



**COMPETENCE PRACTICE EXAMINATION
NON-AUDIT PRACTISING CERTIFICATE**

JUNE 2023

TIME ALLOWED: 5 HOURS

INSTRUCTIONS TO CANDIDATES

1. This paper has Two Questions.
2. You are required to attempt ALL the two questions
3. Each question has Sections:
Question one has two sections: A and B
Question two has two sections: A and B
4. All the two questions carry equal marks.
5. The Examination is divided into sessions of 2¹/₂ hours each. There will be a 30 Minutes break in between the sessions.
6. Please use your Membership number and your National Registration Card number on the front of the answer booklet. Your name must NOT appear anywhere on your answer booklet.
7. This is an open book examination.

QUESTION ONE

ZADABWE & CO

Zadabwe & Co is a firm of Chartered Accountants registered with ZICA and it provides a range of non-assurance and related services such as accounting, taxation and advisory. Your name is Doubt Chibwe and you have recently joined the firm from the Zambia Revenue Authority where you worked for 10 years under the Commissioner of direct taxes. Mr Zadabwe, the managing partner of the firm particularly sought you out so that you could head the taxation department of the firm. Whilst at ZRA, you dealt with a lot of clients in the mining, retailing and farming sectors.

As a fellow of ZICA, you are also an accomplished trainer

For 2023, you are scheduled to handle the following assignments

- Zadabwe & Co – Training – introduction of IPSAS in Zambia
- Milos Jumbe – Tax consultation
- PEMBE FISHERIES (PF) - Bank loan - Preparation of cash flow statement
- Kalungwishi Mining Company Limited (KMC) – Mining Taxation

1. ZADABWE & CO

Your firm has recognized that with the expected adoption of International Public Sector Accounting Standards (IPSAS) within the government and non-governmental organisations in the very near future, it was important that the firm begins to follow these developments closely so as to be ready for any opportunities that might arise.

For starters, the firm has decided to be holding monthly forums at which these developments will be reviewed and discussed, including attending any such workshops conducted by ZICA. Recently, ZICA run a workshop on the adoption of IPSAS in Zambia and the firm sponsored you to attend this workshop. The firm has now asked you to share this information at the first forum, in particular touching on:

- (i) The difference between cash accounting and accruals accounting
- (ii) The key advantages of adopting IPSAS

2. MILOS JUMBE

Milos Jumbe

Milos retired from APPSA bank several years and used his retirement benefits to buy property, open up a retail shop in Chilenje and engage in fish farming of "Soya breams" which have become popular, especially in Chilenje and surrounding areas. He has continued to run his proprietary fishing business, whilst at the same time maintaining a stake in Pembe Fisheries, having a signed a memorandum of understanding with the company to protect the interests of both parties.

Mr. Jumbe has now approached your firm to assist with two issues

- Mr Milos Jumbe - Taxation liabilities for 2022 tax year

- Preparation of a cash flow statement for Pembe Fisheries

MR. MILOS JUMBE TAXATION LIABILITIES FOR 2022 TAX YEAR

Mr Jumbe has provided you with the following data relating to his proprietary business activities for the year 2022

	Rental income (K'000)	Soya Bream farming (K'000)	Retail shop (K'000)	Total (K'000)
Provisional tax paid 2022				14,550
Losses brought forward			990,000	990,000
Actual profits for 2022 – after capital allowances	72,000 (gross income)	1,482,000	1,084,305	2,638,305
Expenses	(21,750)	0	0	(21,750)0
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	50,250	1,482,000	1,084,305	2,616,555

Mr. Jumbe has provided that the ZRA had assessed his tax liability for the tax year at K146,424 He was not sure that the retail losses incurred in previous years and rental income expenses had been taken into account.

