2023 NON-AUDIT COMPETENCE PRACTICE EXAMINATION (CPE)

QUESTION ONE

BACKGROUND

Sondela Accountants was formed by Luke Mbala on 1 January 1980. At that time, Luke Mbala was simply a holder of a certificate in accountancy and business studies (CABS). The formation of the Zambia Institute of Chartered Accountants (ZiCA) through the Accountants Act in 1982 meant that the accounting profession in the Republic of Zambia was now regulated.

On 15 March 1983, the Zambia Institute of Chartered Accountants (ZiCA) wrote a letter to Sondela Accountants in which it was stated that Luke Mbala was not qualified to practice as an accountant in the Republic of Zambia and should upgrade his qualifications within three (3) years, otherwise Sondela Accountants will be appropriately sanctioned.

Luke Mbala invited his friend Francis Lilayi, a qualified professional accountant to head Sondela Accountants while he concentrated on upgrading his qualification. He finally obtained a professional accountancy qualification in the year 1985. Luke Mbala now has a valid practicing certificate issued by the Zambia Institute of Chartered Accountants (ZiCA), and Sondela Accountants is licensed to offer both assurance and non-assurance services.

On 25 August 2023, Herbert Zulu, a former Finance Director (FD) of one (1) of the liquidated State Owned Enterprises (SOEs), was conferred with the CA (ZM) designation at the Zambia Institute of Chartered Accountants (ZiCA) graduation ceremony. Luke Mbala is considering whether to admit him as a partner in Sondela Accountants. Unfortunately, on 1 December 2023, bankruptcy proceedings against Herbert Zulu were commenced in the High Court and Luke Mbala is unsure whether Herbert Zulu could still continue practising as an accountant.

CURRENT PROFESSIONAL ENGAGEMENTS

You are the Head of Accountancy and Business Advisory Services in Sondela Accountants. You hold a non-audit practising certificate issued by the Zambia Institute of Chartered Accountants (ZiCA). The Department contributes more than thirty-eight percent (38%) of the firm’s total income. Luke Mbala is resolved to build stronger business relationships with all clients to achieve Sondela Accountants’ vision of ensuring clients get value for money. You report directly to Luke Mbala and you are currently responsible for various professional engagements for Mulungushi Ltd, National Pension Authority (NAPSA), Woodlands Ltd and Ministry of Education.

MULUNGUSHI LTD

Mulungushi Ltd is a relatively new mining company involved in the mining of precious metals, including energy and industrial minerals. It is situated in the Northwestern Province of the Republic of Zambia and started operations two (2) years ago. The following issues have arisen during the preparation of Mulungushi Ltd's draft financial statements for the year ended 31 December 2023 and have been brought to your attention:

(1) **Land** – on 1 March 2023, Mulungushi Ltd acquired land at a cost of K1.8 million (excluding transaction costs of K100,000). At this date, the directors estimated the fair value at K2 million. The directors have not yet decided whether to build a smelter on it for use in its business or to keep it and sell it when its value has risen. Mulungushi Ltd uses the fair value model. On 31 December 2023, the fair value was judged to be K1.5 million due to council re-zoning.

(2) **Inventory** – Mulungushi Ltd has robust corporate social responsibility (CSR) programmes, which include the operation of five (5) retailer shops in the mining townships. Mulungushi Ltd obtains inventories from large wholesalers on a consignment basis. At 31 December 2023, the total inventory in the retail shops had a cost of K10 million and a net realizable value of K9 million. The retail shops does not pay the large wholesalers until the goods are sold and any unsold goods can be returned.

(3) **Surveying equipment** – on 15 December 2023, the new Finance Director (FD) of Mulungushi Ltd discovered that the previous Finance Director (FD) of Mulungushi Ltd forgot to charge depreciation of K5 million on surveying equipment in the financial statements of the year ended 31 December 2022.

(4) **Modern shaft** – on 1 January 2023, Mulungushi Ltd commissioned a modern shaft with a total capital cost of K146 million and it is expected that the shaft will be de-commissioned in twelve (12) years' time. The development has caused significant deforestation and the country's environmental legislation requires the company to rectify this environmental damage. Mulungushi Ltd's weighted average cost of capital (WACC) is 18%. The directors of Mulungushi Ltd have estimated that the cost of burying and re-planting the trees will be K8.2 million.

(5) **Rights to revenue from VIP tickets** – on 31 December 2023, Mulungushi Ltd spent K6 million to purchase the rights to one hundred percent (100%) of the revenue from VIP ticket sales generated from a local team known as Strong Dynamos. Strong Dynamos has a large fan base and the stadium is always filled to capacity. Mulungushi

Ltd has discretion over the pricing and sell of VIP tickets. In the long run, part of this income will be used to fund the robust corporate social responsibility (CSR) programmes.

NATIONAL PENSION AUTHORITY (NAPSA)

The National Pension Authority (NAPSA) was established in February 2000 by the National Pension Scheme Act no. 40 of 1996 of the Laws of Zambia. The National Pension Authority's (NAPSA's) mandate is to register members, collect their contributions, invest the funds, and finally pay benefits to its members.

The National Pension Authority (NAPSA) is also the official custodian and manager of the assets of the closed Zambia National Provident Fund (ZNPF). This means the National Pension Authority (NAPSA) is managing all the funds contributed to the ZNPF and has continued paying benefits to eligible members of that scheme as they qualify for the same.

Recently, the Government amended the law to allow partial withdrawals by members and this means the investment strategies ought to be very efficient and effective. The National Pension Authority (NAPSA) has already revised the risk appetite and is currently reviewing its investment strategies. The directors are interested in Environmental, Social, and Governance (ESG) investing. Sondela Accountants has been engaged to prepare a report which will assist in decision making regarding Environmental, Social, and Governance (ESG) investing.

WOODLANDS LTD

Woodlands Ltd, a small private company, was incorporated on 5 June 2023. The company is a tourist operations' company based in the Northern Circuit of the Republic of Zambia. The company has planned an induction workshop for its board members. The Managing Director (MD) of Woodlands Ltd will be one (1) of the key presenters. He has prepared a draft presentation which he would like Sondela Accountants to evaluate.

Luke Mbala has evaluated most parts of the presentation but has requested you to evaluate the following statement contained in the presentation:

"The law makes no reference to fiduciary duties of directors although these duties are very important in practice. The directors should not enter into contracts for the supply of goods or services with the company.

The directors have the power to manage the business but the law places some limitations on directors' powers. These limitations must be observed to avoid serious sanctions outlined in law.

The law mentions the Company Secretary as one (1) of the key officers, although the qualifications stated in the law does not apply to Woodlands Ltd. Our Company Secretary is Kimberly, who holds a diploma in Human Resource Management (HRM)."

