2026 NON-AUDIT COMPETENCE PRACTICE EXAMINATION (CPE)

<u>SUGGESTED SOLUTIONS</u>

<u>SOLUTION ONE</u>

<u>SECTION A</u>

(1) Salinda Accountants

Briefing paper

To: Managing Partner

From: Senior Manager

Subject: Strategic planning for accounting firms

Introduction

This briefing paper has been prepared for use at the next management meeting. It clearly explains the meaning of strategy, benefits of strategic planning for accounting firms and gives advice on whether Salinda Accountants should introduce strategic planning.

Meaning of strategy

Johnson et al (2005) define strategy as "The direction and scope of an organization over the long-term, which achieves advantage in a changing environment through its configuration of the resources and competences with the aim of fulfilling stakeholder expectations".

Benefits of strategic planning for accounting firms

The benefits of strategic planning for accounting firms include the following:

- Clarify vision, mission goals and objectives in order to ensure goal congruence (firm working towards the same objectives).
- Help accounting firms identify weaknesses, strengths, opportunities and threats.
- Improves the accounting firm's fit with the environment which could lead to sustainable competitive advantage.
- Accounting firms are forced to look ahead and therefore make timely decisions.
- Enables accounting firms to assess market demands and identify new growth opportunities and therefore meet their clients evolving needs.

- Provides accounting firms with a roadmap to navigate changes (new technologies, regulatory changes, and shifting client expectations) which require firm to adapt effectively.
- Promotes a culture of ownership among partners and staff, driving commitment to shared objectives and fostering a sense of belonging and motivation.
- Facilitates succession planning which could ensure that the firm's legacy and client relationships are preserved for future generation.

Advice

The challenges posed by changing market dynamics, technological advancement, and workforce issues demand that accounting firms take a proactive stance to remain competitive. In today's rapidly evolving business environment, a robust strategic process is not just a luxury – it is a necessity for accounting firms. Salinda Accountants must therefore introduce strategic planning.

[Award marks as follows:

1 mark for presentation

1 mark for meaning of strategy

1 mark each valid benefit – Maximum 5 marks

Up to 3 marks for correct advice]

(2) Kambita Ltd

(a) Ethics or professional issues and recommended actions

Ethical or professional issues	Recommended actions
(1) The Accounts Supervisor has asked for advice regarding accounting treatment involving a leased computer equipment to a law firm under an operating lease. At this level, the Accounts Supervisor must have sufficient knowledge regarding uncomplicated accounting treatments. It therefore seems the Accounts Supervisor has not attained the required professional knowledge and skill. Kambita Ltd may not receive competent professional service.	All the work carried out by the Accounts Supervisor must be reviewed by an independent senior accountant. Salinda Accountants should urgently review the promotion policy or introduce one if it is non-existent. This is meant to satisfy the ethical principle of professional competence and due care.
(2) The Managing Director has instructed that no provision should be made. The Managing Director is not a professional accountant. His integrity is questionable as his only interest is get the profit related pay even if there are misstatements in the financial statements. Fraudulent financial reporting is a serious offence.	A senior official in Salinda Accountants must discuss the matter with the Managing Director. If the matter remains unresolved, the matter must discussed with those charged with governance, preferably the audit committee.
(3) The Finance Director has strongly advised that the change in use has no effect on the value of the building as presented in the financial statements since the decision was made on 30 September 2026. The advice is incorrect and the competence, objectivity and integrity of Finance Director may be questionable.	A senior official in Salinda Accountants must discuss the matter with the Finance Director. If the matter remains unresolved, the matter must discussed with those charged with governance, preferably the audit committee.
(4) The Managing Director has told the Finance Director that he has received verbal assurance from the customer, who is his father-in-law, that he will not return the computer equipment. Both the Managing Director and the Finance Director are faced with serious self-interest threat as all directors are partly remunerated through profit related pay.	Salinda Accountants must insist on accounting for this transaction as guided by IFRS 15 *Revenue from Contracts with Customers in Financial Reporting*. If both the Managing Director and the Finance Director are not willing to change their position, then Salinda Accountants may consider resigning.

