Zambia Institute of Chartered Accountants

COMPETENCE PRACTICE EXAMINATION

NON-AUDIT PRACTISING CERTIFICATE

JUNE 2026

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 $2^1/_2$ 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.

2026 NON-AUDIT COMPETENCE PRACTICE EXAMINATION (CPE)

<u>QUESTION ONE</u>

BACKGROUND

Cephas Makina is a professional accountant registered with the Zambia Institute of Chartered Accountants (ZiCA). He had worked for a cement manufacturing company, as a Finance Director, for twelve (12) years up to 30 June, 2020, when he decided to go on early retirement. On 1 March, 2021, he decided to set up his own accountancy firm, called Salinda Accountants, having passed the non-audit competence practice examinations in December 2020.

Salinda Accountants has gained a reputation for excellent quality and has recently received inquiries from three (3) medium-sized companies and one (1) large company listed on the Lusaka Securities Exchange (LuSE). Salinda Accountants now has three (3) partners, with specific areas of responsibility. The financial performance of the firm over the years has surpassed the Partners' expectations, with an impressive annual average growth rate in income of 18%. However, the firm has been operating without a strategic plan and quality management is a sole responsibility of Cephas Makina.

You are a Senior Manager in Salinda Accountants.

STRATEGIC PLANNING FOR ACCOUNTANTS

Cephas Makina is aware that most accounting firms have no strategic plans, although the Zambia Institute of Chartered Accountants (ZiCA) encourages all accounting firms to have strategic plans. The inquiry from the large company involves advice in respect of assisting it in identifying and assessing their risk exposure and the creation of a strategy to mitigate the risks. Cephas Makina is not comfortable that Salinda Accountants should engage in strategic advisory services when it continues operating without a strategic plan.

He has asked you to prepare a briefing paper on strategic planning for accounting firms, which will be used at the next management meeting.

PREPARATION OF FINANCIAL STATEMENTS FOR KAMBITA LTD AND ETHICAL OR PROFESSIONAL ISSUES

Salinda Accountants has been engaged by Kambita Ltd to prepare financial statements for the year ended 30 September 2026. Kambita Ltd is a retailer which deals in computer equipment and accessories. All directors are partly remunerated through profit related pay. The Accounts Supervisor has asked for advice in the following matters:

(1) On 1 October 2025, Kambita Ltd leased computer equipment to a law firm under an operating lease for four (4) years at an annual rate of K72,000, payable at the end of each year. However, the contract states that the first three (3) months are "rent-free".

(2) At 30 September 2026, Kambita Ltd was engaged in a legal dispute with a customer regarding computer accessories that were damaged in transit as a result of the company driver's careless driving. The customer has sued for damages for loss of business, but the Managing Director, who is a lawyer by profession believes that the customer has no chance of succeeding in this action. However, independent legal advice indicate that there is a seventy-five percent (75%) chance that the customer could be awarded K1,600,000 as damages. The Managing Director has instructed that no provision should be made.

(3) On 1 October 2023, Kambita Ltd opened a business centre at a company building which cost K2 million. The estimated useful life of the business centre was 40 years. On 30 September 2026, the business centre was closed due to consistent loss making. Kambita Ltd decided to convert the business centre into an affordable Information Technology (I.T) College to supplement government efforts. At 30 September 2026, an external independent expert estimated the fair value and value-in-use at K1.8 million and K1.52 million respectively. The fair value is before the estimated selling costs amounting to K0.3 million. The change in use would have no effect on the estimated life of the building.

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.

(4) On 1 August 2026, the company sold computer equipment to a customer for K900,000 payable within three (3) months after delivery. The customer obtained control of the computer equipment at contract inception. However, the contract permits the customer to return the computer equipment within two (2) months. 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.

The cost of the computer equipment to the company is K450,000. 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.

(5) On 1 October 2025, Kambita Ltd bought 200,000 shares of a company listed on the Lusaka Securities Exchange (LuSE). On that date, the share price was K7.32, and Kambita Ltd also incurred transaction costs of K87,840. During the year ended 30 September 2026, Kambita Ltd received dividends of K2.25 per share. On 30 September 2026, the

market price of each share was K4.15. The investment has been classified as an equity financial asset held for trading.

The purchase of shares, transaction costs and dividends received have been accounted for properly. The draft financial statements have not shown the change in market values. Management believe that this 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.