3. PEMBE FISHERIES - PREPARATION OF A CASH FLOW STATEMENT

Pember Fisheries applied for a loan from APPSA bank in 2021, submitting the following documents to support the application

- Audited financial statements
- Cash flow forecast

However, the bank now wants to compare the current cash flow statement with the forecast done previously to reconsider the loan application. Accordingly, Mr Jumbe has provided the following financial statements and accompanying notes to assist with the preparation of the cash flow statement

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31st DECEMBER,
2022**

	K'000
Revenue	5,740
Cost of sales	(4,840)

Gross profit	900
Operating costs	(470)

	430
Income from and gains on investment property	60

	490
Finance cost	(50)

Profit before tax	440
Income tax expense	(160)

Profit for the year	280
 OTHER COMPREHENSIVE INCOME	
Gains on property revaluation	100

	380
	=====

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	2022 (K'000)	2021 (K'000)
Assets		
Non-current assets (note i)		
Property, plant and equipment	2,880	1,860
Investment property	420	400
	-----	-----
	3,300	2,260
Current assets		
Inventory	1,210	810
Trade receivables	480	540
Income tax asset	0	50
Bank	10	0
	-----	-----
	1,700	1,400
	-----	-----
Total Assets	5,000	3,660
	=====	=====

Equity and Liabilities

Equity shares at 20 ngwee each	1,000	1,000
Revaluation reserve	150	50
Retained profits	1,440	1,310
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	2,590	2,360

Non-current liabilities

6% loan notes	50	430
	-----	-----
	2,640	2,790

Current liabilities

Trade payable	2,210	650
Bank overdraft	0	120
Current tax payable	150	100
	-----	-----
	2,360	870
	-----	-----
Total equity and liabilities	5,000	3,660
	=====	=====

The following supporting information is available:

(i) Non-current assets

An item of plant with a carrying value of K240,000 was sold at a loss of K90,000 during the year. Depreciation of K280,000 was charged (to cost of sales) for property, plant and equipment in the year ended 31st December 2022.

PFL uses the fair value model in IAS, 40 Investment Property. There were no purchases or sales of investment property during the year

(ii) Pembe Fisheries paid a dividend during the year

4. KALUNGWISHI MINING COMPANY LIMITED (KMC)

KMC is a small Zambian mining company that was licensed to start copper mining operations at Mbuva-Chibolele in late 2017

The Mbuva-Chibolele license is located on the Fwaya-Fwaya–Pirala Belt in the NRERA within the Kafubu area of the Copperbelt Province of Zambia, on the southern banks of the Kafubu River. It lies along the west-southwest strike from the nearby Fwaya-Fwaya copper mining zone adjacent to the Kagem license area. This pit was kept under care and maintenance from 2007 onwards so as to focus on operations at Kagem. However, following the ushering in of the UPND government, a decision was made to expand the area’s copper footprint and, accordingly, the award of new mining licenses at Mbuva- Chibolele were resumed in late 2017 and Mr. Kalungwishi was one of the beneficiaries

In the process of reviewing documentation relating to KMC, you came across a letter from Mr Kalungwishi to Mr Zadabwe, which stated

" My company is very privileged to be associated with your firm. I think your services are exemplary and clearly you should be one of the best firms around. I am aware that Mr Chibwe has joined your firm from ZRA. I do remember running into him on several occasions and I hope that he will help us to "fix" our tax burden. On top of the royalty tax that we have to pay every month, we are still expected to pay other taxes. I have asked our Accountant Mary Mpuku to prepare required information for you to help us with the computation of our tax obligations for the tax year 2022.

The letter jogged your memory and you now recall that you had actually dealt with KMC and Mr. Kalungwishi on several occasions.