MINISTRY OF EDUCATION

The Ministry of Education has undergone massive reorganization to enhance service delivery and ensure key policies are implemented. One (1) of the key policies is in respect of having a sustainable teaching workforce throughout the Republic of Zambia. The funding to the Ministry of Education has doubled and the Government has appointed a new Finance Director (FD), who has never worked in the public sector. The new Finance Director (FD) is a former Bursar of the Eastern University, a very successful private university.

The latest management letter from the Office of the Auditor-General (OAG) for the year ended 31 December 2022 highlights a number of findings which require urgent attention. The Audit Committee of the Ministry has got approval from the Accountant General to engage Sondela Accountants to assist in addressing the following technical issues contained in the management letter:

- **No clear policy on definition of liability**
  Findings
  The Ministry of Education has no clear policy on the definition of liability.
  Implications
  It is difficult to verify the completeness of liabilities and deter fraudulent payments by Ministry Officials possibly in collusion with third parties.
  Recommendations
  Engage a private entity to urgently assist in the development of a clear policy on the definition of liability.

- **Incorrect accounting for pension benefits**
  Findings
  The Ministry of Education uses accruals based IPSAS (International Public Sector Accounting Standards). It operates a defined benefit scheme but the pension benefits are accounted for using IAS19 *Employee benefits.*
  Implications
  The liabilities in respect of the pension benefits and the disclosures are misstated.
  Recommendations
  A private entity must be engaged to urgently advise on the correct accounting treatment for pension benefits.

SECTION A

Required:

(1) State the consequences of setting up in practice as a chartered accountant without a practicing certificate and, advise Luke Mbala whether Herbert Zulu still qualifies to continue practising as an accountant in the Republic of Zambia. (12 marks)

(2) Using the information given in respect of Mulungushi Ltd:

(a) Explain the recommended criteria for the recognition of intangible assets in the financial statements. (7 marks)

(b) Explain the recommended accounting treatments for each issue and clearly state the respective accounting entries. (25 marks)

(c) Prepare extracts of the statement of profit or loss and statement of financial position as at 31 December 2023, in respect of the modern shaft. (6 marks)

[Total: 50 marks]

SECTION B

Required:

(3) Draft a report suitable for presentation to the board of NAPSA which explains what is meant by Environmental, Social, and Governance ((ESG) investing and suggest the ESG criteria which NAPSA can adopt, giving two (2) examples for each criterion.

(14 marks)

(4) Making reference to appropriate legislation, evaluate the statement by the Managing Director (MD) of Woodlands Ltd. (12 marks)

(5) Using the information on the Ministry of Education and suitable International Public Sector Accounting Standards (IPSASs):

(a) Discuss the difficulties experienced in applying the IASB Conceptual Framework definition of liability in the public sector. (8 marks)

(b) Explain any four (4) ways of measuring liabilities in the public sector. (8 marks)

(c) State four (4) main differences between IAS19 *Employee benefits* and the relevant IPSAS (International Public Sector Accounting Standards). (8 marks)

[Total: 50 marks]

QUESTION TWO

BACKGROUND

Nangwenya & Co. is a firm of the Zambia Institute of Chartered Accountants (ZiCA) registered accountants. It has made significant investment in Information Technology (IT), and this has had a positive impact on its profitability. However, Nangwenya & Co. is concerned about the increased risks of cybercrime, which may force some clients to switch business to competitors. The threat from cyber-crime is significant and is continuously evolving. Last month, the firm's database was hacked and client bank details were stolen. The firm immediately informed all clients and the Zambia Information, Communications and Technology Authority (ZICTA).

The Zambia Information, Communications and Technology Authority (ZICTA) advised Nangwenya & Co. to quickly upgrade the Information Technology (IT) infrastructure relating to cyber-security. Last month, an Information Technology (IT) expert was appointed to assist with the upgrade. He has the appropriate technical skills and knowledge of the risk environment of cyber-security in the accountancy sector and was highly recommended by the Zambia National Cyber Security Agency (ZNCSA).

The expert has submitted a report which contains the recommended upgrade of the Information Technology (IT) infrastructure relating to cyber-security and training for all staff. The Managing Partner is now considering the acquisition of the required hardware using hire purchase.

You are one (1) of the Senior Managers in Nangwenya & Co. and the Managing Partner has requested you to discuss the tax implications of financing the acquisition of the required hardware using hire purchase and the issues which need to be clarified with the expert before agreeing to the recommended training. The Managing Partner has emphasized that the training must be successful and should minimize waste of the firm's resources. The training budget could be revised upwards depending on the justification. He is aware that the firm needs to create a culture of cyber-security.

You are also in-charge of various assignments involving the following clients:

(1) Mubanga Ltd

(2) Perfect Ltd

(3) Gweembe Manufacturing Plc

(4) Racecourse Plc

MUBANGA LTD

The Managing Partner has sent you this email:

To: Senior Manager
From: Managing Partner
Subject: **Specialist tax assignment**
Hello

We recently won the tender for the provision of taxation services to Mubanga Ltd and I have just had a meeting with the Finance Director (FD). Mubanga Ltd is involved in the electric car battery industry and directors are willing to invest in one (1) of the Zambia Development Agency's Multi-Facility Economic Zone. However, they would like to know the tax incentives and other tax implications of their proposed investment before making the final decision.

I currently need your advice on the existing tax incentives which I will discuss with the Finance Director (FD) next week. However, the special tax assignment will only be finalized once the budget pronouncements by the Ministry of Finance and National Planning are approved by Parliament.

Thank you.

PERFECT LTD

Perfect Ltd provides solid waste management services to companies and households. In the year 2020, using the Constituency Development Fund (CDF), the Lusaka City Council (LCC) awarded a five (5)-year contract to Perfect Ltd to provide solid waste management services to the residents in the Kabulonga area. The Constituency Development Fund (CDF) is one (1) of the key economic drivers which has received massive Government support. The Town Clerk has written to Perfect Ltd requesting for a detailed report on performance for the past three (3) years. The report, which must focus on resource utilization, quality of service and financial performance, will be used by the councilors when considering contract renewal.

Nangwenya & Co. has been engaged to assist with the preparation of the detailed performance report. Recorded performance data for Perfect Ltd in respect of the Kabulonga area, which has been provided by the Management Accountant include the following:

	Years ended 30 June		
	2023	**2022**	**2021**
Turnover (K)	288,000	192,000	120,000
Profit before interest and tax (K)	51,200	31,040	11,480
Number of customers	120	80	50
Number of employees	60	34	18
Complimentary letters from satisfied customers	62	45	30
Written complaints received	10	16	5
Idle time hours	15,000	12,000	2,400
Productive hours	135,000	96,000	60,000

GWEEMBE MANUFACTURING PLC

Gweembe Manufacturing Plc is a large company which was listed on the Lusaka Securities Exchange (LuSE) on 1 January 2023. Thirty – nine (39%) of the ordinary shares were issued to indigenous Zambians.

