CPE NON AUDIT - QUESTION ONE

SUGGESTED SOLUTIONS

REQUIREMENTS

1) **Technical queries raised by the financial accountant of Marco Ltd**

Query 1 – Fraud

Accounting treatment

According to IAS 8, Accounting policies, Changes in accounting estimates and errors, errors committed in the current year and discovered in the current year should be corrected in the current year. However, misstatements discovered in the current year caused by errors or fraud committed in the previous year should be treated as prior year adjustments if considered material.

According to IAS 37, Provisions, Contingent liabilities and contingent assets, contingent asset should only be recognized if it is certain that the amount will be received. As the claim has not yet been accepted, it cannot be regarded as being certain. It can only be disclosed if it is considered probable and ignored if considered possible

According to IAS 1, Presentation of financial statements, an entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS. An entity reports separately both assets and liabilities, and income and expenses.

Accordingly, the consequences of the fraud and the expected insurance claim should be reported separately

Accounting entries

The following adjustments should be made:

DR	Administration expenses	K3 million	
DR	Retained profits brought down	K1 million (as a prior year adjustment)	
CR	Receivables		K4 million

Being write off of losses incurred due to fraud

There will be need for disclosure as the contingent asset is assessed to be probable

Query 2 – Borrowing costs

Accounting treatment

According to IAS 23, Borrowing costs, interest incurred on borrowed funds applied for the construction or development of a qualifying asset should be capitalized under the following conditions

a) **Qualifying asset**
   An asset that takes some time before being brought into use

b) **Qualifying period**
   Period in which interest is being incurred on the borrowed funds to finance construction of qualifying asset. The qualifying period is the period in which active construction or manufacture of the qualifying asset is taking place

c) **Qualifying rate**
   The rate of interest on the loan being applied. This is specific if this involves a single loan or weighted average of the funds are being drawn from more than one loan proceeds available

For Marcos Ltd, the factory is a qualifying asset as it is expected to take two years and the rate to apply is 8%. The amount of interest capitalized should be reduced by the interest earned on any unutilized funds invested, according to IAS 23. Accordingly, interest incurred during the active periods should be capitalized less any interest earned.

Accounting entries

DR Property, Plant and Equipment (Factory)	**K130,000**	
DR profit and loss	**K32,000**	
CR Bank (192 – 30)		**K162,000**

workings

Active period	Amount	Period	Interest @ 8%
1 March – 31st December 2023	K2.4 million	10 months	K 160,000
Less amount invested @6%			
1 Jan – 1 July 2023	K million	6 months	(K30,000)

			130,000
			======
Total interest incurred	K2.4 million	12 months	K192,000
Interest to be charged to the profits and loss (192 – 160)			K32,000

Query 3 – Impairment

Accounting treatment

An impairment review as laid out in IAS 36 *impairment* of assets is carried out to determine whether the value of an asset may have fallen below its carrying amount in the statement of financial position. It is for requirement for goodwill carried in the statement of financial position that it should be tested annually for impairment.

An asset is considered to be impaired if its carrying amount exceeds its recoverable amount, defined as the higher of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows which will be generated by the asset. It is often not possible to attribute cash flows to an individual asset belongs. A cash generating unit is a group of assets which together generate cash flows. For instance, production unit in a factory could be treated as a cash generating unit and any impairment identified will be apportioned between the assets of the CGU.

Carrying amount of the plant at 31 December 2023

		K'000
31.12.21	cost	800,000
	Depreciation (800,000 – 50,000)/5)	(150,000)
31.3.22	balance	650,000
	Depreciation	(150,000)
31.3.23	Balance – Carrying value	500,000

As there is currently no market in which to sell the plant, its recoverable amount will be its value in use, calculated as:

Year ended	*Cash flow*	*Discount factor 10%*	*Present value*
	K'000		**K'000**
31 March 20X3	200	0.91	182
31 March 20X4	180	0.83	149
31 March 20X5	140 + 50	0.75	143
			474

Accounting entries

As carrying value exceeds the recoverable amount, there is impairment of K26,000 (K500,000 – K474,000)

DR	Profit and loss – impairment	K26,000	
CR	Plant		K26,000

Query 4 – Inventories

According to IAS 2, Inventories – inventories should initially be measured at cost. Cost is defined as all expenditure incurred in bringing the inventory to its present location and condition. For the manufactured furniture, this will include raw materials, labour and manufacturing overheads.

