

# KASNEB

## CPA PART III SECTION 6

### ADVANCED PUBLIC FINANCE AND TAXATION

THURSDAY: 26 May 2016.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Any assumptions made must be clearly and concisely stated.

**RATES OF TAX (Including wife's employment, self-employment and professional income rates of tax).**

Year of income 2015.

Monthly taxable pay (Sh.)		Annual taxable pay (Sh.)		Rate of tax % in each Sh.
1	- 10,164	1	- 121,968	10%
10,165	- 19,740	121,969	- 236,880	15%
19,741	- 29,316	236,881	- 351,792	20%
29,317	- 38,892	351,793	- 466,704	25%
Excess over	- 38,892	Excess over	- 466,704	30%

Personal relief Sh.1,162 per month (Sh.13,944 per annum)

#### Prescribed benefit rates of motor vehicles provided by employer

	Monthly rates (Sh.)		Annual rates (Sh.)	
<b>Capital allowance:</b>				
<b>Wear and tear allowance:</b>				
Class I	37.5%			
Class II	30%			
Class III	25%			
Class IV	12.5%			
Software	20%			
		(i) Saloons, Hatch Backs and Estates		
		Up to 1200 cc	3,600	43,200
		1201 1500 cc	4,200	50,400
		1501 1750 cc	5,800	69,600
		1751 2000 cc	7,200	86,400
		2001 3000 cc	8,600	103,200
		Over 3000 cc	14,400	172,800

#### Industrial building allowance:

Up to 2009	2.5%
From 1 January 2010	10%
Hotels	10%
Hostels/Education/Film producers buildings	100%
From 1 January 2010 - Commercial building: (Shop, office or show room)	25%

#### Farm works allowance

100%

#### Investment deduction allowance

100%

#### Shipping investment deduction

(Ships over 125 tonnes) 100%

#### Extraction expenditure:

Written off over 5 years (20%)

#### Commissioner's prescribed benefit rates

##### Services

- (i) Electricity (Communal or from a generator)
- (ii) Water (Communal or from a borehole)

##### Monthly rates

Sh.

1,500

500

##### Annual rates

Sh.

18,000

6,000

#### Agriculture employees: Reduced rates of benefits

- (i) Water
- (ii) Electricity

200

900

2,400

10,800



### QUESTION ONE

- (a) Country Y has recently introduced a number of reforms with regard to public sector financial management. One of the reforms involved the establishment of a debt management office (DMO).

**Required:**

- Discuss four possible roles of the DMO as established in Country Y. (8 marks)
- (b) Citing four reasons, assess the importance of public investment reports as prepared by the National Treasury or equivalent ministry in your country. (4 marks)
- (c) In the context of the Public Private Partnerships Act, 2013 or equivalent legislation in your country:
- (i) Explain the nature of public private partnerships (PPPs). (2 marks)
- (ii) Discuss three factors that have motivated the growth of PPPs. (6 marks)

**(Total: 20 marks)**

### QUESTION TWO

Weka Enterprises is a small retail business dealing in fast moving consumer products. The Revenue Authority suspects that the business has been filing fraudulent returns and has requested for financial statements from the business. The business provided the following details for the years ended 31 December 2015 and 31 December 2014:

#### Income statement for the year ended 31 December 2015

	Sh.	Sh.
Turnover		27,840,000
Less cost of goods sold		(15,354,000)
Gross profit		12,486,000
Proceeds from sale of furniture		240,000
Capital gain on sale of plot		<u>156,400</u>
		12,882,400
Less expenses:		
Purchase of furniture	360,000	
General expenses	2,367,800	
Rent and rates	160,000	
Depreciation on motor vehicle	94,600	
Customs duty	124,200	
Hire purchase cost	226,000	
Salaries and wages	<u>1,680,000</u>	(5,012,600)
Net profit		<u>7,869,800</u>

#### Statement of financial position as at 31 December:

	2015	2014
	Sh.	Sh.
<b>Non-current assets:</b>		
Furniture at cost	348,000	460,000
Motor vehicle at cost	<u>1,660,000</u>	<u>1,565,400</u>
	2,008,000	2,025,400
<b>Current assets:</b>		
Inventories	4,389,600	2,881,000
Accounts receivable	740,400	1,640,000
Prepaid general expenses	178,200	98,000
Prepaid rent and rates	72,800	24,600
Cash and cash equivalents	<u>300,000</u>	<u>183,000</u>
<b>Total assets</b>	<u>7,689,000</u>	<u>6,852,000</u>
<b>Financed by:</b>		
Capital	1,000,000	800,000
Add net profit	<u>7,869,800</u>	<u>5,780,000</u>
	8,869,800	6,580,000
Less drawings	<u>(2,200,000)</u>	<u>(1,320,000)</u>
	6,669,800	5,260,000
<b>Current liabilities:</b>		
Accounts payable	979,200	1,528,000
Accrued rent and rates	24,000	36,000
Interest due on hire purchase	<u>16,000</u>	<u>28,000</u>
<b>Total capital and liabilities</b>	<u>7,689,000</u>	<u>6,852,000</u>



