



COMPETENCE PRACTICE EXAMINATION

NON-AUDIT PRACTISING CERTIFICATE

JUNE 2025

TIME ALLOWED: 5 HOURS

INSTRUCTIONS TO CANDIDATES

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

CPE NON-AUDIT - QUESTION ONE

Based on tax rates of 2024

APLUS ASSOCIATES

Your name is Green Lubasi. You are a director in charge of non-audit services in Aplus Associates – a firm registered with the Zambia Institute of Chartered Accountants to provide accountancy, taxation and other advisory services. The managing director of the firm is Mr. Isaiah Thole.

For 2025, you have been allocated the following assignments:

- **Various clients – Ethical and Professional Issues**
- **Solar Power Limited– Accounting Adjustments and Cash flows**
- **Charlie and Angels –Tax planning**

A) VARIOUS CLIENTS - ETHICAL AND OTHER PROFESSIONAL ISSUES

The new dawn government prides itself in being a government committed to the rule of law. Accordingly, the Zambia Revenue Authority (ZRA) has recently increased its tax audits with particular emphasis on tax avoidance and tax evasion practices.

In order to re-enforce Aplus' adherence to ethical fundamental principles the managing director, Mr. Thole, is planning to hold a training session to remind members of staff of the importance of adhering to ethical principles. He has asked you to prepare a briefing paper to provide guidance on the following issues

i) Issue 1 - Acceptance of new clients

Mr. Thole wants members of staff to be reminded of the ethical considerations relating to acceptance of new clients. This will help to detect clients that may be involved in tax evasion

ii) Situation 2 – Wanda

Wanda is a client of our firm who has received an unexpected refund of income tax from ZRA in respect of an earlier tax year. Wanda is not sure whether he is entitled to this refund

iii) Situation 3 – Plad Ltd

Plad Ltd is a client of our firm. Our firm has just discovered that a significant capital gain made by Plad Ltd several years ago was omitted from its tax returns to ZRA for Property Transfer Tax (PTT). Would it be right to assume that our firm does not need to do anything and that the ZRA will contact our firm about this at some point?

B) SOLAR POWER LIMITED (SPL)

Solar Power Limited was formed by a consortium of investors from China and Zambia. SPL manufactures and supplies solar panels and provides consultancy services in other forms of renewable energy. Formed three years ago, SPL has gradually increased its client portfolio. Mr. Rogers Sombe, a self-made \$ millionaire has expressed interest in providing additional financing to SPL to allow it to expand its operations to the rest of Zambia. Mr. Sombe has commissioned a due diligence on the performance of the company over the last two years to enable him make an informed decision.

M. Sombe has set the following targets as a basis for his decision for 2024. These targets are expressed in the form of three key accounting ratios, as follows:

	Performance Indicator	Target
1	Return on Capital Employed (Computed as Profit before interest as a percentage of debt plus equity	7%
2	Net profit margin (Computed as profit before tax as percentage of revenue)	5%
3	Gearing (Computed as long term and short term debt as a percent of the total debt plus equity)	Below 48%

The draft financial statements for the year ended 31 December 2024 include the following figures

	K
Revenue	31,850,000
Profit before interest	2,972,000
Interest	1,241,000
Equity	22,450,800
Debt	18,253,500

The three key ratios, based on the draft financial statements, are as follows:

Return on capital employed	7.3%
Net profit margin	5.4%
Gearing	44.8%

Mr. Sombe has engaged Aplus Associates to undertake the due diligence to include the review and analysis of the financial statements for the year ended 31st December 2024 to confirm whether the targets set have been achieved. Accordingly, you have obtained the following transactions that are relevant to the targets set:

- On 1st January 2024, SPL sold an item of plant for K1m to Zam Bank, an entity that provides financial services to businesses. The carrying value of the plant at the date of sale was K1m. Zam Bank has the option to require SPL to repurchase the plant on 31st December 2024 for K1.1m. If the option is not exercised at that date, SPL will be required under the terms of the agreement between the entities to repurchase the plant on 31st December 2025 for K1.21m. SPL has continued to insure the plant and

to store it on its business premises. The sale to Zam Bank was recognized as revenue in the draft financial statements and the asset was derecognized.