According to IAS 2, inventories should subsequently be measured at the lower of cost and net realizable value (NRV). NRV means estimated selling price less estimated selling costs. The effect of this is to ensure that expected losses are recognized immediately

In the context of Marcos Ltd, the comparison between cost and NRV is as below:

Product line	Quantity on hand	Cost per unit (K)	Inventory at cost (K)	NRV	Lower of cost per unit (K) and NRV (K)
Sofas	100	1,000	100,000	1,020	100,000
Dining tables	200	500	100,000	450	90,000
Beds	300	1,500	450,000	1,600	450,000
Closets	400	750	300,000	770	300,000
Lounge chairs	500	250	125,000	200	100,000
			K1,075,000		K1,040,000
			======		=======l

Each different item will be measured separately – comparing cost and NRV

Accounting entries

Total inventories at cost	K1, 075,000
Total inventories at NRV	K1,040,000

Write down	K35,000
	=======

DR	Profit and loss	K35,000	
CR	Inventories		K35,000

Query 5 – Variable contract

According to IFRS 15, the transaction price would be the amount of consideration that an entity expects to be entitled to in exchange for transferring promised goods or services to a customer. An entity will consider the terms of the contract and past customary business practices when making this determination.

If a contract contains a variable amount, the entity will estimate the amount to which it will be entitled under the contract. The consideration can also vary if an entity's right to consideration is contingent on the occurrence of a future event. The variable consideration is only included in the transaction price to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Quarter ended 31 March 2023 –

At 31 March 2023, Marcos has sold 90 beds to the customer. On this basis Marcos estimates that the customer will not exceed the 1,000 beds threshold required for the volume discount in the calendar year. In accordance with IFRS 15, it should be concluded that a significant reversal in the cumulative amount of revenue recognised (K500 per printer) will not occur when the uncertainty is resolved (i.e. when the total amount of purchases is known). Consequently, Marcos should recognise revenue of K45,000 (90 * K500) for the first quarter ending 31 March 2023.

Quarter ended 31 June 2016

At the beginning of June 2023, Chalo Trust has opened another boarding house and at the end of the second quarter, 30th June 2023 Marcos has sold an additional 600 beds to the customer. In the light of the new fact, Marcos estimates that the customer's purchases will exceed 1,000 beds for the calendar year and therefore Marcos would have to retrospectively reduce the price per unit.

Accounting entries

Marcos should therefore recognise revenue of K286,200. This amount is calculated as follows:

		K
600 * 480	=	288,000
Less the discount on the purchase on the first quarter (20 * 90)		(1,800)
		286,200

DR	Receivable	286,200	
CR	Revenue		K286,200

2) In relation to Marco Ltd

a) Ethical issues and
b) Action

i) Provision

IAS 37 Provisions, Contingent Liabilities and Contingent Assets states that a provision should only be recognised if:
– there is a present obligation from a past event,
• an outflow of economic resources is probable, and
– the obligation can be measured reliably.

No provision should be recognised because Marco Ltd does not have an obligation to incur the training costs. The expenditure could be avoided by changing the nature of Marco Ltd's operations and so it has no present obligation for the future expenditure.

The provision should be de-recognised. This will reduce liabilities by 2 million and increase profits by the same amount.

Ethical implications

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

The error made by Marco Ltd overstate liabilities and understate profits. It is possible that this is an unintentional error. However, incentives exist to depart from particular IFRS and IAS standards: most notably the bonus scheme. The bonus target in 2023 has already been exceeded, and so the finance director may be attempting to shift 'excess' profits into the next year in order to increase the chance of meeting 2024's bonus target. In this respect, the finance director has a clear self-interest threat to objectivity and may be in breach of *ZICAs Code of Ethics and Conduct.*

Action

The accountant is correct to challenge the finance director and has an ethical responsibility to do so. Despite the fact that the finance director is acting in an intimidating manner, the accountant should explain the technical issues to the director.