The verbal assurance cannot be used as the basis for the wrong accounting treatment, which is only meant to boost profit-related pay. The Managing Director may be lying or could have obtained the verbal assurance through intimidation.	
(5) Management believe that the wrong accounting treatment is justified as it will help Kambita Ltd maintain its debt covenant obligations and will therefore be in the best interest of their shareholders who are the primary stakeholders. The directors have indicated that, should Salinda Accountants not agree with their accounting treatment, then they will be replaced. This creates a significant intimidation threat. The integrity and objectivity of the directors and management are questionable.	Salinda Accountants must seriously consider resigning as it should not be associated with misleading or false information, which is a serious breach of the fundamental principle of integrity.

[Award marks as follows:

½ mark for each identified ethical or professional issue – Maximum 2 marks

1 mark for each explained ethical or professional issue – Maximum 4 marks

1 mark for each valid recommendation – Maximum 4 marks]

(b) Advice regarding recommended accounting treatments

(1) **The Accounts Supervisor has included the amount received on 30 September 2026 in the revenue figure.**

IFRS 16 *Leases*, provides detailed guidance in this area. The benefit received from the asset is earned over the four (4) years. However, in the first year, Kambita Ltd (lessor) only receives K72,000 X 9/12 = K54,000. Lease rentals of K270,000 (K54,000 + (K72,000 * 3)) are received over the four (4) years lease term. Therefore, the lessor recognises income of K67,500 per year (K270,000/4 years).

A receivable of K13,500 is recognised at the end of year 1 (K67,500 – K54,000 cash received)

[Award marks as follows:

1 mark for reference to IFRS 16

1 mark for K54,000

2 marks for K270,000

1 mark for K67,500

1 mark for K13,500]

(2) **The Managing Director has instructed that no provision should be made in the financial statements.**

Under the principles of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, a provision should be made for the probable damage payable to the customer.

The amount provided should be the amount Kambita Ltd would rationally pay to settle the obligation at the end of the reporting period. Ignoring discounting, this is K1,600,000. This amount should be credited to liabilities and debited to profit or loss.

[Award marks as follows:

1 mark for reference to IAS 37

1 mark for provision of K1,600,000]

(3) **The Finance Director has strongly advised that the change in use has no effect on the value of the building as presented in the financial statements since the decision was made on 30 September 2026.**

The basic principle of IAS 36 *Impairment of assets* is an asset should be carried at no more than its recoverable amount; that is the amount to be recovered through use or sale of the asset. If an asset's carrying value is higher than its recoverable amount, an impairment loss has occurred. The impairment loss should be written off against profit or loss for the year.

Entities must determine, at each reporting date, whether there are any indications that impairment has occurred. In this case, impairment is indicated because the use to which the building is to be put has changed significantly (from business centre into an Information Technology (I.T) College), a situation which will continue for the foreseeable future.

Recoverable amount of the building is higher of:

- Fair value less costs to sell (K1,800,000 – K300,000) K1,500,000
- Value-in-use K1,520,000

Therefore, the recoverable amount is K1,520,000

Carrying amount of the building:

	K
Cost	2,000,000
Less Accumulated depreciation K2,000,000/40 X 3 years	(150,000)
Carrying amount	1,850,000

This indicates an impairment as follows:

	K
Carrying amount	1,850,000
Recoverable amount	(1,520,000)
Impairment loss	330,000

Kambita Ltd should therefore recognize an impairment loss of K330,000 in profit or loss for the year.

[Award marks as follows:

1 mark for reference to IAS 36

1 mark for recoverable amount

2 marks for carrying amount

2 marks for impairment loss]

(4) **The Managing Director has told the Finance Director that he has received verbal assurance from the customer that he will not return the computer equipment. Based on the purported assurance from the customer, the Finance Director has instructed the Accounts Supervisor that K900,000 be included in the revenue figure.**

IFRS 15 *Revenue from Contracts with Customers in Financial Reporting*, gives detailed guidance in this area. The company should not recognize revenue on transfer of the product to the customer on 30 September, 2026. This is because the verbal assurance is no reliable evidence. Consequently, revenue may only be recognised when the right of return lapses (provided the customer has not returned the goods).

On 30 September, 2026 an asset should be recorded for the right to recover the computer equipment and the item should be removed from inventory at the amount of K450,000.

[Award marks as follows:

1 mark for reference to IFRS 15

1 mark for recognised when the right of return lapses (provided the customer has not returned the goods).

1 mark for an asset should be recorded for the right to recover the computer equipment and the item should be removed from inventory at the amount of K450,000]

(5) **The draft financial statements have not shown the change in market values**

IFRS 9 *Financial Instruments*, provide detailed guidance in this area. The directors' explanation for their proposed treatment is not justified. The directors are deliberating flouting guidance given in IFRS 9 to improve their bonus and maintain debt covenant obligations. The change in market values must be shown in the financial statements.