On 30 November 2023, the Finance Director (FD) and other senior accounts officers were suspended for suspected fraud involving millions of Kwacha. Nangwenya & Co. has been engaged to attend to the income tax affairs for both the company and Woza Muyunda for the tax year 2023. The Tax Manager for Nangwenya & Co. is currently attending a month-long workshop on transfer pricing organized by the Organization for Economic Co-operation and Development (OECD) in Madrid, Spain and the Managing Partner has appointed you to act in his capacity.

The agreed fee is almost double the market rate. The Managing Director (MD) for Gweembe Manufacturing Plc has directed that in view of the high fees, Nangwenya & Co. must deploy more resources and complete the assignment within the shortest possible time. In addition, the Managing Director (MD) for Gweembe Manufacturing Plc suggested that share issue costs must treated as an allowable expenditure.

The company made a net loss before taxation amounting to K5,540,000 as per the statement of profit or loss for the year ended 31 December 2023, prepared by another ZiCA registered accountancy firm. This loss figure was arrived at after taking into account share issue cost of K6 million and the following items of income and expenditure:

Other Income

(1) Bank interest amounting to K340,000 (gross) from a Zambian commercial bank.

(2) An unrealized foreign exchange gain amounting to K1,220,000 arising from the translation of an unsettled payable at the year-end that was denominated in US$ dollars.

Expenses

(3) Depreciation of tangible non-current assets amounting to K48,462,000 and amortization of intangible assets of K12,719,000.

(4) Irrecoverable debts expenses of K12,170,000 which included trade debts written off of K170,000, and decreases in general provision and specific provision of K10,400,000 and K1,600,000 respectively.

(5) Directors emoluments of K22 million, which included emoluments of K2.7 million which were paid to the Managing Director (MD) who has been accommodation in a company owned house for which he paid no rent.

(6) Repairs and renewals of K74 million includes renovations to a reconditioned second-hand heavy duty generator of K190,000 and the remainder are all allowable expenses. The repairs to the reconditioned second-hand heavy duty generator were necessary before it could be used in the business.

(7) Entertainment expenses of K768,200, which included K11,500 incurred in entertaining auditors, K260,000 incurred in entertaining employees and the balance incurred in entertaining loyal customers.

(8) On 1 February 2023, Gweembe Manufacturing Plc completed the construction of a building, which consisted of land K25 million, Architect's fees K300,000, Cutting and levelling the land K500,000, Drawing office K120,000, General administration office K7.6 million and Factory K80 million. The building was brought into business use immediately.

(9) During the tax year 2023, Gweembe Manufacturing Plc has the following capital transactions:

Date	Details	Original cost/(Proceeds)
		K
1 January 2023	Bought office furniture	8,000,000
10 January 2023	Bought Toyota Prado car (3,000 cc)	1,800,000

15 February 2023	Bought Manufacturing Machinery	40,000,000
20 June 2023	Bought four (4) Pool cars	560,000
30 September 2023	Bought reconditioned second-hand heavy duty generator	472,000
21 December 2023	Sold one (1) of the pool cars	(160,000)

The Toyota Prado car is used as a personal-to-holder basis by the Managing Director (MD) and the business use has been agreed as eighty percent (80%). There were no assets qualifying for capital allowances on 1 January 2023. The provisional tax paid was K3,300,000.

Woza Muyunda had been employed as a Finance Director (FD) at Gweembe Manufacturing Plc until 28 February 2023, when he retired from employment. In the year 2023, he was entitled to a basic salary amounting to K75,000 per month. On 15 January 2023, he received a profit bonus amounting to K30,000 which was declared in December 2022 for meeting the profit targets for the last quarter of 2022. The bonus could not be paid in December 2022 since one (1) of bank account signatories was on leave. Upon retiring on 28 February 2023, he was paid repatriation pay K450,000, pension K6,000,000 and accrued leave pay K150,000.

During the tax year 2023, he received rental income Q$10,000 from property let out in a country called Quopia. The amount of rental income was net of withholding tax at the rate of 10% deducted in Quopia. There is no double taxation agreement between Zambia and Quopia, any double taxation relief is given to Zambian residents unilaterally in Zambia by way of crediting the foreign taxes paid against Zambian income tax. An exchange rate of K18.92 per Q$1 should be used where relevant.

In addition, during the tax year 2023, Woza Muyunda bought land for K100,000, and sold his Nissan motor car (1,300 cc) and residential plot for K78,000 and K209,000 (net of 5% estate agent's commission) respectively. The market values on the date of the capital transactions were K150,000 for land, K50,000 for the Nissan motor car and K210,000 for the residential plot.

RACECOURSE PLC

Racecourse Plc is duly registered value added tax (VAT). The Financial Accountant has provided the following details for the month of December 2023:

(1) Revenue – this comprise standard rated sales K2,200,000, zero-rated sales K800,000 and exempt sales K1,000,000. Ten percent (10%) of standard-rated sales were made to non-registered customers. Racecourse Plc offers its customers a 3% discount for prompt payment, and this was taken 25% of the customers.

(2) Purchases – these comprised standard-rated purchases K1,350,000, zero-rated purchases K250,000 and exempt purchases K400,000. Twenty percent (20%) of the standard-rated purchases were bought from non-registered suppliers. 32% of the input VAT on standard-rated purchases are non-attributable.

(3) Operating expenses which are all VAT inclusive consists of internet services K24,500, entertaining employees K43,500, entertaining customers K36,200 and general overheads K80,000.

(4) On 31 December 2023, the company wrote off irrecoverable trade debts of K50,000 and K72,000 in respect of invoices due for payment on 28 February and 31 December 2022 respectively. Both invoices relate to standard rated sales.

(5) On 15 December 2023, the company bought computers K60,000, window blinds and curtains for offices K43,400, Toyota Hilux Van K750,000 and pool car K120,000. All the figures are inclusive of VAT.