Extracts from financial statements for KMC for year ended 31 December 2022
K'000

Revenue (Note 1)	29,250
Cost of sales (note 2)	13,672

Gross profit	15,578
Irrecoverable trade-debts written off	1,275
Gifts of KMB Calendars costing K100 each	188
Installation of street lighting	1,800
General expenses	6,300
Dividends from Beta plc – listed on LUSE	135

Profit before tax (note 3)	5,880

Notes

1. Revenue represents the norm value of the copper sold during 2022.

The price of copper fluctuated during the year as follows:

Dates	Price per tonne (\$)
1 st January – 31 st march 2022	\$6,500
1 st April – 30 th August 2022	\$5,000
1 st September – 31 st December	\$4,500

Production and sale of copper was evenly generated throughout 2022

Royalties were properly computed and paid on due dates

2. Cost of sales includes
 - i) Royalty taxation paid
 - ii) Depreciation of K2.025 million charged on capital assets
3. KMC paid provisional tax of K1,409 million in advance of the taxation liability for 2022.

When you asked for bank statements to confirm this payment, you noticed a cash deposit and withdrawal of K15 million in cash within 10 days. When you enquired about this cash movement, Mary Mpuku the accountant, indicated that Mr. Kalungwishi had warned her not to discuss it with anyone. Mary is a licentiate accountant registered with ZICA

Capital Expenditure

The company purchased various mining plant and machinery at a cost of K11.625 million in January 2022. All these were immediately brought into use. Mary has provided that in addition to these capital acquisitions, capital allowances on other assets for the year 2022 have been determined to be K1.275 million relating to the construction of community schools and healthy centres

REQUIREMENTS

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

- a) Explain the difference between cash accounting and accruals accounting (2 marks)
- b) Describe 4 advantages associated with accruals accounting (8 marks)

2) In relation to Pembe Fisheries

- a) Prepare a cash flow forecast for Pembe Fisheries for the year ended 31 December 2022 (20 marks)
- b) Comment on the movement of cash between the two years (8 marks)

3) In relation to Mr. Milos Jumbe

- a) Prepare a computation of the final amount of income tax payable by Mr Jumbe for the tax year 2022 (15 marks)
- b) State the due date when this tax must be paid (2 marks)
- c) Advise the revised tax implications of his rental income (6 marks)

4) In relation to KMC

- a) Evaluate FIVE potential ethical and professional issues arising from the assignment (10 marks)
- b) Recommend an appropriate action for each issue (10 marks)
- c) Discuss whether Mary Mpuku, the accountant is liable to face sanctions from ZICA for "keeping-quiete" about the K15 million (5 marks)

5) In relation to KMC

- a) Compute the total amount of royalty tax paid by KMC in the charge year 2022 and clearly explain the tax treatment when computing taxable profits for the same year (6 marks)
- b) Calculate the company income tax payable on the mining profits for the year 2022 (8 marks)

QUESTION TWO

MANDA & CO

You are a manager in Manda & Co, a firm specialized in the provision of accounting, taxation and other advisory services, excluding auditing. Your firm is based in Ndola with an office in Solwezi and Kitwe

Following the increase in the level of constituency funds and the requirement for these funds to be utilized locally a number of small to medium size companies around the country have geared up to seize this opportunity to “dip” into the funds. Two of these companies are Solwezi Carpentry and Joinery Limited (SCARJ) and Kalewa Construction Works (KCW).

You aware that strict qualification criteria in selecting suppliers and contractors is now being enforced relating to competitive price, quality and speed of delivery. Contractors and suppliers are required to demonstrate that they produce annual financial statements that comply with the recommended ZICA reporting framework supported by adequate accounting records. In addition, these companies are required to be tax compliant as supported by a current tax clearance certificate

In the current year you have been assigned to the following engagements:

- Solwezi Carpentry and Joinery Limited (SCARJ) - Accounting services
- Mr. Chabu – Taxation services
- Kalewa Construction Works (KCW) – Taxation service and purchasing procedures

SOLWEZI CARPENTRY AND JOINERY LIMITED (SCARJ)

As a Local Sowezi Company, SCARJ is committed to enhancing education by producing properly designed and functional educational desks and computer furniture.