The following draft summary statement of financial position as at 30 September 2026, have not taken into account the above-mentioned matters:

DRAFT SUMMARY STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2026

	K
Non-current assets	67,000,000
Current assets	9,250,000
Total assets	76,250,000
Equity	40,000,000
Non-current liabilities	25,000,000
Current liabilities	11,250,000
Total equity and liabilities	76,250,000

NKOLE MINING COMPANY

Salinda Accountants has been retained to review the draft sustainability report prepared by Nkole Mining Company which is planning to get a listing on the Lusaka Securities Exchange (LuSE). The following is an extract from the draft sustainability report:

"Nkole Mining Company addresses climate change specifically and has robust ESG Policy and GHG mitigation goals, targets, and metrics which are totally in alignment with the Paris Agreement. The company is a leading producer of copper and all its infrastructure is built for a changing climate. Copper is required to produce several kinds of low-carbon technologies ranging from solar energy panels and wind turbines to electric vehicle (EV) batteries and electricity transmission lines. At Nkole Mining Company, the opportunity to explore and develop this critical mineral in a sustainable way that produces long-term value for all is a tremendous climate-related opportunity. The company uses technologies that use less freshwater and generate less emissions."

The Company Secretary for the company is unwell. The annual return for last year has not been filed and prescribed minimum number of directors has not been maintained.

DRUG ENFORCEMENT COMMISSION (DEC)

The government has engaged Salinda Accountants to prepare the financial statements for the DEC for the year ended 31 December 2026, so that the preparation of consolidated financial statement for the government is not delayed. The Accountant responsible for this engagement has asked for advice regarding the following matters:

(1) During the year ended 31 December 2026, the DEC incurred research and development cost of K1 million. This amount includes K860,000 in respect development costs on training software aimed at increasing public awareness and lessening youth participation in illegal and drug-related activities. The DEC will start using the software next year. The remainder of the expenditure relates to a project regarding scheduling of court cases that management has reliably determined as not being technically feasible.

(2) Over the past few years, the DEC has experienced increased levels of seizures regarding various illegal drugs and other contrabands. During the year ended 31 December 2026, a private company built a modern storage warehouse for the DEC under a Public Private Partnership (PPP) arrangement, worth K6.2 million. The DEC has control over the modern storage warehouse, but the private company will operate the modern warehouse at an agreed fee, starting 1 January, 2027.

(3) As at 31 December 2026, the DEC had $400,000 in its safe which was forfeited to the state following a court ruling by the Financial Crimes Court on 20 December 2026.

The DEC had the following capital acquisitions and disposals during the year:

(1) In January 2026, the DEC acquired 150 acres of land in Kitwe at a price of K9.5 million, net of 5% estate agency fees, from an individual. The open market value of the land on that date was determined by government valuation officers to be K9.8 million.

(2) In August 2026, the DEC sold a building to a private company for K2 million. Legal fees of transferring title cost K9,000. It was acquired at cost of K120,000.

(3) In October 2026, the DEC sold the institution's Toyota Camry for K150,000, being the open market value of the vehicle. The amount of K150,000 is after deducting the car dealer's fee of K6,000. The DEC acquired the Toyota Camry three years at a cost of K230,000.

SECTION A

Required:

(1) Prepare a briefing paper which clearly explains what is meant by strategy, the benefits of strategic planning for accounting firms, and gives advice on whether Salinda Accountants should introduce strategic planning. (10 marks)

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

(a) Explain the ethical or professional issues raised and recommend the actions to be taken in response to the issues identified. (10 marks)

(b) Advise the Accounts Supervisor regarding the accounting treatments. (20 marks)

(c) Prepare a revised summary of the statement of financial position as at 30 September 2026. (10 marks)

[Total: 50 marks]

SECTION B

Required:

(3) Making reference to the information given in respect of Nkole Mining Company:

(a) Discuss what is meant by green-washing, and evaluate Nkole Mining Company's extract from the sustainability report. (14 marks)

(b) Advise management regarding the:

(i) Consequences of not filing annual returns and not maintaining the prescribed minimum number of directors. (6 marks)

(ii) Immediate action(s) to take regarding the non-compliance. (4 marks)

(4) Using the information on the Drug Enforcement Commission (DEC):

(a) Advise the Accountant responsible for this engagement regarding the appropriate accounting treatments, assuming the DEC uses accruals International Public Sector Accounting Standards (IPSASs). (14 marks)

(b) Discuss the tax implications, with supporting calculations where necessary, regarding the capital transactions undertaken. (12 marks)

[Total: 50 marks]

QUESTION TWO

BACKGROUND

Lufuwa Accountancy is an established non-audit practice in Kaoma, which is a relatively isolated area. Lufuwa Accountancy is duly registered with the Zambia Institute of Chartered Accountants (ZiCA) and has a large share of the non-audit services market among local businesses.