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

SECTION A

Required:

(1) Making reference to the information given in respect of Nangwenya & Co.:

(a) Explain seven (7) reasons regarding the importance of training staff in cyber-security and discuss four (4) issues which the expert must clarify for the training to be successful and minimize wasting the firm's resources. (18 marks)

(b) Describe the nature of hire purchase and advise the Managing Partner of the taxation implications that will arise for the firm from using hire purchase. (9 marks)

(2) Making reference to the information given on Mubanga Ltd, advise the Managing Partner regarding the tax incentives for any business enterprise operating in one (1) of the Zambia Development Agency's Multi-Facility Economic Zone. (8 marks)

(3) With reference to the information given in respect of Perfect Ltd, evaluate the performance of the company in terms of resource utilization, quality of service and financial performance. (15 marks)

[Total: 50 marks]

SECTION B

Required:

(4) Making reference to the information provided in respect of Gweembe Manufacturing Plc:

(a) Identify and explain five (5) ethical threats or professional issues faced by Nangwenya & Co. and suggest suitable safeguards. (15 marks)

(b) Calculate the company income tax payable for the tax year 2023. (19 marks)

(c) Calculate the all Zambian taxes paid by Woza Muyunda for the tax year 2023, including the amounts for NAPSA and NHISCs. (10 marks)

(5) Compute the Value Added Tax (VAT) payable for the month of December 2023 for Racecourse Plc. (6 marks)

[Total: 50 marks]

END OF PAPER

SUGGESTED SOLUTIONS

SOLUTION ONE

SECTION A

(1) Sondela Accountants

Consequences of setting up in practice as a chartered accountant without a practicing certificate

Section 20 (1) of the Accountants Act 2008 states that a person shall not set up in practice as a chartered accountant or be a partner in any such practice, unless that person holds a practising certificate or a non-audit practising certificate issued by the Institute under this Act.

Section 20 (2) of the Accountants Act 2008 stipulates that a person who contravenes subsection (1) commits an offence and is liable, upon conviction, to a fine not exceeding five hundred thousand penalty units or to imprisonment for a term not exceeding five years, or to both.

Advice on whether Herbert Zulu still qualifies to continue practising as an accountant in the Republic of Zambia.

According to the Accountants Act 2008 section 14 (1), a person shall not qualify for registration as an accountant under this Act or a Member under the constitution of the Institute, if the person:

- Has been convicted of an offence involving dishonesty;
- Has been declared to be of unsound mind under any law in force in Zambia
- Is an undischarged bankrupt;
- Has been found by the Disciplinary Committee to be guilty of professional misconduct; or
- Is a company registered under the Companies Act.

Herbert Zulu is disqualified from registration as an accountant in the Republic of Zambia, since he is an undischarged bankrupt. Hence, Luke Mbala should not admit him as a partner.

[Award marks as follows:

2 marks for reference to Section 20 (1)

Up to 3 marks for reference to Section 20 (2)

Up to 5 marks for reference to Section 14 (1)

Up to 2 marks for appropriate advice]

(2) Mulungushi Ltd

(a) Recommended criteria for the recognition of intangible assets in the financial statements

IAS 38 *Intangible assets* outlines the criteria for recognition of intangible assets in the financial statements as follows:

Identifiability – an intangible asset must be identifiable in order to distinguish it from goodwill. For example, if an asset is acquired separately through purchase, there may be a transfer of a legal right that would help to make an asset identifiable.

Controllability – an intangible asset must be under the control of the entity as a result of a past event. A legally enforceable right is evidence of such control but is not always a necessary condition.

Expected future economic benefits – an item can only be recognized as an intangible asset if economic benefits are expected to flow in future from ownership of the asset. For example, future revenue or reduced costs.

[Award marks as follows:

1 mark for reference to IAS 38

Up to 2 marks for each criterion – Maximum 6 marks]

(b) Recommended accounting treatments and accounting entries

(1) Land

According to IAS 40 *Investment Property,* if an entity has not determined that it will use the land either as an owner-occupied property or for short-term sale in the ordinary course of business, the land is considered to be held for capital appreciation and should therefore be classified as an investment property.

The accounting entries will be as follows:

Initial measurement – the land will be measured at a cost of K1.9 million (including the transaction cost of K100,000).

Debit Investment Property	K1.9 million
Credit Bank/Payables	K1.9 million

At 31 December 2023, the land will be measured at fair value and the loss of K0.4 million (K1.9 million – K1.5 million) arising will be recognized as a loss for the year ended 31 December 2023. The accounting entries will be as follows:

Debit Profit or loss	K0.4 million
Credit Investment Property	K0.4 million

[Award marks as follows:

1 mark for reference to IAS 40

1 mark for classification

1 mark for accounting entry on initial measurement

1 mark for accounting entry on subsequent measurement]

(2) Inventory

According to IFRS 15 *Revenue from contracts with customers,* when a product is delivered to a customer (in this case, the retail shops) under a consignment arrangement, the customer does not obtain control of the product at that point in time, so no revenue is recognized upon delivery (by the large wholesalers in this case). Hence, the large wholesalers must account for the inventory using IAS 2 *Inventories*, not Mulungushi Ltd.

[Award marks as follows:

1 mark for reference to IFRS 15

1 mark for reference to IAS 2

1 mark correct accounting treatment]

(3) Surveying equipment

IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states that changes in accounting policies and corrections of errors are generally retrospectively accounted for, whereas changes in accounting estimates are generally accounted for on a prospective basis. Since the previous Finance Director (FD) of Mulungushi Ltd forgot to charge depreciation of K5 million on surveying equipment in the financial statements of the year ended 31 December 2022 (prior period), then that error would be accounted for retrospectively. This involves restating the opening balances for that period so that the financial statements are presented as if the error had never occurred.

The accounting entries will be as follows:

Debit opening Retained Earning	K5 million
Credit opening accumulated depreciation	K5 million

[Award marks as follows

Up to 2 marks for reference to IAS 8

1 mark for accounting entry]

(4) Modern shaft

IAS 16 *Property, plant and equipment* requires that the total capital cost of K146 million should be capitalized. Since there is a legal obligation to rectify the damage and a transfer of economic benefits is probable, the full amount of K8.2 million should be provided in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets.* The expenditure will take place sometime in the future, and so the provision should be discounted at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The financial statements should disclose the carrying amount of the provision at the reporting date, a description of the nature of the obligation and the expected timing of the expenditure. The financial statements should also give an indication of the uncertainties about the amount and timing of the expenditure.

Accounting entries for the total capital cost and the long-term environmental provision will be as follows:

K'000

(i) Debit Non-current assets	146,000
Credit Bank/Payables	146,000

Capitalization of total capital cost incurred

(ii) Debit Non-current assets	1,125
Credit Provisions (non-current liability)	1,125

Recognize provision at present value (8,200,000 X 1/1.18 power 12)

(iii) Debit Depreciation expense	12,260
Credit Accumulated depreciation	12,260

Annual depreciation charge ((146,000 + 1,125)/12 years)

(iv) Debit Finance costs	203
Credit Provisions (non-current liability)	203

First year unwinding of the discount (1,125 X 18%)

[Award marks as follows:

1 mark for reference to IAS 16

Up to 2 marks for reference to IAS 37

1 mark for the first accounting entry

Up to 2 marks for each of the last three accounting entries – Maximum 6 marks]

(5) Rights to revenue from VIP tickets

IAS 38 *Intangible assets* states that an intangible asset may be recognized if it meets the laid down criteria in the standard involving identifiability, controllability and future economic benefits. It appears that these criteria have been met:

- The rights to revenue from VIP tickets is identifiable as it arise from contractual rights
- Mulungushi Ltd has control, because it has discretion over pricing of the tickets and can sell them

- Future economic benefits will flow to Mulungushi Ltd in the form of income earned from the revenue from VIP tickets.