The change in market value of K634,000 [(K7.32 – K4.15) X 200,000] should be shown in the statement of profit or loss and equity financial asset reduced by the same amount.

[Award marks as follows:

1 mark for reference to IFRS 9

1 mark for charge in the statement of profit or loss

1 mark for reduction equity financial asset]

(c) **Preparation of revised summary of the statement of financial position as at 30 September 2026**

DRAFT SUMMARY STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2026

	K	**Marks**
Non-current assets 67,000,000 – 330,000 – 634,000	66,036,000	2
Current assets 9,250,000 + 13,500	9,263,500	2
Total assets	75,299,500	
Equity 40,000,000 + 13,500 – 1,600,000 – 330,000 -634,000	37,449,500	4
Non-current liabilities 25,000,000 + 1,600,000	26,600,000	1
Current liabilities	11,250,000	1
Total equity and liabilities	75,299,500	
TOTAL MARKS		**10**

<u>SUGGESTED SOLUTIONS</u>

<u>SOLUTION ONE</u>

<u>SECTION B</u>

(3) **Nkole Mining Company**

(a) **Discussion of what is meant by green-washing, and evaluation of Nkole Mining Company's extract from the sustainability report**

Meaning of green washing

Green-washing can be defined as a deceptive marketing tactic where organizations falsely portray their products, services, or policies as environmentally friendly to boost their reputation, often to appeal to conscious consumers without making substantive sustainability investments. It involves using vague terms like 'eco-friendly' misleading imagery, cherry-picked data to hide environment damage.

It can also be referred to as practices that involve misleading intended users of the information, or intentionally giving them a false impression about how well an organization or an investment is aligned with its sustainability goals. (IESBA 2022)

Evaluation of Nkole Mining Company's extract from the sustainability report

The extract contains a number of issues which are not supported by any evidence. The main unsupported issues are:

(1) Robust ESG Policy and GHG mitigation goals, targets, and metrics which are **totally in alignment with the Paris Agreement –** the alignment is not backed by any facts and it unlikely that **total alignment with the Paris Agreement** is true**.** A detailed review can confirm that this is false.

(2) All its **infrastructure is built for a changing climate** – this require reliable evidence provided by independent technical experts. As long as supporting reliable evidence is unavailable it will be difficult for users to trust the information contained in sustainability report.

(3) Produces long-term value for **all is a tremendous climate-related opportunity** – it is generally difficult to provide long-term value for all. Every organization has key stakeholders who effectively have significant influence on decision making.

(4) The company **uses technologies that use less freshwater and generate less emissions** – this is also not supported by any evidence and as such may be of little use to stakeholders.

Overall, it appears Nkole Mining Company may be guilty of green-washing. All unsupported statements must be removed or supporting information must also be included. Evidence of certifications by independent bodies is crucial.

[Award marks as follows:

Up to 3 marks for any valid definition

Up to 2 marks for each valid point on evaluation– Maximum 8 marks

Up to 3 marks for overall conclusion]

(b) **Consequences and action(s)**

(i) **Consequences of not filing annual returns and not maintaining the prescribed minimum number of directors**

The Companies Act (Amendment) Act, 2025 has introduced far-reaching reforms which includes the expansion of the Registrar of Companies' power to deregister companies. New grounds for de-registration include:

(1) Failure to file annual returns for two consecutive years

(2) Dormancy

(3) Failure to maintain minimum directors, members, or share capital

(4) Failure to maintain a beneficial ownership register for one year

(5) Having a shareholder, director, or beneficial owner who is a sanctioned person.

Nkole Mining Company's annual return for last year has not been filed and the prescribed minimum number of directors has not been maintained. The company's penalties, deregistration and personal liability for directors are imminent.

[Award marks as follows:

2 marks for reference to Companies Act (Amendment) Act, 2025

2 marks for expanded Registrar's enforcement powers

2 marks for imminent deregistration]

(ii) **Action(s) to take**

Nkole Mining Company must immediately take steps to assess their compliance position and address any gaps, especially that the Companies Act (Amendment) Act, 2025 has introduced stricter corporate regulation. An accountancy firm registered with the Zambia Institute of Chartered Accountants (ZiCA) or a reputable law firm could be engaged as a matter of urgency given that the Company Secretary for the company is unwell. Any early action will reduce exposure to penalties, protect directors from personal liability, and ensures continued good standing with regulators.