Over the six (6) years Lufuwa Accountancy has been in operation, the firm has developed expertise in tax, consultancy, compliance and other professional services. The culture of the firm is such that everybody is expected to act ethically and avoid any professional misconduct. At a recent staff meeting, the Managing Partner, Yasmin Pepala told staff that Kaoma was experiencing rapid economic growth and as such staff should not do anything to threaten the good reputation of the firm.

You are a Senior Tax Consultant and the only accredited Insolvency Practitioner in Lufuwa Accountancy. You are in-charge of various assignments involving Green Ltd, Zinc Ltd, three (3) Zambian Resident Individuals, Chanida Ltd, and Elephant Plc.

GREEN LTD

Last month, Green Ltd received a notice from the Zambia Revenue Authority (ZRA) of a Pay As You Earn (PAYE) tax audit which will commence after two (2) weeks. The Pay As You Earn (PAYE) tax audit cover the tax years 2024 and 2025. The directors of Green Ltd appointed Lufuwa Accountancy to help with the preparation for the audit.

You have ascertained that Green Ltd was compliant with Pay As You Earn (PAYE) tax obligations in the tax years 2024 and 2025, except for the month of December 2025, when the performance bonuses paid were not included in the gross taxable emoluments.

The Finance Director for Green Ltd, John Sakania, a senior member of the Zambia Institute Chartered Accountants (ZiCA) has told you to ignore the omission as he has already talked to the auditor who will be in-charge of the Pay As You Earn (PAYE) tax audit.

ZINC LTD

Zinc Ltd is a Zambian resident company which is registered for value added tax (VAT). Lufuwa Accountancy provides various taxation services to Zinc Ltd. The Financial Accountant has provided the following details for the month of November 2026:

(1) Sales – this comprise standard rated sales K6,500,000, zero-rated sales K7,150,000 and exempt sales K1,350,000. Zinc Ltd offers its customers a one and a half percent (1.5%) discount for prompt payment, and this was taken by all customers. Thirty-three percent (33%) of standard-rated sales were made to non-registered customers.

(2) Purchases – this only comprised standard-rated purchases amounting to K3,800,000. Thirty percent (30%) of the standard-rated purchases were bought from non VAT registered suppliers.

(3) Business expenses consists of entertaining auditors K8,000 and general overheads K1,200,000. However, K100,000 included in the general overheads figure relates to a duplicated invoice, which has since been reversed.

(4) On 2 November 2026, Zinc Ltd bought a delivery van for K1,650,000 (VAT inclusive). The delivery van is used for both taxable and exempt supplies in proportion to sales.

(5) On 30 November 2026, Zinc Ltd wrote off irrecoverable trade debts of K180,000 and K220,000 in respect of invoices due for payment on 30 April 2025 and 1 August 2025 respectively. Both invoices relate to standard rated sales.

(6) On 4 November 2026, Zinc Ltd incurred motor car repair costs amounting to K43,500 (VAT inclusive). The motor car is exclusively used for taxable supplies.

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

THREE (3) ZAMBIAN RESIDENT INDIVIDUALS

The following information relates to three (3) Zambian resident individuals, who are long established clients for Lufuwa Accountancy. The Accountant-in-Charge of these assignments is currently writing his ZiCA CA Advisory Professional in Accountancy examinations and you have been asked to assist.

(1) **Mathews Mindolo**

Mathews Mindolo is in possession of an artisanal mining licence. He is involved in the extraction of amethyst in Kalulushi, Lufwanyama area. The amethyst is sold using on-line markets. His gross annual turnover averages K650,000. In August 2026, Mathews Mindolo's gross sales of amethyst was K45,000. He made a profit of K30,000.

(2) **Rosette Toodles**

Rosette Toodles, an entrepreneur, owns six (6) boarding houses in Kasupe, Lusaka West. Four (4) of the boarding houses were let out throughout the tax year 2026, while the remainder were let out from 1 June 2026, after extensive renovations which cost K60,000. Each of the boarding houses has eight (8) student bed spaces, and she charges K2,200 per bed space per month. Property maintenance expenses relating to each boarding house averages K4,000 per month.

(3) **Liana Njamba**

Liana Njamba runs a very successful business which supplies and maintains quality cooling systems for the hospitality industry. Her final taxable profits for the tax year 2026, was K2.7 million, from an annual turnover of K5.1 million.

CHANIDA LTD

Assume today is 2nd February, 2026.