**Additional information:**

1. Turnover and purchases were inclusive of VAT at the rate of 16%.
2. The turnover excludes cash sales. During the year ended 31 December 2015, the business paid the following expenses out of cash sales:

	Sh.
Telephone and postage	48,000
School fees	142,800
Repairs and maintenance	94,600
Insurance	36,600

3. The bank balance is included in the cash and cash equivalents. The following details were included in the bank statement:

	Sh.
Personal expenses	294,000
General expenses	792,800
Rent and rates	68,400
Hire purchase interest	29,600
Payments to creditors	2,460,000
Receipts from debtors	5,890,000

4. The following assets used by the business were not included in the assets register:

	Sh.
Computers	368,000
Fax machine	120,000
Saloon car	2,800,000
Delivery van	720,000
Computer software	150,000

The Revenue Authority has established that the statement of financial position forms a good basis for recomputing the taxable profit. All expenses are to be adjusted on the basis of the statement of financial position.

**Required:**

- (a) Using suitable computations, confirm the accuracy or otherwise of the taxable profit of ~~Wen~~ Enterprises for the year ended 31 December 2015. (15 marks)
  - (b) Summarise five types of preliminary information that you might require from the business in order to further ascertain the accuracy of the taxable profit. (5 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) Tax information exchange agreements (TIEAs) are increasingly forming part of the agenda during bilateral and multilateral trade discussions among various countries.
  - (i) Explain the nature of tax information exchange agreements. (2 marks)
  - (ii) Citing three reasons, discuss the purpose of TIEAs. (6 marks)
- (b) Zawadi Ltd. has been in operation since 1 January 2014. The company is under a tax investigation relating to value added tax (VAT) transactions.

The following details were obtained from the company's records for the month of September 2015:

- Stock in trade brought down in the month of September 2015 was valued at Sh.719,200.
- Sales ledger records in the company's books showed an amount of Sh.1,786,400 while as per VAT returns, it was Sh.1,429,120.
- The company had not claimed input tax on a building put into use on 1 January 2014 at a cost of Sh.2,784,000. However, in September 2015, the company set-off the input tax against the output tax for the month.
- Purchases amounting to Sh.174,000 did not have supporting fiscal receipts. The total purchases amounted to Sh.928,000.
- Since 1 January 2014, the company had not been filing VAT returns on time and all the penalties are outstanding.







**QUESTION FIVE**

(a) Country Z has recently been admitted into a regional economic block. As part of the country's full integration into the economic block, it is required to undertake certain legislative and other reforms.

**Required:**

Advise Country Z on four fundamental reforms that could be considered in the process of integration into the economic block. (8 marks)

(b) Mjengo Ltd. is a real estate development company. In the year ended 31 December 2015, the company provided the following information:

- Bought 100 acres at Sh.6,000,000 each for building low cost houses in an approved development area.
- Cost of surveying was Sh.4,600,000 and conveyance fees amounted to Sh.6,960,000.
- The cost of constructing each unit was Sh.1,450,000. The company constructed 240 units on a 20 acre piece of land.
- All the units were sold at a price of Sh.1,600,000 in the year 2015.
- Building materials for constructing each unit amounted to Sh.742,400 inclusive of VAT at the rate of 16%.
- Professional fees paid to quantity surveyors inclusive of VAT was Sh.417,600 and for civil engineers was Sh.243,600.
- Drainage system and sewerage line cost Sh.960,000 for connecting all units built and to be built on 100 acres.
- The interest on loan to acquire the 100 acres was Sh.7,800,000.
- Hire expenses for bulldozers used in the construction was Sh.600,000 for each of the three months used for the construction.
- Charges paid to the government in respect of approval of plans were Sh.678,000.
- Cost of constructing a site office was Sh.800,000.
- Hire cost for a saloon car for the site manager was Sh.40,000 per month.
- A commercial building was also constructed at a cost of Sh.5,600,000 in a part of the land. The building was rented at a monthly rent of Sh.480,000 with effect from 1 May 2015.
- The costs relating to the total 100 acres are to be apportioned according to the acreage used.

**Required:**

- (i) Statement of adjusted taxable profit or loss for Mjengo Ltd. for the year ended 31 December 2015. (10 marks)
- (ii) Tax payable by Mjengo Ltd. (if any) for the year ended 31 December 2015. (10 marks)
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