[Award marks as follows:

2 marks for immediate action

2 marks for engagement of accountancy firm/ reputable law firm]

(4) **Drug Enforcement Commission (DEC)**

(a) **Advice regarding the appropriate accounting treatments, assuming the DEC uses accruals International Public Sector Accounting Standards (IPSASs)**

(1) Research and development cost of K1 million

IPSAS 31 *Intangible Assets* gives detailed guidance in this area.

Research expenditure must not be capitalized and has to be charged as an expense in statement of financial performance for the period in which it is incurred. On the other hand, development expenditure that meets the criteria specified in IPSAS 31 should be capitalized by recognizing it, as an intangible non-current asset, in statement of financial position at end of the period.

The DEC should capitalize K860,000 as an intangible non-current asset in the statement of financial position as at 31 December, 2026 since it appears that it meets the criteria specified in IPSAS 31. It will be amortised from when it is used for service i.e. next year. The remainder of K140,000 (K1,000,000 – K860,000) does not meet the criteria since it has failed the technical feasibility test. It should therefore be charged as an expense in the statement of financial performance for the year ended 31 December, 2026.

[Award marks as follows:

1 mark for reference to IPSAS 31

1 mark for capitalization criteria

1 mark for capitalization of K860,000

1 mark for amortization to start next year

1 mark for charge of K140,000 as an expense]

(2) **Modern storage warehouse built under a Public Private Partnership (PPP) arrangement**

IPSAS 32 *Service Concession Arrangement: Grantor* gives detailed guidance in this area.

The standard requires the asset to be included in the grantor's financial statements when the control test is met. The associated financial liability must also be recognized.

The DEC has control over the modern storage warehouse and must therefore recognize the modern storage warehouse as a non-current asset at initial amount K6.2 million in the statement of financial position as at 31 December, 2026. As consideration for the modern storage warehouse, the DEC must also recognize a financial liability of K6.2 million, appropriately split between current and non-current liability, in the statement of financial position as at 31 December, 2026.

[Award marks as follows:

1 mark for reference to IPSAS 32

1 mark for control test

1 mark for recognition of non-current

1 mark for recognition of financial liability]

(3) **$400,000 in DEC's safe which was forfeited to the state following a court ruling by the Financial Crimes Court on 20 December 2026**

According to the Public Finance Management Act, 2018, section 88 states that subject to the Forfeiture of Proceeds of Crimes Act, 2010, the proceeds from forfeited assets in favour of the Republic shall constitute general revenues of the Republic and shall be credited to the Consolidated Fund. The Forfeiture of Proceeds of Crime (Fund and Property Management) Regulations, 2023 provides more specific guidance.
The DEC must not include the amount in its financial statements, although it does operate a forfeiture Account. The amount must immediately be deposited in appropriate government account as directed by the Ministry of Finance and National Planning.

[Award marks as follows:

1 mark for reference to the Public Finance Management Act, 2018

1 mark for reference to Forfeiture of Proceeds of Crimes Act, 2010

1 mark for reference to the Forfeiture of Proceeds of Crime (Fund and Property Management) Regulations, 2023

1 mark for the DEC must not include amount in its financial statements

1 mark for immediate deposit]

(b) **Tax implications regarding the capital transactions undertaken during the year ended 31 December 2026**

(1) **Acquisition of land**

According to the Property Transfer Tax Act, CAP 340, property transfer tax (PTT) is payable by the transferor (seller). In this case, as a transferee (buyer), the DEC is not responsible for paying the PTT.

Land is a chargeable asset for PTT purposes and the seller (individual) must have paid PTT based on realized value, which is the higher of the contract price agreed upon by the transferor and the transferee amounting to K10 million gross (K9.5 million X 100/95) and the open market value of K9.8 million, as determined by government valuation officers.

Hence the realized value is K10 million, which is the higher. The PTT was:

PTT = K10,000,000 X 8%

PTT = K800,000.

[Award marks as follows:

1 mark for reference to Property Transfer Tax Act, CAP 340

1 mark for land is a chargeable asset for PTT purposes

1 mark for gross amount

1 mark for correct realized value

2 marks for correct amount of PTT]

(2) **Sale of a building by the DEC**

A building is a chargeable asset for PTT purposes. However, the DEC is exempt from PTT and therefore no PTT was paid.