If the director refuses to comply with accounting standards, then it would be appropriate to discuss the matter with other directors and to seek professional advice from ZICA. Legal advice should be considered if necessary. The accountant should keep a record of conversations and actions. Resignation should be considered by Maggie if the matters cannot be satisfactorily resolved.

If HBC considers that these issues are significant, it should consider withdrawing from the client for integrity reasons

ii) Contract with the Ministry of Home affairs

Ethical and Professional issues

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

Objectivity - Self interest

The self-interest to increase revenue and profitability in order to secure a loan required to fund contract to manufacture and install furniture and fittings has influenced and biased the finance director's judgement of the accounting treatment to be applied. This is against the fundamental principle of objectivity

Professional behaviour

According to IFRS 15, Revenue from Contract with Customers, revenue should only be recognised once the related performance obligation is fulfilled. In the case of Marco Ltd, only 6 months of the eighteen months' contract would have been performed by the year end date of 3ist December 2023. This results overstatement of revenue and profits. Professional behaviour requires accountants to comply with all laws, regulations and standards

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

Integrity

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

Action

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

If HBC considers that these issues are significant, it should consider withdrawing from the client for integrity reasons

iii) Disclosure of transactions with directors

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

Objectivity - Self interest
The self-interest of attempting to maintain and protect its competitive advantage has influenced and biased the decision not to disclose information relating to loans between Marco Ltd and its directors

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

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

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

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

Action

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

The finance director should be advised to disclose information as required by and IAS 24

If this is not done and HBC considers that these issues are significant, it should consider withdrawing from the client for integrity reasons

3) Taxation liabilities between 2016 and 2022 FOR Isaac Munshi

a) Tax amnesty – relief and waiver mechanism

Relief

A taxpayer may be granted a waiver of the following, provided they are outstanding at the time of application and charged before 1st October 2022.

- Late registration penalties
- Late return filing penalties
- Late payment penalties
- Late payment interest
- Penalties arising from an audit

Waiver

The waiver will be granted upon payment of the principal amount based on the below mentioned ratio. The waiver ratio for Amnesty will be tied to the time of payment after application for a waiver as follows:

i) Payments received from 1st October to 31st December 2022 will enjoy a 1:4 waiver ratio whereby payment of K1 towards the principal amount entails a K4 waiver on penalties and interest.

ii) Payments received from 1st January to 31st March 2023 will enjoy a 1:2 waiver ratio whereby payment of K1 towards the principal amount entails a K2 waiver on penalties and interest.

iii) Payments received after 31st March 2023 will enjoy a 1:1 waiver ratio whereby payment of K1 of the principal amount entails a K1 waiver of penalty and interest.

b) Change in turnover levels

When a taxpayer whose turnover is below K800,000 discovers that his annual turnover will exceed K800,000 during the course of the year, he will notify the Commissioner General immediately. However, he shall continue to pay Turnover Tax till the end of the particular charge year and shall be assessed under the Income Tax System

Any change form Turnover Tax to Income Tax and vice versa shall take effect only at the beginning of a charge year. No change will be effected during the course of the charge year. The changeover can either be initiated by the Taxpayer or indeed by ZRA where the system detects the change in Turnover

At the beginning of the new charge year, the Taxpayer is required to comply with provisional tax requirements in terms of quarterly returns and payments, others wise the usual penalties and interest would ensue

4) In relation to provisional tax for Isaac Munshi

a) Provisional income tax paid by Isaac for the tax year 2023 and schedule of payments

Provisional Income Tax computation for the tax year 2023	K
Provisional Income	1,000,000
Provisional Income Tax	
On the first K57,600 x 0%	0
On next K24,000 x 20%	4,800
On next (K25,200 x 30%)	7,560
On the balance (K1,000,000 – K106,800 = 893,200 x 37.5%	334,950