- b) On 1st January 2024, SPL entered into a debt factoring agreement with Pasi, a factoring business. The terms of the agreement are that SPL is permitted to draw down cash up to a maximum of 75% of the receivable that are covered under the factoring arrangement.

However, Pasi is able to require repayments of any part of the receivable that are uncollectable. In addition, SPL is obliged to pay interest at an annual rate of 10% on any amounts it draws down in advance of cash being received from customers by Pasi. As soon as the agreement was finalized, SPL drew down the maximum cash available in respect of the K2m receivable it had transferred to Pasi as part of the agreement. As the receivables were considered sold to Pasi, this amount was accounted for by debiting cash and crediting receivables.

- c) On 1st January 2024, SPL issued 2m K1 preference shares at par. The full year's dividend of 8% was paid before the 30 September 20X8 year-end, and was recognized in the statement of changes in equity. The preference shares are redeemable in 2030, and the entity is obliged to pay the dividend on a fixed date each year. The full K2m proceeds of the issue were credited to equity capital.

C) CHARLIES AND ANGELS – CHARGE RITE LIMITED

Charlies and Angels have been friends for a long time. They attended the same university and have the same political persuasions. They have successfully secured funding from the Citizens Economic Empowerment Commission (CEEC) to open two retail shops in Luanshya to take advantage of the economic revival of the town following the resuscitation of the mines. They hope to be selling groceries and other domestic supplies.

The retail shops will commence on 1st January 2025. The date now is December 2024

Charlies and Angels are aware that there are different types of businesses and each has different tax implications. They need advise on the type of business format they should adopt

Type of business

Their plans are that on 1st January 2025, they will start the retail business with the following expectations

- a) Whether they run the business as partnership or limited company, the tax adjusted profits for the year ending 31 December 2025 is expected to be K4,752,000. This profit is **before** taking into account of capital allowances on implements, plant and machinery, and emoluments, but after other necessary adjustments.
- b) If they run the enterprise as a partnership, they will withdraw K4,000,000 of the profit as partnership salaries. If they run the enterprise as a limited company, they will personally withdraw K4,000,000 of the company's profits, and this will be either as director's emoluments or as dividends. The company will be called Charge Rite Limited (CRL). Whether they run the new business as a partnership or as a limited company, they will contribute equal amounts of capital and share any appropriations between them equally

- c) On 1st January 2025, they will purchase two motors at a cost of K450,000 each for use by each of them for both business and private purposes. The vehicles are to be regarded as personal to holder but expected to be used on business **50%** of the time.
- d) Each of the two motor cars will have a cylinder capacity of 2,500 cc and will be petrol driven. On 1 June 2025, they will buy two Ford vans at a cost of K600,000 each for use in delivering goods to the retail shops. These Ford vans will each have a cylinder capacity of 3,000 cc and will be diesel driven vans

Charlies nor Angels have no other income expected in 2025

REQUIREMENTS

1) In relation to the various clients of Aplus Associates,

- a) Compare and contrast with an example each, the difference between tax evasion and tax avoidance
(6 marks)
- b) Explain the ethical and legal implications associated with
 - i) Tax avoidance (4 marks)
 - ii) Tax evasion (5 marks)

c) As required by the managing director, Mr. Thole, prepare a briefing paper in which you should

- i) Provide a summary of the procedures which the firm should follow before accepting new clients.
(6 marks)
- ii) Prepare a summary of the actions which the firm should take, and the matters of which Wanda should be aware, in relation to this income tax refund.
(6 marks)
- iii) You are required to explain the implications for Plad Ltd, and our firm, of the failure to report the chargeable gain to ZRA. You are NOT required to address money laundering or the possibility of penalties
(5 marks)