[Award marks as follows:

1 mark building is chargeable asset

1 mark for DEC is exempt from PTT

1 mark for no PTT paid]

(3) **Sale of Toyota Camry by the DEC**

PTT does not apply on transfer of chattels. Chattels are tangible movable property. Most implements, plant and machinery are chattels. Toyota Camry is a chattel and as such no PTT was payable.

[Award marks as follows:

1 mark for PTT does not apply to chattels

1 mark for Toyota Camry is a chattel]

1 mark for no PTT payable]

SUGGESTED SOLUTIONS

SOLUTION TWO

SECTION A

(1) GREEN LTD

(a) **Evaluation of John Sakania's behaviour**

John Sakania, as a senior member of the Zambia Institute of Chartered Accountants (ZiCA) is bound by the principles of the ZiCA code of Ethics and Conduct. The integrity, objectivity and professional behaviour are highly questionable.

(1) Integrity – members shall be straightforward and honest in all professional and business relationship. As a senior member of the Zambia Institute of Chartered Accountants (ZiCA), John Sakania should safeguard public interest. If talking to the auditor who will be in-charge of the Pay As You Earn (PAYE) tax audit means some form of bribery, then John Sakania has failed the integrity test.

(2) Objectivity – members shall not allow bias, conflict of interest or undue influence of others to override professional or business judgements. John Sakania is faced with a serious conflict of interest in that he may not want to pay the penalty and interest associated with the omission so as to protect the employer's liquid resources. This means John Sakania will fail the objectivity test.

(3) Professional behaviour – members shall comply with relevant laws and regulations to avoid any action that discredits the profession. If the omission is not regularized, then John Sakania will not comply with the tax law and as such will fail the professional behaviour test.

[Award marks as follows:

1 mark for reference to ZiCA code of Ethics and Conduct

1 mark for integrity

1 mark for objectivity

1 mark for professional behaviour]

(b) **Main Consequences regarding John Sakania's behaviour**

The following are the main consequences regarding John Sakania's behaviour:

(1) Income Tax Act – when discovered, the Zambia Revenue Authority (ZRA) may charge Green Ltd penalties and interest as stipulated in the Income Tax Act. The underpayment must also be paid. Penalties are chargeable for late or underpayment of taxes as well as for late submission of returns.

(i) The penalty for late payment of the underpaid PAYE will be 5% per month or part thereof, of the underpaid PAYE.

(ii) Interest will be chargeable on the underpaid tax at the BOZ discount rate plus 2% per annum.

(iii) Penalties will be imposed for submitting incorrect returns and these will amount to 17.5% of the amount if it is established that it was due to negligence, 35% of the amount if it was as a result of wilful default and 52.5% of the amount if was due to fraud.

[Award marks as follows:

1 make for reference to Income Tax Act

1 make for penalties for Green Ltd

1 make for interest for Green Ltd

1 mark for penalty for late submission for Green Ltd]

(2) Accountants Act 2008 – the Zambia Institute of Chartered Accountants (ZiCA) may institute disciplinary action. Section 72 of the Accountants Act, 2008, states that a member commits professional misconduct if the Member:

(a) contravenes the provisions of this Act;

(b) unlawfully discloses or uses to the Member's advantage any information acquired in the course of professional work on behalf of a client;

(c) engages in conduct that is dishonest, fraudulent or deceitful;

(d) commits an offence under any other law;

(e) engages in any conduct that is prejudicial to the accountancy profession or is likely to bring it into disrepute; or

(f) breaches the Code of Ethics or accounting or auditing pronouncements or encourage another Member to breach or disregard the principles of the Code of Ethics or accounting or auditing pronouncements.

Section 73 (1) of the Accountants Act, 2008, states that a person may lodge a complaint with the Disciplinary Committee against a chartered accountant or Member where the person alleges that the chartered accountant or Member has contravened the Code of Ethics or any provision of this Act.

Section 73 (2) of the Accountants Act, 2008, states that the Institute may initiate disciplinary action under this section where the institute has reasonable grounds to believe that a chartered accountant or Member has contravened the Code of Ethics or any provision of this Act.

Section 73 (3) of the Accountants Act, 2008, states that a complaint or allegation shall be made to the Secretary in the prescribed manner and form.

John Sakania could face serious disciplinary action, including deregistration.