Mr Chabu Chabu incorporated SCARJ in 2021, anticipating great demand for school desks following the introduction of free education in Zambia. From humble beginnings in a rented workshop in east Solwezi, came a desk and chair manufacturing company that has proved to be a trailblazer. Mr. Chabu used his redundancy benefits to set up SCARJ

Mr. Chabu has approached your firm to provide accounting services relating to the year ended 31st December 2022. SCARJ has one semi-qualified accountant who is able to compile financial statements based on full IFRS. However, SCARJ needs assistance relating to the accounting treatment relating to the following transactions that occurred during the year

i. The leased cutting and lathing machine

In order to expedite its process of manufacturing desks, Mr Chabu approached Solwezi Saw Mills to lease a wood cutting machine which Mr. Chabu knew was excess to the requirements of Solwezi Saw Mill company. The terms of the lease were as follows:

Commencement of the lease	:	1 st January 2022
Lease term	:	5 years
Useful economic life of machine	:	15 years
Annual lease payments	:	K5 million payable in advance
First payment	:	1 st January 2022
Present value of minimum lease payments	:	K22.730 million
Direct costs incurred	:	K500,000

ii. Constituency grants

The Solwezi District Council finance committee approved a grant of K250,000 to be provided to SCARJ to assist with the purchase of a delivery truck that was purchased on 1 January 2022 at a total cost of K500,000. The useful economic life of the truck is 20 years with no residual value.

The condition of the grant was that the truck was used to deliver school furniture to schools in Solwezi.

SCARJ uses the deferred credit method of accounting for grants

iii. Defective desks

During the month of December 2022, SCARJ received returned 150 desks and 200 chairs assessed to be "not fit for purpose" according to the headmaster of Falungu primary school. The desks were sold at K750,00 each and the Chairs were sold at K400 each. SCARJ makes a margin of 20% on the sale of desks and 25% on the sale of chairs

It is now anticipated that the cost of reconstruction will be approximately 30% of the original cost of making the chair and 40% of the original cost of the desk. It is anticipated that once the reconstruction is done, the desks and chairs can be sold at the original selling prices

iv. Sale of motor vehicle to Mr Chabu

SCARJ sold a motor vehicle to one of its directors on 1st January 2022 at half price of its carrying value. The amount is still included in receivables as at 31st December 2022

v. Contingent liability

During 2022, one of the employees cut his finger whilst cutting the timber to be used for the construction of desks. The employee sued SCARJ for damages amounting to K500,000. Legal opinion sought suggested that it was probable but not certain that SCARJ would be liable.

Additionally, Mr. Chabu has requested your firm to assist SCARJ with putting its taxation affairs in order. In this regard, Mr Chabu Chabu has requested that you accompany him to a meeting with ZRA at which the recent disputed assessment will be discussed. Mr Chabu has indicated that if you are not willing to accompany him to the meeting, SCARJ will be forced to look for another provider of professional services

You have also become aware that:

- 1) SCARJ sold a motor vehicle to one of its directors at half price of its carrying value. It is now clear that SCARJ did not want your firm to know that the vehicle was sold to him
- 2) Max Lengwe was allowed to buy a desk and a chair at half price. The normal price for a set of chair and desk is K1,150,000. Max Lengwe is a junior from Manda & Co responsible for information gathering.
- 3) Max Lengwe had carried a schedule of assets for SCARJ home to review the depreciation computation. Unfortunately, his car was broken into and his bag which contained a laptop and the schedule of assets was stolen
- 4) Max Lengwe is a trainee accountant, currently writing his application examinations with ZICA. Mr Chabu has expressed concerns about the competence of Max in dealing with an accounting matter on which he had sought guidance

MR CHABU

Before setting up SCARJ. Mr Chabu Chabu had worked for Solwezi Saw Mills Ltd as a Sales Representative for many years. He is married and has five school going children. His employment conditions provided that either party should give one-month notice before termination of employment. His annual basic salary was K144,000 in the tax year 2021. He was paid monthly on the last day of each month.

