

QUESTION ONE

THE CHINAMA GOLF CLUB (CGC)

BACKGROUND

The Chinama Golf club (CGC) boasts an 18 hole, par 73, 6505 meter course that is intricately incorporated into a parkland setting. The greens conform to international standards and the club has full Country Club facilities.

The CGC is one of Zambia's most prestigious sporting facilities, attracting a good cross section of golfing nationalities in Zambia. It is located in heart of Livingstone, close to the mighty Falls and a "a chip and putt" away from the main hotels in Livingstone.

The CGC course features an undulating manicured terrain, dotted with swamps and dams. The water pools and sand traps form an integral part of the course, even challenging veteran top class golfers. The fairways are flat and wide open, banked by large trees. The golf course is walker-friendly. Social life is an integral part of the CGC club experience, and the restaurant, lounge and members bar are popular venues. A pro shop, driving range and practice putting green complete the mix of services.

During the last ten years, the club has diversified into various income generating activities, including:

- Construction of a multipurpose gym on the club premises
- Catering

This has resulted in increase in the number of full time employees from 9 to 25.

SUSPECTED PAYROLL FRAUD

At the beginning of the current financial year, the executive committee of the club decided to cut down on the number of full time employees at the club. This follows the outsourcing of the cleaning and catering services to an outside company. Accordingly some employees were declared redundant.

While monitoring management accounts for the quarter ended 31st December 2012, the club treasurer discovered that the total payroll expense had reduced by only 6%, following the laying off of some employees. The reduction of 6% was not as much as was expected from the total number of employees that had been made redundant. Initial investigations performed by the club treasurer, revealed that some the employees declared redundant had remained on the payroll records, and salary payments in respect of these individuals were still being made every month, with all the payments going into the usual bank accounts. As soon as the treasurer realized that there may be a fraud conducted within the company, the club treasurer stopped any further

payments in respect of the redundant employees. It is also suspected the club cashier may have been involved in this fraud.

VISIT FROM THE ZAMBIA REVENUE AUTHORITY

An inspector from the Zambia Revenue Authority had visited the club during the course of the year to carry out a preliminary review of the tax compliance position of the club. Unfortunately this visit was not concluded as the club treasurer could not provide all the information required by the inspector. It would appear members of the club executive are not aware of the tax implications of running a social club

SUBSCRIPTION FEES

The club charges annual subscription fees as follows:

Entry fees for new members	KR300
Single members	KR1, 000
Couples	KR1, 500
Students	KR500
Trustees	Free membership

The fees are payable at the beginning of each financial year. Members are given a grace period of two months in which to pay the fees. At the expiry of the two months, members who have not renewed their membership are treated as new members and are required to pay the additional entry fee. The accounting policy of the club is to account for fees received during the year as income. The fees are not refundable and are not transferrable.

PURCHASE OF NON-CURRENT ASSETS

In order to upgrade the golf course to international standards, the club bought a multipurpose irrigation and golf maintenance equipment. The equipment was sourced from Pax (pty) Ltd, a company based in South Africa on the following terms:

Purchase date	1 st January 2013
Invoice value (In South African Rands) – SAR	295,000 SAR
Settlement terms	85,000 SAR payable immediately. Balance in three equal installments of 70,000 SAR each on 1 st February 2013, 1 st March 2013 and 1 st April 2013.

The exchange rates moved as follows

(Kwacha to one Rand)

1st January, 2013	KR6.60
1 st February, 2013	KR6.80
1 st March 2013	KR6.90
31 st March 2013	KR6.70
1 st April, 2013	KR6.60

FINANCING OPTIONS:

In purchasing the multipurpose equipment, three purchasing options were considered as follows:

- a) Self financing options - Cash purchase from the club's resources, based on the terms agreed with the supplier
- b) Lease from Barclays bank
The club can lease the equipment by way of a lease financed by Barclays Bank under the following terms:
 - (i) The bank would pay the total price on 1st April 2013
 - (ii) Primary period is for four years from 1st April 2013 with a rental of KR800, 000 each payable on 31 March 2014, 2015 and 2016. Balance of KR542, 000 payable at the end of on 31st March 2017.
 - (iii) The Bank will have no further interest in the lease and will transfer ownership to the club after four years
 - (iv) The club will be required to pay all repair, maintenance and insurance costs as they arise
 - (v) The interest rate implicit in the lease is 20%

Apart from this purchase of the equipment, the club undertakes most of its transactions locally with settlements in Kwacha.

The club prepares its financial statements to 31st March each year.

APPOINTMENT OF CONSULTANT

Your name is Madison Lengwe and you are managing director of ML Accounting and Business Consultants, a firm registered with the Zambia Institute of Chartered Accountants (ZICA), licensed to provide non-audit services.

Your firm was approached by the club treasurer and accepted to provide the following range of services:

- Provide assistance in an agreed upon procedures assignment relating to the conduct of the investigation in the suspected payroll fraud at the club

- Provide information relating to who is liable to income tax and the tax implications of running a social club
- Advise on the proper accounting treatment to be applied to revenue
- Provide accounting entries for the purchase of equipment

Requirements

SECTION A

- 1) The ethical principles issued by the Zambia Institute of Chartered Accountants (ZICA), apply to all professional engagements, including fraud investigations. In accepting the assignment to assist with the fraud investigation, assess how the ethical principles should be applied to this investigation (15 marks)
- 2) In relation to the forensic investigation:
 - a) State the possible objectives of such an investigation (4 marks)
 - b) Identify and explain the procedures your firm should take in undertaking the investigation (not reporting) into the suspected fraud (21 marks)
- 3) With regard to the impending visit from the Zambian Revenue Authority, write a briefing note to the Executive Committee in which you should advise
 - a) The circumstances under which a company is held to be resident in Zambia for income tax purposes (5 marks)
 - b) The circumstances under which an individual is held to be resident and ordinarily resident in Zambia for income tax purposes (5 marks)

SECTION B

- 4) **With regard to revenue recognition**
 - a) Explain the conditions prescribed by IAS 18, *Revenue Recognition*, that should be met for revenue from subscriptions to be recognised. (5 marks)
 - b) Evaluate the extent to which the accounting policy of the club regarding the accounting treatment of subscription revenue meets the above conditions (10 marks)
- 5) **With regard to the self financing option:**
 - a) Explain the difference between conversion and translation, stating clearly where each is applicable in relation to this option (5 marks)
 - b) Explain the difference between the functional currency method and the presentation currency method and justify the method applicable to this transaction (5 marks)
 - c) Determine the amount that should be included in the financial statements of the club as payable to Pax (pty) as at 31st March 2013, including analysis and treatment of any exchange differences (10 marks)

6) With regard to the finance lease option:

- a) In accordance with IAS 17, *Leases*, evaluate the type of lease in question and justify your answer. (5 marks)
- b) Prepare financial extracts of the amounts to appear in the financial statements for the years ended 31st March 2014, 2015, 2016 and 2017 in respect of the following balances:
 - i) Finance cost
 - ii) Non-current liabilities
 - iii) Current liabilities

(10 marks)