[Award marks as follows:

1 mark for reference to Accountants Act, 2008

1 mark for reference to section 72 and section 73 of the Accountants Act, 2008

1 mark for disciplinary action for John Sakania]

(3) Anti-Corruption Act, 2010 – the Anti-Corruption Commission may after investigation into this matter, depending on the findings made, make such recommendation as it considers necessary to an appropriate authority.

Section 19 (1) of the Anti-Corruption, 2010 states that a public officer who, by oneself, or by, or in conjunction with, any other person, corruptly solicits, accepts or obtains, or agrees to accept or attempts to receive or obtain, from any person for oneself or for any other person, any gratification as an inducement or reward for doing or forbearing to do, or for having done or forborne to do, anything in relation to any matter or transaction, actual or proposed, with which any public body is or may be concerned, commits an offence.

Section 19 (2) of the Anti-Corruption, 2010 states that a person who, by oneself, or by, or in conjunction with, any other person, corruptly gives, promises or offers any gratification to any public officer, whether for the benefit of that public officer or of any other public officer, as an inducement or reward for doing or forbearing to do, anything in relation to any matter or transaction, actual or proposed, with which any public body is or may be concerned, commits an offence.

Both the auditor in-charge of the PAYE tax audit and John Sakania could face serious consequences, including imprisonment.

[Award marks as follows:

1 mark for reference to Anti-Corruption Act, 2010

1 mark for reference to section 19 (1) and section 19 (2) of the Anti-Corruption Act, 2010

1 mark for both the auditor in-charge of the PAYE tax audit and John Sakania could face serious consequences, including imprisonment]

(c) **Action(s) which Lufuwa Accountancy must take**

A senior official, preferably the Managing Partner of Lufuwa Accountancy must discuss the matter with the Finance Director and seek more details regarding the talks with the auditor in-charge of the PAYE tax audit.

The Managing Partner must insist on doing the right thing. The omission must be regularized and the underpayment paid, including the resulting penalty and interest.

If the matter is unresolved, the Managing Partner should escalate the matter to the board of directors, preferably the audit committee.

If the matter still remains unresolved, Lufuwa Accountancy must seek legal advice and seriously consider reporting to appropriate external authorities. It will also be advisable for Lufuwa Accountancy to consider withdrawing from the assignment.

[Award marks as follows:

1 mark for discussion with Finance Director

1 mark for insisting on doing the right thing

1 mark for escalation of the matter to the board of directors, preferably the audit committee

1 mark for seeking legal advice

1 mark for reporting to appropriate external authorities

1 mark for withdrawing from the assignment]

(2) ZINC LTD

Computation of VAT payable for the month of November 2026

	K	K	Marks
Output tax			
Standard rated sales (K6,500,000 X 16%)		1,040,000	2
Zero rated sales K7,150,000 X 0%		0	1
Sub-total		1,040,000	
Input tax			
Standard rated purchases			
(K3,800,000 X 70% X 16%)	425,600		1
General overheads			
(K1,200,000 – K100,000) X 16% X 91%)	160,160		2
Delivery van K1,650,000 X 4/29 X 91%	207,103		1
Bad debt relief (K180,000 X 16%)	28,800		1
Motor car repairs (K43,500 X 4/29)	6,000		1
Sub-total		(827,663)	
VAT payable		212,337	
TOTAL MARKS			**9**

N.B

The cash discount must be ignored because VAT is based on the undiscounted price.

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 = (6,500,000 + 7,150,000)/(6,500,000 + 7,150,000 + 1,350,000) X 100%

Percentage of recoverable non-attributable input VAT = 13,650,000/15,000,000 X 100%

Percentage of recoverable non-attributable input VAT = 91%

2. Bad debt relief

Bad debt relief applies when an invoice is at least eighteen (18) months overdue. The first invoice is nineteen (19) months overdue and therefore qualifies for bad debt relief. The other invoice is only 16 months overdue and therefore does not qualify for bad debt relief.

(3) THREE (3) ZAMBIAN RESIDENT INDIVIDUALS

(a) **Requirement to pay provisional tax and assessment to tax**

(1) **Mathews Mindolo**

Mathews Mindolo will not be required to pay provisional income tax because all of his income is from artisanal mining, which is subject to presumptive tax for artisanal and small-scale mining.

(2) **Rosette Toodles**

Rosette Toodles will not be required to pay provisional income tax because all of her income is from letting of property, which is subject to rental income tax.