Chanida Ltd is an insurance company that has been failing to pay clients' claims for the past few years. The company has not recovered from the adverse effects of the Covid-19 pandemic. Following a petition by the clients, the court has, in a winding-up order, appointed you as a liquidator.

However, your non-practising certificate with the Zambia Institute of Chartered Accountants (ZiCA) has not been renewed. The directors and management are confused and do not know what to do in view of the fact that a liquidator has been appointed.

A junior accountant selected to assist with clerical work wants to know the distinction between "Liquidator" and "Insolvency Practitioner".

ELEPHANT PLC

Elephant Plc is a Zambian resident subsidiary of a foreign based Multinational Mining company. It is engaged in mining operations of various minerals. The group financial statements are maintained in United States Dollars. Elephant Plc obtained a listed on the Lusaka Securities Exchange (LuSE) on 1 January, 2026.

For the year ended 31 December, 2026, the company reported a profit before taxation of K220 million. This profit figure was arrived at after dealing with the following items:

(1) Revenue includes proceeds from the sale of 5,000 metric tonnes of copper on 31 December, 2026 at a price of US$6,000 per metric tonne to the foreign based parent company. The London Metal Exchange cash price at the time of sale was US$10,500 per metric tonne and the exchange rate was K20 per US$.

(2) Operating expenses include gross earnings of the Chief Operating Officer (COO) of K2,940,000 who is accommodated in a company owned house for which he does not pay any rent, staff costs of K66 million, gratuity paid of K10 million, drilling expenditure of K45 million, depreciation of K75 million, impairment loss of K12 million, mineral royalty tax paid of K64 million, entertaining external auditors of K18,000, donations of mealie-meal and assorted groceries worth K32,000 to vulnerable families, hedging loss of K39 million and construction of three (3) Police Posts in two (2) mining townships and one (1) in a council township at a cost of K4 million each. The balance represents miscellaneous allowable business expenses.

(3) Other income comprise bank interest of K1.2 million (gross), hedging gain of K60 million, consultancy fees of K25.5 million (net), and profit on sale of Metallurgical equipment of K37.2 million.

Additional information

(1) At 1 January, 2026, Elephant Plc held the following plant and machinery:

Asset	Original cost (K'000)	Period of ownership (Years)
Smelting Plant	120,000	1
Metallurgical equipment	27,000	6
Toyota Fortuner (3,000 cc)	1,600	2
Office equipment	850	3
Ten (10) Pool motor cars	2,420	4

The Toyota Fortuner is exclusively used by the Chief Operating Officer (COO) for both business and private purposes. The business use has been agreed with the Zambia Revenue Authority (ZRA) as 80%.

The Smelting Plant was imported from a foreign supplier and paid for in US$.

The Metallurgical equipment was sold for K48 million on 1 October 2026.

(2) The company had an unrelieved mining loss brought forward of K46 million, which was incurred in the tax year 2025.

(3) The indexation formula to use where applicable is:

$1 + (R2 – R1)/R1$

(4) The average Bank of Zambia (BOZ) mid-rates for the years 2025 and 2026 were K24 per US$ and K18 per US$ respectively. Provisional tax paid was K160 million.

SECTION A

Required:

(1) Using the information given in respect of Green Ltd, and any relevant legislation:

(a) Evaluate the behaviour by John Sakania. (4 marks)

(b) Discuss the main consequences regarding John Sakania's behaviour. (10 marks)

(c) Explain the action(s) which Lufuwa Accountancy must take. (6 marks)

(2) Compute VAT payable by Zinc Ltd for the month of November 2026. (9 marks)

(3) Making reference to the information given regarding the three (3) Zambian resident individuals:

(a) Explain, with reasons, which of the above individuals will be required to pay provisional income tax and which ones will not, stating how the income generated by each person will be assessed to tax in the tax year 2026. (6 marks)

(b) Compute the amount of tax paid by each of the above persons on the income they generated in the tax year 2026. (15 marks)

[Total: 50 marks]

SECTION B

Required:

(4) Using the information provided for Chanida Ltd and any appropriate legislation:

(a) Distinguish "Liquidator" and "Insolvency Practitioner". (5 marks)

(b) Explain whether you can still take up appointment as a liquidator while your non-practising certificate with the Zambia Institute of Chartered Accountants (ZiCA) has not been renewed. (10 marks)

(c) Advise the directors and management regarding the action(s) to take. (5 marks)

(5) Using the information provided for Elephant Plc, compute the ***total*** final company income tax payable for the tax year 2026. (30 marks)

[Total: 50 marks]

END OF PAPER