Accordingly, the rights to revenue from VIP tickets can be treated as an intangible asset. The accounting entries will be as follows:

Debit Intangible asset	K6 million
Credit Bank	K6 million

Amortization will start next year – year ended 31 December 2024.

[Award marks as follows:

1 mark for reference to IAS 38

Up to 3 marks for meets criteria

1 mark for accounting entry]

(c) Financial statement extracts

Mulungushi Ltd

Statement of profit or loss (extract) for the year ended …

	K'000
Depreciation	(12,260)
Finance costs: Unwinding of discount	(203)

Mulungushi Ltd

Statement of financial position (extract) as at …

	K'000
Non-current assets	
Modern shaft: (146,000 + 1,125)	147,125
Accumulated depreciation	(12,260)
Carrying amount	134,865

Non-current liabilities

Environmental provision (1,125 + 203)	1,328

[Award marks as follows:

Up to 2 marks for modern shaft

1 mark for accumulated depreciation

1 mark for carrying amount

Up to 2 marks for environmental provision]

SOLUTION ONE

SECTION B

(3) NAPSA

REPORT

To: Directors – NAPSA

From: Head of Accountancy and Business Advisory Services – Sondela Accountants

Subject: Environmental, Social, and Governance ((ESG) investing

Date: December 2023

1.0 Introduction

This report has been written to clearly explain what is meant by Environmental, Social, and Governance ((ESG) investing and suggest ESG criteria which NAPSA could adopt.

2.0 Environmental, Social, and Governance ((ESG) investing

ESG investing is sometimes referred to as sustainable investing, responsible investing, impact investing, or socially responsible investing. It simply refers to a set of standards for a company's behavior used by socially conscious investors to screen potential investments. A number of large institutional investors such as public pension funds, like NAPSA are increasingly embracing ESG investing.

3.0 ESG criteria

Adopting ESG principles means that corporate investment strategy focuses on the three (3) pillars of the environment, social, and governance. Hence, NAPSA could adopt the following criteria when evaluating investments:

3.1 Environment

Environment issues may include:

- Uses renewable energy sources
- Limits harmful pollutants and chemicals
- Publishes a carbon or sustainability report

3.2 Social

Social issues may include:

- Pay fair (living) wages
- Avoids overseas labour that may have questionable workplace safety or employ child labour
- Has policies to protect against sexual misconduct

3.3 Governance

Governance issues may include

- Someone other than the CEO is chair of the board
- Embraces diversity on board of directors
- Embraces corporate transparency

4.0 Conclusion

ESG investing focuses on companies that follow positive environmental, social, and governance principles. Today, investors are increasingly eager to align their portfolios with ESG-related companies and fund providers, making it an exciting area of growth that also has positive effects on society and environment. Whether ESG investing is right for NAPSA depends on whether NAPSA want to combine their values with investments. From there, NAPSA can look to one or more of several ESG ratings systems that have appeared in the past few years to build the right portfolio – or consider at ESG-tailored Exchange Traded Fund (EFT) of mutual fund.

[Award marks as follows:

2 marks for presentation

1 mark for introduction

1 mark for environment

1 mark for each valid example on environment – Maximum 2 marks

1 mark for social

1 mark for each valid example on social – Maximum 2 marks

1 mark for governance

1 mark for each valid example on governance – Maximum 2 marks

Up to 2 marks for conclusion]

(4) Evaluation of statement by Managing Director (MD) for Woodlands Ltd

The appropriate legislation is the Companies Act 2017. Hence, the evaluation will be based on the provisions in the Companies Act 2017.

Fiduciary duties

The Managing Director (MD) has stated that the law makes no reference to fiduciary duties of directors. However, section 106 of the Companies Act 2017 refers to fiduciary duties and states that a director shall:

(a) exercise that director's power -

(i) in accordance with this Act and act within the articles; and

(ii) for the purpose for which the power is conferred;

(b) promote the success of the company;

(c) exercise independent judgement; and

(d) disclose information about that director's remuneration in the financial statements of the company.

Hence, the Managing Director's (MD's) statement is not correct.

[Award marks as follows:

Up to 2 marks for reference to section 106

Up to 2 marks for not correct]

Limitations on directors' powers

The Managing Director (MD) has stated that law places some limitations on directors' powers. Section 87 (1) of the Companies Act 2017 clearly states that the board of directors shall not, without the approval of the members, by ordinary resolution –

(a) sell, lease or otherwise dispose of the whole, or substantially the whole, of the undertaking or assets of the company;

(b) issue any new or unissued shares in the company;

(c) create or grant any rights or options entitling the holders to acquire shares of any class in the company; or

(d) enter into a transaction that has or is likely to have the effect of the company acquiring rights or interests or incurring obligations or liabilities, including contingent liabilities, the value of which is the value of the company's assets before the transaction.

The Managing Director's (MD's) statement is therefore correct.

[Award marks as follows:

Up to 2 marks for reference to section 87 (1)

Up to 2 marks for correct]

Company Secretary

The Managing Director (MD) has stated that although the qualifications for the company secretary are stated in the law, they do not apply to Woodlands Ltd. Section 82 (5) of the Companies Act 2017 states that a person shall not be eligible for appointment, as company secretary if the person, in the case of –

(a) an individual, is not -

(i) a legal practitioner, a chartered accountant or a member of the chartered institute of secretaries; and

(ii) resident in Zambia; or

(b) a body corporate –

(i) is not incorporated in Zambia; and

(ii) does not have an officer who qualifies to be appointed as company secretary.

However, section 82 (6) states the qualifications for a company secretary set out in section 82 (5) shall not apply to a small private company. Woodlands Ltd is a small private company and therefore the Managing Director's (MD's) statement is correct.

[Award marks as follows:

1 mark for reference to section 82 (5)

1 mark for reference to section 82 (6)

Up to 2 marks for correct]

(5) Ministry of Education

(a) Difficulties experienced in applying the IASB Conceptual Framework definition of liability in the public sector

The IASB Conceptual Framework defines a liability as 'a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits'. A liability is recognized when the amount of the outflow can be reliably measured.