2) In relation to Solar Power Limited

- a) Show how the three key ratios were computed based on the draft financial statements
(6 marks)
- b) For each of the three transactions:
 - i) Discuss the accounting treatment of each transaction AND identify any errors that you think have been made in applying accounting principles with references, where appropriate, to IFRS.
(15 marks)
 - ii) Prepare the adjustments that are required to correct those errors
(6 marks)
- c) Calculate and explain the effect of your adjustments on SPL's key accounting ratios for the year ended 31st December 2024
(9 marks)

3) In relation to Charlies and Angels and the type of business

- a) Calculate Charlies' and Angels' income tax payable for 2025 if they run their business as
 - i) A partnership (8 marks)
 - ii) As a limited company and withdraw gross director's emoluments of K4,000,000
(4 marks)
 - iii) As a limited company and withdraw dividends of K4,000,000

(4 marks)

- b) Calculate the income tax payable by Charge Rite Limited for the year ended 31st December 2025 if Charlies and Angels run their business as a limited company and

i) Withdrew gross remunerations of K4,000,000

(6marks)

ii) Withdrew as dividends K4,000,000

(4 marks)

- c) Based on your calculations in parts (a) and (b), advise Charlies and Angels whether it will be beneficial to run their business as a partnership or whether they should run it as a limited company

(6 marks)

(TOTAL 100 MARKS)

CPE NON-AUDIT QUESTION TWO

MALASHA ASSOCIATES

Your name is Marjorie Nakazwe and you are a senior manager in Malasha Associates, a firm of chartered accountants licensed to provide non-audit services such as accounting, taxation and advisory services. The managing director of the firm is Mr. Eli Malasha

For the current period, you have been allocated the following assignments

- Mone Ltd – VAT and investment income
- Buluwe Holdings – Cash flow statement and ethical and other professional issues
- Mr. Shoes Nsapato – Farming taxation

MONE LTD

Assume today is 31st December 2023

You are presented with the information relating to Mone Limited. The company has just been incorporated by Patson and Fashion, and will commence trading on 1 January 2024. Patson and Fashion are the directors and only employees of the company. They have prepared budgeted information for the transactions for the year ended 31st December 2024 as follows:

Investments

Mone Limited will undertake various investments to receive treasury bills interest, royalties and dividends (investment in Copperbelt Energy Company and Zanaco plc)

Turnover

The company will be dealing in both standard-rated and exempt supplies. The Value Added Tax (VAT) exclusive turnover is expected to be K300,000 per month throughout the tax year 2024. It has been established that 90% of the turnover will be standard-rated supplies while the remaining 10% will be exempt supplies.

The invoices will usually be issued to customers within ten (10) days after the goods have been collected by the customers. All the sales will be on cash basis.

Purchases and Expenses

The company bought computers at a cost of K46,400 (VAT inclusive) on 4th December 2023. Other purchases and expenses to be acquired are as follows:

- a) Equipment and Light truck at a cost of K143,840 (VAT inclusive) and K208,800 (VAT inclusive) respectively.
- b) Two (2) Mazda cars at a cost of K150,000 each (VAT inclusive) – each with a cylinder capacity of 1,800 cc and they will be used by Patson and Fashion on a personal-to-holder basis. It has been

estimated that the business use in each motor car will be 70% by each individual. All other assets will be used wholly and exclusively for business purposes.

Purchases of goods for resale are expected to be K116,000 per month exclusive of VAT. 90% of the purchases are standard-rated supplies while the remaining 10% are exempt supplies.

Standard rated expenses will average K41,296 (inclusive of VAT) per month and these will be made up of the following:

	K
Entertaining customers	5,568
Entertaining suppliers	4,176
Motor vehicle servicing	6,960
Overheads	24,592

	41,296

Directors remuneration

As Directors of the company, Patson and Fashion will be entitled to annual salary amounting to K647.826 and K607.826 respectively. Patson and Fashion will have no other income.

BULUWE HOLDINGS

Your managing director Mr. Eli Malasha has shared the following exchange of e-mails with Mr. Gerald Buluwe, the managing director of Buluwe Holdings.