(3) **Liana Njamba**

Liana Njamba will be required to pay provisional income tax on her taxable profit from the business since this income for the tax year will exceed K61,200 and that income is not in the form of emoluments from employment that are taxable under the Pay As You Earn (PAYE) system.

[Award marks as follows:

1 mark for each whether or not required to pay provisional income tax – Maximum 3 marks

1 mark for each assessment to tax – Maximum 3 marks]

(b) **Computation of the amount of tax paid by each person on the income generated in the tax year 2026.**

(1) **Mathews Mindolo**

August 2026

Mineral royalty tax for each month is first computed and then deducted from the monthly gross sales. Mineral royalty tax on amethyst is chargeable at the rate of 6% of gross value, being gemstones.

The amount of presumptive taxes for artisanal and small-scale mining operations paid by Mathews Mindolo are computed as shown below:

	K	Marks
Gross sales	45,000	1
Less mineral royalty tax (6% X K45,000)	(2,700)	1
Net sales	42,300	
Presumptive tax		
(4% X K42,300)	K1,692	2
TOTAL MARKS		**4**

(2) **Rosette Toodles**

The gross rental income received by Rosette Toodles is chargeable to rental Income Tax using the following rates:

- 0% per annum for the first K30,000
- 4% per annum on turnover between K30,001 and K800,000 per annum; and
- 16% per annum on any turnover that exceeds K800,000 per annum.

The amount of rental income tax paid by Rosette Toodles for the tax year 2026 is computed as shown below:

	K	Marks
Gross rental income		
Boarding houses		
(K2,200 X 8 bed spaces) X 12 months X 4	844,800	1
(K2,200 X 8 bed spaces) X 7 months X 2	246,400	1
Total	1,091,200	
Rental Income Tax		
K30,000 X 0%	0	1
K770,000 X 4%	30,800	1
K291,200 X 16%	46,592	1

Rental Income Tax	77,392	1
TOTAL MARKS		**6**

(3) **Liana Njamba**

Liana Njamba's taxable business profits is taxed using the Income Taxes as follows:

	K	**Marks**
Income tax		
K61,200 X 0%	0	1
K24,000 X 20%	4,800	1
K25,200 X 30%	7,560	1
K2,589,600 X 37%	958,152	1
Income tax liability	970,512	1
TOTAL MARKS		**5**

SOLUTION TWO

SECTION B

(4) Chanida Ltd

(a) **Distinction between "Liquidator" and "Insolvency Practitioner"**

According to the Corporate Insolvency Act, 2017, "Liquidator" means a person appointed to wind up the affairs of a company, while "Insolvency practitioner" means the Official Receiver or a person who is qualified to be appointed:-

(1) a receiver, receiver manager or judgement receiver;

(2) a liquidator; or

(3) business rescue administrator;

of a company, as specified in sections 139 and 142.

This means an Insolvency Practitioner is also able to perform other tasks in addition to liquidation.

[Award marks as follows:

1 mark for reference to Corporate Insolvency Act, 2017

1 mark for meaning of Liquidator

2 marks for meaning of Insolvency Practitioner

1 mark for more tasks performed by Insolvency Practitioner]

(b) **Appointment as a liquidator while non-practicing certificate with the Zambia Institute of Chartered Accountants (ZiCA) has not been renewed**

Section 142 (6) of the Corporate Insolvency Act, 2017 states that the Registrar shall withdraw the accreditation granted, in accordance with this section, if the insolvency practitioner: -
(1) is no longer a member of, or has been suspended by, the accounting or legal professional body;
(2) fails to comply with any provision of this Act; or
(3) furnishes the Registrar or Official Receiver, as the case may be, with false, inaccurate or misleading information.

Section 22 (1) of the Accountants Act, 2008, states that a practicing certificate or a non-practicing certificate shall be renewed annually in the prescribed manner and form upon payment of the prescribed fee.

Section 22 (2) of the accountants, 2008, states that a practicing certificate or non-practising that is not renewed in accordance with subsection (1) is invalid.

Strictly speaking, membership with the Zambia Institute of Chartered Accountants (ZiCA) has ceased, according to section 22 (2) of the accountants, 2008. It is therefore not legal to take up appointments, according to section 142 (6) (1) of the Corporate Insolvency Act, 2017, unless the non-practising certificate is renewed.