Settlement

Public benefit entities are subject to a commitment to provide public benefits, but it is debatable whether this commitment meets the definition of a liability. In this situation there has been no 'exchange'. The entity has not received any goods or services for which it is required to make 'settlement'. A distinction can be drawn between 'general commitments to provide public benefits' and 'specific commitments to provide public benefits'. This specific commitment can be regarded as a 'present obligation', but it can be argued that the obligation only arises when the entity formally undertakes to provide something such as a non-performance related grant. (If the grant were performance-related, the entity would be able to withdraw from the agreement if the performance targets were not reached.)

Reliable measurement

Governments in particular often find themselves funding projects which go a long way over budget, suggesting that reliable measurement was not obtained at the outset.

The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Revised) – simply defines a liability as "the present obligation of the entity to transfer resources as a result of past events".

[Award marks as follows:

Up to 2 marks for IASB definition of liability

1 mark for each valid point on settlement – 3 marks

Up to 2 marks for reliable measurement

1 mark for reference to The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (Revised)]

(b) Ways (bases) of measuring liabilities in the public sector

- **Historical cost** – the historical cost for a liability is the consideration received to assume an obligation, which is the cash or cash equivalents, or the value of the other consideration received at the time the liability is incurred. Under the historical cost model initial values may be adjusted to reflect factors such as the accrual of interest, the accretion of discount or amortization of a premium. Where the time value of a liability is material the amount of future payment is discounted so that, at the time a liability is first recognized, it represents the value of the amount received.
- **Cost of fulfilment** – the cost of fulfilment is the cost that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner. Where the cost of fulfillment depends on uncertain future events, all possible outcomes are taken into account in the estimated cost of fulfilment, which aims to reflect all those possible outcomes in an unbiased manner. Where fulfilment requires work to be done, the relevant costs are those that the entity will incur.
- **Market value** – the market value for liabilities is the amount for which a liability could be settled between knowledgeable, willing parties in an arm's length transaction.
- **Cost of release** – the cost of release is the amount that either the creditor will accept in settlement of its claim, or a third party would charge to accept the transfer of the liability from the obligor. Where there is more than one way of securing release from the liability, the cost of release is that of the lowest amount.
- **Assumption price** – the assumption price is the amount which the entity would rationally be willing to accept in exchange for assuming an existing liability. Exchange transactions carried out on arms-length terms will provide evidence of assumption price.

[Award up to 2 marks for each measurement way (base) – Maximum 8 marks]

(c) Main differences between IAS 19 *Employee benefits* and the relevant IPSAS (International Public Sector Accounting Standards)

The relevant IPSAS is IPSAS 39 *Employee benefits.* The main differences between IAS 19 and IPSAS 39 are:

(1) IPSAS 39 contains additional guidance on public sector bonus plans

(2) For discounting post-employment obligations, IAS 19 requires entities to apply a discount rate based on yields on high quality corporate bonds consistent with the currency and estimated term of the post-employment benefit obligations. The requirement in IPSAS 39 is that entities apply a rate that reflects the time value of money. IPSAS 39 also contains a requirement that entities disclose the basis on which the discount rate has been determined.

(3) IPSAS 39 includes a rebuttable presumption that long-term disability payments are not usually subject to the same degree of uncertainty as the measurement of post-employment benefits. Where this presumption is rebutted, the entity considers whether some or all long-term disability payments should be accounted for in the same way as for post-employment benefits. IAS 19 does not include such a rebuttable presumption.

(4) IPSAS 39 recognizes re-measurements of the net defined liability (assets) in net assets/equity. IAS 19 recognizes them in other comprehensive income.

(5) IPSAS 39 uses different terminology, in certain instances, from IAS 19. The most significant examples are the use of the terms "revenue", "controlling" and "controlled entities". The equivalent terms in IAS 19 are "income", "parent" and "subsidiaries".

[Award up to 2 marks for each main difference – Maximum 8 marks]

SUGGESTED SOLUTIONS

SOLUTION TWO

SECTION A

(1) Nangwenya & Co.

Importance of training staff in cyber-security

Cyber-security is simply involves measures taken to protect a computer or computer system against unauthorized access or attack. It is important that staff are trained in cyber-security mainly because of the following reasons:

(1) Increased use of computers – the introduction of Internet of Things (IoT) technology by most companies has created new vulnerabilities for hackers to exploit.

(2) Increased incidents of cyber-crime – helps employees maintain current knowledge of latest threats given that the cyber-security landscape changes quickly.

(3) Possibility of significant losses – ability by employees to promptly trace potential threats and report any incoming incidents can prevent the possibility of significant losses.

(4) Compliance with laws and regulations – many laws and regulations require employees to be trained in cyber-security.

(5) Culture of cyber-security – ensures cyber-security is an integral part of the day-to-day operations.

(6) Possible legal suits – assist in maintaining the security of client data and avoid possible legal suits.

(7) Reputational risks – protect the reputation of the firm and avoid loss of client trust in the business.

(8) The first line of defence – employees are generally the first line of defence and are therefore are expected to be aware of cyber-attack and at the same time contribute to the implementation of any policy that the organization has put in place regarding cyber-security.

Issues to clarify

The expert must clarify the following issues for training to be successful and minimize wasting the firm's resources:

(1) Who needs to be trained and why?

(2) Whether training takes place on or off the job?

(3) Who will provide the training?

(4) If training should occur in a short period or be ongoing?

(5) What the line management involvement will be?

[Award marks as follows

Up to 2 marks for each importance – Maximum 14 marks

1 mark for each training issue to clarify – Maximum 4 marks]

(b) Hire Purchase

Nature

Acquisitions of assets under a hire purchase agreement by Nangwenya & Co. will be treated as outright purchases since the hire purchase company will effectively provide the finance. The asset will be capitalized in the books of Nangwenya & Co. The amount outstanding after making an initial deposit towards the purchase price of the asset will be accounted for as a payable in the books of Nangwenya & Co. Each instalment paid for the asset by the firm will comprise two components, a capital repayment towards the cost of the asset and a hire purchase finance charge (interest). Title to the asset will pass to Nangwenya & Co. on payment of the final instalment.

Taxation implications

The tax implications for Nangwenya & Co. will be as follows:

(1) The interest element will be tax deductible, in the computation of taxable business profits.

(2) Nangwenya & Co. will be able to claim input VAT on the cost of the assets acquired provided the VAT is the type which is recoverable. There will be no VAT on the instalments as they effectively relate to financing which is an exempt activity.

(3) Nangwenya & Co. will claim capital allowances on the cost of the asset (excluding interest), which will be allowable deductions when computing the taxable business profits.