Seeing an opportunity with the increased constituency funds, Mr Chabu offered himself to be declared redundant effective from 30 November 2021. In the tax year 2021, Mr Chabu was also entitled to the following allowances:

- | | |
|----------------------------------|--------------------------|
| • Housing allowance | 20% of basic salary |
| • Transport allowance | 5% of basic pay |
| • Education assistance allowance | K550 per month per child |
| • Domestic duty allowance | K400 per month |

The above allowances were all paid to him on a monthly basis, on the last day of each month

Throughout the period of his employment in the tax year 2021, Mr Chabu used his personal motor car which he acquired at cost K70,000 in January 2021 and has a cylinder capacity of 2,000cc for the duties of the employment. His employment use of the motor car in the tax

year 2021 was 40%. He incurred motor car running expenses of K5,000 per month.

Upon his redundancy, the company made the following payments:

	K
Accrued leave pay	3,000
Salary in lieu of notice	12,000
Compensation for loss of office	72,000
Withdrawal of employer's pension contributions	86,400
Refund of employee's pension contributions	86,400

His payments in the tax year 2021 included the following:

	K
Trade Union subscriptions per annum	1,800
Life insurance premiums per annum	6,000
Donation to an approved charitable organization	3,000
Pay As You Earn	43,498

Mr Chabu paid NAPSA contribution at the rate of 5% of his earnings and a further 5% of his earnings into a pension scheme operated by the employer. Contributions were also paid by the employer into both the NAPSA and the employer's pension scheme at the rate of 5% of his earnings in each case. When Mr Chabu was declared redundant, the contributions paid into the employer's pension fund by Mr Chabu and the employer were paid to Mr Chabu . The amounts are stated above under the payments made when Mr Chabu was declared redundant.

NHIMA contributions (for both Mr. Chabu and the employer's) were also remitted accordingly

OTHER INCOME

Mr Chabu received the following investment income during the tax year 2021:

	K
Dividends from Kagem mining company	10,200
Dividends from Ffan Ltd, a private limited company	21,250
Dividends from Raddison Plc, (a LuSE listed manufacturing company)	25,500
Fixed deposit bank interest	2,400
Royalties	34,000
Interest from Government of Zambia bonds	42,500
Treasury Bill discounts	12,750

The above amounts of investment income represent the actual amounts received by Mr Chabu. withholding tax was deducted at source.

REQUIREMENTS

1) In relation to SCARJ

- b) Evaluate SIX ethical and other professional issues to be considered (12 marks)
- c) For each issue, recommend an appropriate action that should be taken (12 marks)

b) In relation to SCARJ),

- a) Advise the accounting treatment that should be applied to the following items
 - i. The leased cutting and lathing machine (8 marks)
 - ii. Constituency grants (6 marks)
 - iii. Defective desks (8 marks)
 - iv. Sale of motor vehicle to Mr Chabu (6 marks)
 - v. Contingent Asset (6 marks)
- b) For each item show clearly how the figures will appear in the financial statement (8 marks)

c) In relation to Mr. Chabu

- a) Calculate the total withholding tax paid on investment income received by Mr Chabu during the tax year 2022. You should clearly show the amount of withholding tax paid on each type of investment income (10 Marks)

Apart from PAYE, Mr, Chabu did not declare his 2021 earnings to ZRA. He has now decided to take advantage of the ongoing tax amnesty and has requested that you re-compute his tax liability for 2021 based on 2022 rates

- b) Compute the income tax payable by Mr. Chabu for the tax year 2021, based on 2022 rates provided (14 marks)
- c) Compute and discuss the accounting treatment for (based on 2022 rates)
 - i. NAPSA contribution for the tax year 2021 (5 marks)
 - NHIMA contribution for the year 2021 (5 marks)