The renewal processes with the Zambia Institute of Chartered Accountants (ZiCA) are straightforward and can be done within a few days. In fact, the Zambia Institute of Chartered Accountants (ZiCA) usually gives a grace period for renewals up to 31 March each year.

[Award marks as follows:

Up to 2 marks for reference to Section 142 (6) of the Corporate Insolvency Act, 2017

1 mark for reference to the Accountants Act, 2008

1 mark for reference to section 22 (1) of the Accountants Act, 2008

1 mark for reference to section 22 (2) of the Accountants Act, 2008

1 mark for membership ceased

1 mark strictly cannot take up appointment

1 mark for renewal

1 mark straightforward renewal processes

1 mark for grace period]

(c) **Advice for the directors and management regarding the action(s) to take**

Section 72 (1) of the Corporate Insolvency Act, 2017, states that a company shall, within three months of the appointment of a liquidator, prepare and submit to the

liquidator a statement on the affairs of the company as at the date of the winding-up order, unless the Court otherwise directs, showing:
(1) the particulars of its assets, debts and liabilities;

(2) the names and addresses of is creditors;

(3) the securities held by each of each of the creditors;

(4) the dates when the securities were respectively given; and

(5) such further information as may be prescribed or as the liquidator requires.

[Award marks as follows:

Up to 2 marks for reference to Section 72 (1) of the Corporate Insolvency Act, 2017

1 mark for three months

1 mark for submission to the liquidator a statement on the affairs of the company

1 mark for contents of the statement on the affairs of the company]

(5) Elephant Plc

Computation of total final company income tax payable for the tax year 2026

	K'000		Marks
Business profit	657,179	(W1)	20
Bank interest	1,200		½
Consultancy fees (K25,500,000 X 100/85)	30,000		1
Net hedging gain (K60,000 – K39,000)	21,000		1
Taxable income	709,379		
Company income tax			
709,379 X 28% (W4)	198,626		2
Less tax already paid:			
Provisional tax	(160,000)		½
WHT on bank interest 1,200,000 X 15%	(180)		1
WHT on Consultancy fees 30,000 X 15%	(4,500)		1
Company income tax payable	33,946		3
TOTAL MARKS			**30**

Workings

1. **Computation of tax adjusted business profits for the tax year 2026**

	K'000	K'000	Marks
Profit before taxation		220,000	½
ADD:			
Transfer pricing adjustment (US$10,500 – US$6,000) X K20 X 5,000	450,000		1
Depreciation	75,000		½

Impairment loss	12,000		½
Entertaining external auditors	18		½
Donation	32		½
Construction of Police Posts (K4 m X 3 Police Posts)	12,000		1
Hedging loss	39,000		½
Accommodation benefit (37% X K2,940,000)	1,088		1
Personal-to-holder car (3,000 cc)	58		½
Add net balancing charge	6,383		(W2)10
		595,579	
		815,579	
LESS:			
Bank interest	1,200		½
Hedging gain	60,000		½
Consultancy fees	25,500		½
Profit on sale of Metallurgical equipment	37,200		½
		(123,900)	
Tax adjusted mining profits		691,679	
Less loss relief (W3)		(34,500)	1½
Final taxable mining profit		657,179	
TOTAL MARKS			**20**

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

	Value	**Allowances**	**Marks**
	K'000	K'000	
Smelting Plant			
Wear and tear allowance			
1 + (18 – 24)/24 X 20% X 120,000,000		18,000	3
Metallurgical equipment			
Income tax b/fwd	0		
Disposal proceeds (restricted to cost)	(27,000)		
Balancing charge	(27,000)	(27,000)	2
Toyota Fortuner			
Wear and tear 1,600,000 X 20%		320	1
Office equipment			
Wear and tear allowance 850,000 X 25%		213	1
Police Posts (2)			
Wear and tear allowance (4,000,000 X 2) X 20%		1,600	2
Pool cars (10)			
Wear and tear allowance 2,420,000 X 20%		484	1
Total net balancing charge		**(6,383)**	
TOTAL MARKS			**10**

3. **Loss relief**

	K'000
Indexed loss b/fwd 1 + (18 – 24)/24 X 46,000,000	34,500

Less loss relief		
(Restricted to 50% X K691,679,000 = K345,839,500)		(34,500)
Unrelieved loss c/fwd		0

4. **Company income tax rate**

	%
Normal company income tax rate	30
Less:	
Listing discount	(2)
Actual company income tax rate	28

END OF SOLUTIONS