To	:	Eli Malasha	Date	:	2 nd February 2025
From	:	Gerald Buluwe			
Mr. Malasha – Good morning,					
I got your contact details from your brother who recommended your firm to take over as our accounting and taxation advisers. Your firm is highly recommended. I do not know if you remember me – your brother and I have been close buddies for the last five years. I was even the best man at your brother's wedding earlier this year.					
I would like your firm to assist us with the following:					
a) Tax returns					
Our accountant was suddenly taken ill and is hospitalized in Mum's Care Hospital. We need to submit our tax returns for the third quarter of 2024. I am sure you will be able to deal with this and sign them off on our behalf					

b) Loan guarantee

Our company has applied for a loan from Afrique Bank to install a new bottling plant at one of our divisions. Afrique Bank is willing to advance us the loan provided we have a third party guaranteed the loan. Is this something you can do? Our firm would be most grateful. This will pave way to a mutually beneficial relationship in the future. Part of the funds will be used to replace one of our refrigerated trucks on leasing financing arrangement. Details of this lease are provided **exhibit 1**

c) Cash flow statement

Afrique Bank have requested for a cash flow forecast for the next 24 months. This was submitted but the bank is now requesting for a reconciliation between our profit and cash generated from operations for the current year. In the absence of our accountant, we also request that you assist us with this. I have enclosed the extracts of the statement of financial position and ledger balances and supporting notes. **This is summarized in exhibit 1.** I wish to point out that it is important that our company is seen to be generating sufficient cash from its operations as a pre-condition for the loan from Afrique Bank.

I am proceeding on holiday to Mfuwe lodge next month for two weeks and I am hoping that you and your dear wife can join us. Buluwe Holdings will pay for all ensuing expenses

Grateful for a favourable response

Stay blessed

Gerald

To : Mr. Gerald Buluwe

Date : 7th February 2025

From : Eli Malasha

Mr. Buluwe,

What a pleasant surprise!

My firm will be privileged to provide the services you require. You will find our charges very competitive considering the exceptional quality that we provide. For tax related services, we pride ourselves in exceeding the expectations of our client by offering a guarantee – “no saving – no fee”

Let's catch up soon – perhaps over a glass of red wine

Best regards

Eli

EXHIBIT 1 –

STATEMENT OF FINANCIAL POSITION EXTRACTS – AS AT 31st DECEMBER 2023

	K'000	K'000
Non- Current Assets		
- Land and Buildings (at valuation of K49.2m less accumulated depreciation of K5m)		44,200
- Plant at (At cost K70, 000,000 less accumulated depreciation Of (22,500,000)		47,500
Current Assets		
- Inventories	57,400	
- Trade Receivables	28,600	
	-----	86,000
Current liabilities		
- Trade payable		31,400

EXTRACTS OF LEDGER ACCOUNTS AT 31 DECEMBER 2024

	NOTE	Debit (K'000)	Credit (K'000)
Operating profit for the year – before tax and interest			15,600,
Inventories -		43,300	
Trade Receivables		50,400	
Trade payables			26,700
Land and buildings (At Cost K62,300,000 less Accumulated Depreciation K6,800,000)	1	55,500	
Plant (At cost K84,600,000 less accumulated depreciation K37,600,000)	2	47,000	

NOTES

- 1) There were no disposals of land and buildings during the year. The increase in the revaluation reserve of K6 million was entirely due to the revaluation of the company's land
- 2) Plant with a net book value of K12 million (cost K23.5 million) was sold during the year for K7.8 million. The loss on sale has been included in the profit before interest and tax

DETAILS OF THE LEASE ARRANGEMENT

Commencement of the lease	:	1st January 2025
Lease term	:	5 years
Useful life of asset	:	6 years
Annual payments in arrear	:	K5,000,000 first payment on 31 st December 2025

Initial direct costs to be incurred	:	K500,000
The rate implicit in the lease	:	5%
Present value of minimum lease payments	:	K22,730,000

MR SHOES NSAPATO

Mr. Nsapato is the proprietor of Shoe farm which is located on the outskirts of Mazabuka. In January 2024, he estimated the taxable farming profits from the farming business for the year ending 31st December 2024 to K1,290,000.