Provisional Income Tax paid	347,310
	=====

Schedule of payments of provisional income tax

Due date	Amount
	K
10 April 2023: 25% x K342,844	86,828
10 July 2023	86,828
10 October 2023	86,828
10 February 2024 (late by one month)	**86,826**
Total provisional income tax paid	347.310

b) Implications of paying the last instalment late and the related penalties and interest payable

The last instalment of the provisional tax was paid one month late. Isaac will suffer penalties at 5% per month and interest at the Bank of Zambia rate plus 2% per annum. Accordingly, Isaac will be levied interest and penalties as follows:

	K
Amount due – K86,826	
Penalty at 5% per month K86,826 x 5%=	4,341
Interest at 16% + 2%=18% per annum K86,826 *18%*1/12	1,302

	5,643
	====

5) **In relation to the income tax liabilities for Isaac Munshi for 202**3

a) **Import taxes to be paid on the second hand Canter imported in December 2023**

Import taxes

Truck- customs value	$
Cost	20,000
freight	4,200
Insurance	2,400
CIF	26,600
VDP in ZMW $26,600 x K19.5	518,700

	VALUE K	**TAXES K**
Customs Value	518,700	
Customs duty (per table)	11,744	11,744
	530,444	
Excise duty	9,004	9,004
	539,448	
Value added Tax @ 16%	86,312	86,312
Total value	625,760	
Total import taxes		107,060

b) Capital allowances eligible for Isaac for the tax year 2023

i) **Capital Allowances – Land and Buildings**

		K	K
<u>Old Hardware shop</u>			
Income tax value b/f		340,000	
Disposal – restricted to cost (K550,000 – K125,000)		(425,000)	

Balancing charge			(85,000)
<u>New Hardware Shop</u>			
Total construction cost	925,000		
Less cost of land	(325,000)		

	600,000		
	======		
Wear and Tear Allowance			
2% x K600,000			12,000

Net balancing charge			(73,000)
			=====

ii) Capital Allowances on Property, Plant and Equipment for the tax year 2023

		Capital Allowances
Mitsubishi Canter Van	K	K
Income Tax Value b/f	112,500	
Disposal	(100,000)	
Balancing Allowance		12,500
Honda Civic Motor Car		
Wear and Tear Allowance		
20% x K100,000	20,000 x 70%	14,000
Old office furniture		
Income Tax Value b/f	10,000	
Disposal	(18,000)	
Balancing Charge		(8,000)
Old Office Computer		
Wear and Tear Allowance		
25% x K12,000		3,000
Jeep Motor Car		
Wear and Tear Allowance		
20% x K140,000	28,000 x 70%	19,600
New Office Furniture		
Wear and Tear Allowance		
25% x K72,000		18,000
New Office Computer		
Wear and Tear Allowance		
25% x K13,000		3,250
Power Generator		
Cost - see below tax computation	5,950	
Wear & tear allowance		
(K5,950 x 25%)	(1,488)	1,488
New Server		
Cost	23,800	
Wear & tear allowance		
(K23,800 x 25%)	(5,950)	5,950
Total Capital Allowances		69.788

c) **ISAAC**
Computation of taxable business profits for the tax year 2023

	K	K
Net profit as per the accounts		1,095,000
Add back:		
Depreciation	26,400	
Private motor expenses (147,000 * 30%)	44,100	
Salary in excess (160,000 – 120,000)	40,000	
Products for personal use @ selling price	9,500	
Disallowed subscriptions and fees:		
- Personal financing plan	5,400	
Travelling – entertainment of suppliers	4,800	
Other expenses disallowed:		
- Donation to political party	600	
- Club subscription	7,100	
Repairs and maintenance – Power generator (6,700- 750)	5,950	
	---------	134,350

		1,229,350
Less:		
Private phone usage for business (5,800* 20%)	1,160	
Home office use (43,200 X1/5)	8,640	
	----------	9,800

Tax adjusted profits		1,219,550
Less Capital allowances		
- Property, Plant and Equipment – see above		(69,888)
- Land and Buildings – see above – balancing charge		73,000

