based on 2022 rates

Earnings

		Kwacha
Total basic pay above		132,000
NAPSA @ 1%	- employee	1,320
NAPSA @ 1%	- employer	1,320