[Award marks as follows:

1 mark for each valid point on nature – Maximum 3 marks

Up to 2 marks for each tax implications – Maximum 6 marks]

(2) Mubanga Ltd

The tax incentives for any business enterprise operating in one (1) of the Zambia Development Agency's Multi-Facility Economic Zone are as follows:

- Withholding tax at a rate of 0% on dividends declared on profits made on exports for a period of ten (10) years from the first year of commencement of works in an MFEZ.
- Income tax at a rate of 0% on taxable profits earned from exports, for a period of ten (10) years from the year of commencement of works in the MFEZ.
- A reduction in the applicable income tax rate by 50% on taxable profits earned from exports, from the eleventh (11) to the thirteenth (13) year of operations (i.e., after commencement of works) in the MFEZ.
- A reduction in the applicable income tax rate by 25% on taxable profits earned from exports, from the fourteenth (14) year to the fifteenth (15) year of operations (i.e., after commencement of works) in the MFEZ.

[Award up to 2 marks for each tax incentive – Maximum 8 marks]

(3) Perfect Ltd

The evaluation of the performance of the company is as follows:

Resource utilization

The main resources for Perfect Ltd are its employees and collection vehicles. However, no information is given on collection vehicles and therefore the focus will be on employees. Productivity ratios ((output relative to some form of input) are key in measuring employee utilization. Some of the productivity ratios computed from the data provided are as follows:

	2023	**2022**	**2021**
Idle time ratio (Idle time hours/Total hours X 100%)	10%	11%	3.8%
Turnover per employee per year (K)	4,800	5,647	6,667

Ratio of employee per customer	1:2	1:2.4	1:2.8

The idle time ratio significantly increased by 7.2% in the year 2022. This could be attributable to lack of adequate supervision as a result of the increased workforce. However, in the year 2023, the idle time ratio declined by 1% indicating that management could have put measures to address this problem. However, both the turnover per employee per year and ratio of employee per customer has continued to decrease. This could be an indication of the overall deterioration in the utilization of employees.

[Award marks as follows

1 mark for each relevant calculation – Maximum 2 marks

1 mark for relevant point on evaluation – Maximum 3 marks]

Quality of service

	2023	**2022**	**2021**
Change in the number of customers	+50%	+60%	
Change in complimentary letters from satisfied customers	+38%	+50%	
Change in written complaints received	-38%	+220%	

The increasing number of customers would suggest that many customers are satisfied with the service being provided. This may be partly due to service quality or other factors such as reliability, courtesy and availability.

In the year 2022, however, the number of written complaints received increased significantly but have fallen in the year 2023. In the meantime, complimentary letters from satisfied customers have continued to increase. The significant increase in the year 2022 could be attributed to teething problems which Perfect Ltd faced initially.

Based on the data provided there is strong evidence that customer may be satisfied with the service being provided, although Perfect Ltd must continue addressing the written complaints received. In addition, Perfect Ltd could possibly gather more accurate information from a large scale customer satisfaction survey.

[Award marks as follows

1 mark for each relevant calculation – Maximum 2 marks

1 mark for relevant point on evaluation – Maximum 3 marks]

Financial performance

	2023	2022	2021
Change in revenue	+50%	+60%	
Turnover per customer per year (K)	2,400	2,400	2,400
Average cost per customer per year (K)	1,973	2,012	2,170
Profit margin	17.8%	16.2%	9.6%

The increase in revenue is directly attributable to the increase in the number of customer given that the turnover per customer per year has remained the same. It seems the pricing for the services is controlled by the Lusaka City Council (LCC). The profit margins have increased mainly due the tight control on costs as shown by the progressive reduction in the average cost per customer per year. If pricing is controlled, it may be advisable for Perfect Ltd to seriously engage the Lusaka City Council (LCC) on the issue since this could seriously erode profit margins in the long run. At the moment, the financial performance seems good, although without any yardstick such as competitors' performance and more specific data on costs, it is difficult to draw more reliable conclusions.

[Award marks as follows

1 mark for each relevant calculation – Maximum 2 marks

1 mark for relevant point on evaluation – Maximum 3 marks]

SOLUTION TWO

SECTION B

(4) GWEEMBE MANUFACTURING PLC

(a) Ethical threats or professional issues and suitable safeguards

Ethical threats or professional issues	Explanations	Safeguards
(1) Compliance with listing rules	Non-compliance with listing rules could provide evidence regarding the integrity of management and those charged with governance. The information provided for the assignment may not be reliable.	Nangwenya & Co. must review compliance with listing rules and consider withdrawing from the assignment if necessary. A member providing taxation services must not knowingly be associated with reports, returns, communications or other information where the member believes that the information: ○ Contains a materially false or misleading statement or calculation ○ Contains statements or information furnished recklessly.
(2) Suspected fraud	On 30 November 2023, the Finance Director (FD) and other senior accounts officers were suspended for suspected fraud involving millions of Kwacha. This brings into question the reliability of information which will be used for the assignment.	Discuss with the accountancy firm and the Audit Committee if there are any issues regarding the reliability of the accounting information. If serious reliability issues exist, then consider withdrawing from the assignment.

(3) Professional competence and due care	The Tax Manager for Nangwenya & Co. is currently attending a month-long workshop. Critical skills and experience to competently handle the assignment may be missing.	The firm should review the critical skills and experience currently available before the commencement of the assignment. In addition, adequate quality control procedures must be put in place.
(4) High fees	The agreed fee is almost double the market rate. This represents serious self-interest and intimidation threats as the independence and objectivity of Nangwenya & Co. could be significantly impaired.	Sufficient quality management measures must be put in place. Otherwise, it may be advisable to decline the assignment.
(5) Time pressure	The Managing Director (MD) for Gweembe Manufacturing Plc has directed Nangwenya & Co. to complete the assignment within the shortest possible time. This may result in an intimidation threat and corners may be cut in order to meet the deadline. This is unprofessional and may expose the firm to unnecessary litigation.	A serious meeting must be held with the Managing Director (MD) for Gweembe Manufacturing Plc as a matter of urgency. This will provide an opportunity for the Managing Partner to discuss the expected time in much detail and consider whether the MD's expectation could be met.
(6) Suggested treatment of share issue costs	The allowability of share issue costs does not depend on anybody's suggestion. The tax legislation is clear. Any fees incurred in issuing ordinary share capital are not allowable for tax purposes.	The suggestion by the Managing Director (MD) for Gweembe Manufacturing Plc must not be accepted. The issue costs must be disallowed as per tax legislation.