Taxable business profits		1,222.662
		=======

d) Computation of the taxation payable and payment due

Isaac

Personal Income Tax computation for the tax year 2023

	K
Taxable business profit	1,222,662
Emoluments from Lusaka Trades	130,000
	1,352,662
On the first K57,600 x 0%	0
On next K24,000 x 20%	4,800
On next (K25,200 x 30%)	7,560
On excess(K1,352,662 – 106,800) x 37.5%	467,198
	479,558
Less: tax already paid	
Provisional income tax	(347,310)
Pay As You Earn	(21,060)
Income tax payable	111,188

If Isaac plans to pay the income tax of K110,873 on 21 September 2024, it would have been overdue by three months because the due date is 21 June 2024. The consequences of this late payment are that:

(1) A penalty at the rate of 5% of the unpaid tax per month or part thereof would becharged. The amount of penalty would be
= 5% x K111,188 x 3 = K16,678

(2) Interest on over-due tax would also be charged at the Bank of Zambia discount rate plus2% per annum. The rate of interest on overdue tax would be 16% + 2% = 18%. The amount of interest charged would be
= 18% x K111,188 x 3/12 = K5,003

6) In relation to the capital transactions during the year

a) Property Transfer Tax implications

The Property Transfer Tax (PTT) Act Cap 340 provides for the charge of Property Tax on the transfer of property. Property is defined as:

- Land, including any improvements on it
- Shares
- Mining rights
- Intellectual property such as trademarks, patents and trade marks

In the context of Isaac,

1. The sale of old furniture and Mitsubishi Canter are not chargeable to Property Transfer Tax
2. The sale of the hardware shop is chargeable to PTT

b) **Computation of relevant amounts payable**

In respect of the disposal of the hardware shop on 1 November 2023, Isaac is required to pay Property Transfer Tax because the disposal of a hardware shop is a transfer of property.

The realized value is the actual disposal proceeds amount of K950,000 and the Property transfer Tax payable is = 5% x K950,000
= K47,500.

JUNE CPE NON – AUDIT
QUESTON TWO
SUGGESTED SOLUTIONS

7) In relation to the opportunities arising from the 2024 budget pronouncement relating to constituency funds

a) FOUR benefits of the introduction of these funds

i) The significant expansion of Zambia's Constituency Development Fund in the 2022 budget provides an important opportunity to make service delivery more responsive to public needs

ii) This is intended to strengthen decentralisation of local institutions

iii) This is also intended to promote economic development.

iv) Through its projects, CDF aims at building the capacities of self-development within the communities, so as to be able to articulate and fulfill their development needs as a community in its whole, or as a certain group within one community.

v) It also helps to promote employment and improve the welfare of communities

b) **FOUR business opportunities that your firm can exploit from the increase in constituency funds**

i. Provide financial related training – such as finance for non-financial managers

ii. Provide accountancy services – preparation of financial statements in accordance with appropriate reporting frameworks

iii. Provide taxation services – tax computations and filling of various returns

iv. Provide business training such as entrepreneurship

v. Assist with the development of business and project plans for submission to local committees for consideration

8) In relation to Bunga Millers Limited (BML)