Detailed Profit and loss account for the year ended 31st December 2024

	Note	Kwacha	Kwacha
Sales			1,871,850
Cost of sales:			
- Farming inputs	1	455,300	
- Mr. Nsapato salary		135,000	
- Salaries and wages – farm workers		69,000	
- Loans to former farm employees written off		18,000	
- Employer's Pension contributions		3,450	
		-----	680,750
Gross profit			1,191,100
Less: Expenses			
Transportation			
- Service and fuels – farm equipment		20,700	
- Repairs and fuels – Toyota Hilux - Van	2	14,250	
		-----	34,950
Repairs and maintenance			
- Storage facilities		10,200	
- Clearing and stumping		14,550	
- Farm dwellings for employees		6,450	
- Construction of fence		24,450	
- Soil preservation		27,750	
		-----	83,400
Other general operating expenses:			
- Disposal of farm equipment – loss		10,650	
- Depreciation		21,600	
- Increase in general provision for bad debts		3,900	
- Increase in specific provision for bad debts		5,950	
- Other allowable expenses		10,650	
		-----	52,750

Total expenses	----- 171,100 -----
Profit before tax	----- 1,020,000 =====

Additional information

Farm produce with a cost of K22,500 withdrawn from the business by Nsapato for personal use. He makes a mark-up of 20%. This transaction was recorded as sales at cost in his books.

At 1 January 2024, the only asset qualifying for capital allowances was the motor van which was purchased in March 2023 at a cost of K135,000. It was agreed with the Commissioner General that private use for the motor van by Mr. Nsapato was 20%

During the year, Nsapato purchased a Tractor at a cost of K195,000 and sold some farm implements for K9,600. The farm implements had an income tax value of nil at 1 January 2024, whilst the original cost was K90,000.

REQUIREMENTS

1) In relation to Mone Ltd:

- a) Explain the tax implications of the following expected investment returns
 - (i) Treasury Bills interest (2 marks)
 - (ii) Royalties (2 marks)
 - (iii) Dividends (2 marks)
- b) Assuming that Mone Ltd registered for VAT on 1st January 2024,
 - (i) Compute the amount of Value Added Tax (VAT) payable for the year ended 31 December 2024. You should indicate zero where VAT is not chargeable or recoverable (12 marks)
 - (ii) Compute the amount of income tax payable by the company for the tax year 2024 (12 marks)

2) In relation to Buluwe Holdings request for professional services

- a) Evaluate EIGHT ethical and other professional issues arising (12 marks)
- b) For each issue above suggest suitable action that your firm should take (8 marks)

3) In relation to the preparation of the cash flow statement and leasing arrangement for Buluwe Holdings:

- a) Prepare the adjusted net cash generated from operating activities (9 marks)
- b) In relation to the leasing arrangement:
 - (i) Discuss the accounting treatment to be applied by Buluwe Holdings (5 marks)
 - (ii) Prepare financial statement extracts for the year ended 31st December 2025 (6 marks)
- c) For lessee accounting, IFRS 16 allows an entity to make an election for an alternative accounting treatment to be applied. Discuss this option and explain the reasoning behind it. (4 marks)

4) In relation to Mr. Shoes Nsapato:

- a) Calculate the amount of provisional income tax paid by Mr. Nsapato in respect of the tax year 2024 and state the due dates and amounts on each due date (5 marks)
- b) Compute the capital allowances for Mr. Nsapato farm for the tax year 2024 (6 marks)
- c) Compute the taxable profits for Mr. Nsapato farm for the tax year 2024 (11 marks)
- d) Compute the final taxation payable by Mr. Nsapato for the tax year 2024 (4 marks)

(Total 100 marks)