[Award marks as follows:

1 mark for identifying each ethical threat or professional issue – Maximum 5 marks

1 mark for explaining each ethical threat or professional issue – Maximum 5 marks

1 mark for each safeguard – Maximum 5 marks]

(b) Gweembe Manufacturing Plc

<u>Computation of company income tax payable for the tax year 2023</u>

	K		Marks
Business profit (W1)	6,700,200	(W2)	15
Bank interest	340,000		½
Taxable income	7,040,200		
Company income tax			
7,040200 X 23% (W2)	1,619,246		1
Less tax already paid:			
Provisional tax	(3,300,000)		½
WHT on bank interest 340,000 X 15%	(51,000)		1
Company income tax payable(Repayable)	(1,731,754)		
Total marks			**19**

Workings

1. **Company income tax**

	%
Normal company income tax rate	30
Less:	
Listing discount	(2)
Share offer discount	(5)
Actual company income tax rate	23

2. **Computation of tax adjusted business profits for the tax year 2023**

	K	K	Marks
Net loss before taxation		(5,540,000)	½
ADD:			
Share issue costs	6,000,000		½
Depreciation	48,462,000		½
Amortization	12,719,000		½
Accommodation benefit			
(37.5% X 2,700,000)	1,012,500		1
Repairs to reconditioned heavy duty			
generator	190,000		½
Entertaining auditors	11,500		½
Entertaining loyal customers			
(768,200 – 11,500 – 260,000)	496,700		1
Personal-holder car (3,000 cc)	48,000		½

		68,939,700	
		63,399,700	
LESS:			
Bank interest	340,000		½
Unrealized foreign exchange gain	1,220,000		½
Decrease in general provision	10,400,000		½
Capital allowances – buildings	22,130,000		W3 (3)
Capital allowances – plant & machinery	22,609,500		W5 (5)
		(56,699,500)	
Tax adjusted business profits		6,700,200	
Total marks			**15**

3. **Computation of capital allowances on buildings**

	Value	Allowances	**Marks**
	K	K	
Industrial building			
Qualifying cost (W4)	88,520,000		
Initial allowance 10% X 88,520,000	(8,852,000)	8,852,000	1
Investment allowance 10% X 88,520,000	-	8,852,000	1
Wear and tear allowance 5% X 88,520,000	(4,426,000)	4,426,000	1
Income tax value (ITV) c/d	75,242,000		
Total capital allowances on buildings		22,130,000	
Total marks			**3**

4. **Qualifying cost for industrial buildings allowances**

The cost of land does not qualify for capital allowances and canteen is industrial building by statute. The 10% test is applied to the general administration office to determine whether or not it qualifies as part of the industrial building. The architect's fees, cutting and levelling land and drawing office qualify as industrial building.

	K
Total cost	113,520,000
Less land	(25,000,000)
Total construction cost	88,520,000

10% X 88,520,000 = K8,852,000

The cost of the general administrative office (K7,600,000) does not exceed 10% of the total construction cost of the building. As such, the general administrative office will qualify as an industrial building.

5. **Computation of capital allowances on implements, plant and machinery**

	Value	**Allowances**	**Marks**
	K	K	
Office furniture			
Wear and tear allowance 8,000,000 X 25%		2,000,000	½
Toyota Prado car			
Wear and tear allowance 1,800,000 X 20%		360,000	½
Manufacturing machinery			
Wear and tear 40,000,000 X 50%		20,000,000	1
Pool cars (3)			
Wear and tear allowance 560,000/4 X 3 X 20%		84,000	1
Reconditioned heavy duty generator			
Wear and tear allowance (472,000 + 190,000) X 25%		165,500	1
Pool car			

Cost	560,000/4	140,000		
Disposal (restricted to cost)		(140,000)		
Balancing adjustment		0	0	1
Total capital allowances on				
implements, plant and machinery			22,609,500	
Total marks				**5**

(c) Woza Muyunda

Personal income tax computation for the tax year 2023

	K	Marks
Salary (75,000 X 2)	150,000	1
Accrued leave pay	150,000	½
Taxable income	300,000	
Income tax		
57,600 X 0%	0	½
24,000 X 20%	4,800	½
25,200 X 30%	7,560	½
193,200 X 37.5%	72,450	½
Income tax liability	84,810	½
Total marks		**4**

Employee NAPSA contributions

These are calculated at the rate of 5% of the employee's gross earnings, subject to a ceiling of K26,840 per month. Hence, the amount contributed by Woza Muyunda is limited to 5% of K26,840 since the gross earnings for each month are more than K26,840.

NAPSA = 5% X 26,840 X 2

NAPSA = K2,684 **2 mark**

Employee's NHISCs

These are calculated at the rate of 1% of the employee's basic salary. The total amount contributed by Woza Muyunda in the tax year 2023 is therefore:

K150,000 X 1% = K1,500 **1 mark**

Property transfer tax (PTT)

	Marks
Bought land – PTT is not paid by the buyer.	
Hence, Woza Muyunda, as a buyer, did not pay PTT.	½
Sold Nissan motor car – No PTT apply to chattels.	½
Sold residential property – this a chargeable property	
for PTT purposes. The realized value is the higher of	
the contract price (209,000 X 100/95 = 220,000) and	
the open market value (210,000).	
PTT = 220,000 X 5%	
PTT = K11,000.	2
Total	**3**

(5) Racecourse Plc

<u>Computation of VAT payable for the month of December 2023</u>

	K	**K**	**Marks**
<u>Output tax</u>			

Standard rated sales K2,200,000 X 16%		352,000	½
Zero rated sales K800,000 X 0%		0	½
Sub-total		352,000	
Input tax			
Standard rated purchases			
(K1,350,000 X 80% X 16% X 68%)	117,504		1
Non-attributable			
(K1,350,000 X 80% X 16% X 32% X 75%)	51,840		1
Internet K24,500 X 4/29 X75%	2,534		1
General overheads K80,000 X 4/29 X 75%	8,276		1
Bad debt relief K50,000 X 16%	8,000		½
Toyota Hilux van K750,000 X 4/29	103,448		½
Sub-total		(291,602)	
VAT payable		60,398	
Total Marks			**6**

Workings

1. Recoverable non-attributable input VAT

Percentage of recoverable non-attributable input VAT = Total taxable supplies/Total supplies X 100%

Percentage of recoverable non-attributable input VAT = (2,200,000 + 800,000)/(2,200,000 + 800,000 + 1,000,000) X 100%

Percentage of recoverable non-attributable input VAT = 3,000,000/4,000,000 X 100%

Percentage of recoverable non-attributable input VAT = 75%

2. Bad debt relief

Bad debt relief applies when an invoice is at least eighteen (18) months overdue. The first invoice is twenty two (22) months overdue and therefore qualifies for bad debt relief. The other invoice is only 12 months overdue and therefore does not qualify for bad debt relief.

END OF SOLUTIONS