a) and b) Ethical and other professional issues and Action

	ETHICAL AND PROFESSIONAL ISSUE	**ACTION**
1	**Politically Exposed Person – Money Laundering** A *politically exposed person* (PEP) is an individual who is or has been entrusted with a prominent function. Many PEPs hold positions that can be abused for the purpose of laundering illicit funds or other predicate offences such as corruption or bribery. PEP's are considered a risk associated with money laundering Ms Chilangwa has held the very senior position of permanent secretary of Home Affairs and has been involved in what appears to be questionable immigration activities	Professional guidelines recommend that Chintu & Co should carry out additional due diligence procedures on Ms Chilangwa and BML. Any confirmed suspicions of money laundering should be handled in accordance with the requirements of the Financial Intelligence Centre guidelines, including seeking legal advice
2	**Familiarity** It appears the managing director of the firm and the owner of BML are familiar with each from the "University" days. This creates a familiarity threat that would impair Mr. Chintu's ability to deal the affairs of BML impartially	It is recommended that Mr. Chintu should do not be involved in the process of providing professional services to BML at any cost. It may be appropriate for Mr. Chintu to declare this connection to other senior members of the firm
3	**Funding of Milling plants – Money Laundering** The various plants opened up in the last eighteen months have all been funded by Mr. Chilangwa. It should be expected that the funds required for this expansion would be significant and this brings into question the source of money injected by Ms. Chilangwa. This may be viewed as an indicator of money laundering	Chintu & Co should undertake suitable due diligence procedures to confirm the existence of money laundering suspicions. If these suspicions are confirmed, the firm should take the necessary steps to report this matter to the Financial Intelligence Center (FIC), including seeking legal counsel as appropriate. Additionally, Chintu & Co would be advised to consider withdrawing from this engagement
4	**Integrity – Suspected corruption**	Chintu & Co should assess its continued association with BML. If the integrity

	BML has demonstrated several instances of questionable behavior – breach of laws and regulations and Ms Chilangwa being involved in questionable immigration activities. The supposed connections with foreign owned supermarkets also appear suspicious Professional accountants are required not to associate themselves with clients who have negative publicity arising from lack of integrity	concerns are considered significant, the firm should withdraw from the engagement
5	**NOCLAR – non-compliance with laws and regulations- integrity - Confidentiality** The dumping of waste into the Kafue river is in breach of the ZEMA regulations. Deliberate dumping of such waste would also question the integrity of BML	Chintu & Co should discuss this issue with BML. In the event that BML is not willing to address the issue with ZEMA, Chintu & Co should consider taking the necessary steps in reporting this to ZEMA, including seeking legal advice. As this issue is more likely to be construed as a public interest issue, Chintu & Co would not be in breach of confidentiality rules Additionally, Chintu & Co should consider whether the firm should continue associating itself with such negative publicity and questionable integrity
6	**Gifts and hospitality – self interest** Members of staff of Chintu & Co receive some mealie meal and other products from BML every month. This creates a self-interest threat and may affect the manner in which the staff handle BML – their objectivity may be questioned.	According to ZICA ethical guidelines, there is nothing wrong for the exchange of gifts and hospitality in a professional relationship. However, where this is significant or is seen to affect the objectivity of the professional accountant, it should be declined. As this is happening every month, the total value of the gifts is likely to be significant over time. Chintu & Co should therefore decline this gesture and request its staff to be buying, should they still need these products

9) In relation to Bunga Millers Limited (BML) and each of the following items

i) Maize Milling machine

a) Accounting treatment and figures

The lease of property by BML must primarily be accounted for under IFRS 16.

IFRS 16 requires that all lease contracts must be capitalised with limited exemptions. In accounting for this lease contract, BML will therefore recognise and account for the Right-of-Use

Asset acquired under lease and a Lease Liability as follows:

Initially on 1st January 2023

1. Recognise the Right of use of Asset and Lease liability at the present value of future lease cash flows at BML's cost of capital as follows:

	K' Million	K' Million
DR Asset	9.098	
CR Liability		9.098

Say K9.1m

2. Recognise any direct costs incurred as part of the Right of use of Asset as follows:

DR Asset	0.100	
CR Bank		0.100

3. Therefore, initial carrying amount of asset (9.098m + 0.100)____ = K9.198 say K9.20 m

Subsequent accounting will be as follows:

4. The lease liability must be measured at amortised cost using the cost of capital follows (first two years):

Period (y/e 31.12)	Opening liability	finance cost @10%	cash flow	closing liability
	K'm	K'm	K'm	K'm
2023	9.1	0.91	(2.4)	7.61
2024	7.61	0.76	(2.4)	5.97

Based on the above, BML must report a finance cost of K0.91m in P/L for the year to31.12.2023 in respect of the lease liability. In the SFP, a total lease liability of K7.61mwill be reported at 31.12.2023 split as follows:

		K
'm Non-current liability (amount still outstanding after one year)		5.97
Current liabilities	(2.4 – 0.76)	1.64
		7.61

5. The right of Use Asset must be amortised to P/L over the shorter of the lease term and its useful economic life, on a straight line basis. This gives an amortisation chargeto P/L for the year to 31.12.2023 of K1.84m (ie 9.2/5). The Carrying amount of the Right-of-Use Asset at 31.12.2023 will be K7.36m (ie 9.2-1.84). The Right-of-Use Asset will be presented in non-current assets as a separate item or as a matter of policy within PPE.

b) Taxation treatment and amounts to be included in the tax computation

The accounting base amounts in respect of the Right of Use Asset and the Lease Liability at 31.12.2023 are K7.63m and K7.61m respectively. The tax base amounts are based on the tax treatment of the lease contract. In this example, tax law does not recognise lease assets and liabilities though the amounts giving rise to the assets and liabilities have tax effect (they are deductible). Therefore, the tax base amounts for the Right-of-Use Asset and the Lease liability must be nil and any differences arising with the accounting base are temporary differences.

In the tax computation, the total amount of K2.4 million will be allowable as an expense

ii) Wheat Flour inventory

a) Accounting treatment and figures

According to IAS 2 Inventories, Inventories should initially be measured at cost and subsequently measured at the lower of cost and net realizable value

1. The cost is

Selling price	K1,500
Less margin (25/125 *1,500)	(300)
	K1,200
	=====

2. Net realizable value:

Estimated selling price	K950
Less repackaging costs	(K30)
Less estimated selling costs	(K50)

	K870

Therefore the 500 bags should be measure at K870	=	K435,000
Instead of 500 * 1,200	=	K600,000

Write off to the profit and loss account		K165,000

b) Taxation treatment and amounts to be included in the tax computation

The tax treatment is to treat the loss of K165,000 as part of cost of sales and will be an allowable expense in the tax computation, assuming it is actually incurred

iii) Instant Nshima

a) Accounting treatment and figures

According to IAS 38, Intangible Assets, research costs should be written to the profit and loss whereas development expenditure may be capitalised, provided stated conditions are satisfied. These conditions include evidence that the development expenditure will result in an economic resource that will provide in flow of economic benefits to the entity.

Results for "Instant Nshima" and subsequent sales suggest that the development expenditure has met the criteria as an economic resource. Accordingly, the development should be capitalised in accordance with IAS 38 as follows:

1. | | |
|---|---|
| Total cost incurred | K 2,500,000 |
| Amortisation – full year 2,500,000/10 | (250,000) |
| | --------------- |
| | K 2,250,000 |
| | ======= |

2. For year ended 31 December 2023, K250,000 will charged in the profit and loss as amortisation and the K 2,250,000 will be reported under intangible assets in the statement of financial position

b) Taxation treatment and amounts to be included in the tax computation

According to taxation rules, the development expenditure is not recognised as an asset. Therefore, the tax base amounts for the intangible asset will be nil and any differences arising with the accounting base are temporary differences.

In the tax computation, the total amount of KK2.500.000 spent on development will be deducted as an allowable expense in the year in which the expenditure is incurred

iv) RSA Packing Machine

a) Accounting treatment and figures

According to IAS 16, Property Plant and Equipment (PPE), an entity may select to apply the cost or the fair value model to account for PPE. If the fair value model is selected, the following rules apply

- **First valuation resulting in a surplus**
  DR Asset
  CR Revaluation reserve

- **Subsequent valuation resulting in a deficit but following a surplus**
  DR Revaluation reserve – to offset against previous surplus
  DR Profit and loss – excess offset against profit and loss
  CR Asset – with the deficit

In the case of BML, the PPE will be accounted as follows

		K' 000
1.	Year ended December 2022	
	Cost – I Jan 2019	4,000
	Depreciation (4,000/20) * 4 years	(800)

		3,200
	Revaluation	3,500

	Surplus	300

DR Asset 300,000
CR Revaluation reserve 300,000

2.	Year ended December 2023	
	Opening balance	3,500
	Depreciation 3,500/16 yrs left	(219)

		3,281
	Revaluation	2,300

	Deficit	981
		====

The deficit will be accounted as follows:

DR Revaluation reserve K300,000 – to offset against previous surplus
DR Profit and loss K681,000 - to offset excess deficit against P/L
CR PPE K981,000

Accordingly, the revaluation reserve will be nil, the profit and loss will be charged with K681,000 and the K2.300.000 will be reported as PPE in the statement of financial position

b) Taxation treatment and amounts to be included in the tax computation

For taxation purposes, the tax base of the asset will be the original cost of K4 million less accumulated capital allowances based on the original cost. Revaluations are not recognised for taxation purposes, but however gives a rise to a temporary difference

In the tax computation, the depreciation charged will be disallowed and replaced by the capital allowances for that year. The capital allowances will be based on original cost

10) In relation to Taveni Ventures

a) Mweemba and Sakala were considering increasing their net pay to approximately K253,902 for Mweemba and K239,538 for Sakala for the year 2024. Advise them of how much their gross pay would be to achieve the desired levels of net pay for 2024

(5 marks)

	Mweemba		Sakala
	Kwacha		**Kwacha**
First K61,200 @ 0%	0		0
Next K24,000 @ 20%	4,800		4,800
Next K25,200 @ 30%	7,560		7,560
	-------		-------
Tax based on 110,400 gross	12,360		12,360
	=====		=====
Net pay from K110,400	K98,040		K98,040
Difference to represents net pay or 67%			
(253.902 – 98,040)	155,862	(239,538 -98,040)	141,498
Therefore 100% =	247,400		224,600
Therefore 37% =	91,538		83,102

Desired Net pay 253,902
239,538

Therefore gross pay (247,400+110,400) = K357,800 (224,600+110,400) = 335,000

b) Reasons why Taveni Ventures will be required to register for VAT in the charge year 2024

VAT registration is required once the annual VAT exclusive turnover of taxable supplies exceedsK800,000 or K200,000 for a period of three months.

Taveni Ventures will therefore be required to register for VAT in 2024, because its turnover fromtaxable supplies will exceed the VAT registration threshold.

c) Computation of VAT for the year ended 31 Dec 2024

TAVENI VENTURES

VAT payable for the year ended 31 December 2021

	K	**K**
Output VAT		
		0
Exempt sales (K150,000 x 10% x 12)		
Standard-rated sales		
(K150,000 x 90% x 12 x 16%)		259,200
		259,200
Input VAT		
Exempt purchases (K58,000 x 10% x 12)	0	
Standard-rated purchases		
(K58,000 x 90% x 12 x 16%)	100,224	
Entertaining customers	0	
Entertaining suppliers	0	
Motor vehicle servicing (K3,480 x 4/29 x 12)	5,760	
Overheads (K12,296 x 12 x 4/29 x 90%)	18,317	
Computers (pre-registration)	0	
Equipment (K71,920 x 4/29)	9,920	
Light truck (K104,400 x 4/29)	14,400	
Toyota Allion Cars	0	
		(148,621)

VAT payable 110,579

d) Computation of estimated income tax payable by the company for the tax year 2024

TAVENI VENTURES
INCOME TAX PAYABLE FOR THE TAX YEAR 2024

	K	K	
Sales (K150,000 x 12)		1,800,000	
Add:			
Personal-to-holder car benefit			
(K30,000 + K30,000)		60,000	1,860,000
Less:			
Purchases (K58,000 x 12)	696,000		
Salaries (K323,913 + K303,913)	627,826		
Other expenses			
(K20,648 x 12) – (K5,760 + K18,317)	223,699		
Capital allowances:			
Computers (K23,200 x 25/29 x 25%)	5,000		
Equipment (K71,920 x 25/29 x 25%)	15,500		
Light truck (K104,400 x 25/29 x 25%)	22,500		
Toyota Allion car (K75,000 x 20% x 2)	30,000		
		(1,620,525)	
Taxable business profit		239,475	
Income tax @30%		71,843	