

KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

WEDNESDAY: 25 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.)
Capital allowance:	(i) Saloons, Hatch Backs and Estates	
Wear and tear allowance:	Up to 1200 cc	3,600
Class I 37.5%	1201 - 1500 cc	4,200
Class II 30%	1501 - 1750 cc	5,200
Class III 25%	1751 - 2000 cc	7,200
Class IV 12.5%	2001 - 3000 cc	8,600
Software 20%	Over 3000 cc	14,400
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%	
	(ii) Pick-ups, Panel Vans (unconverted)	
	Up to 1750 cc	3,600
	Over 1750 cc	4,200
	(iii) Land Rovers/Cruisers	7,200

Extraction expenditure:
Written off over 5 years (20%)

Commissioner's prescribed benefit rates

	Monthly rates Sh.	Annual rates Sh.
Services		
(i) Electricity (Communal or from a generator)	1,500	18,000
(ii) Water (Communal or from a borehole)	500	6,000
Agriculture employees: Reduced rates of benefits		
(i) Water	200	2,400
(ii) Electricity	900	10,800

QUESTION ONE

- (a) Explain the following terms as used in public finance management:
- (i) Financial regulations. (2 marks)
 - (ii) Treasury circulars. (2 marks)
- (b) Outline eight general responsibilities of a County Treasury with respect to public funds. (8 marks)
- (c) Describe the stages of the annual budget process for the national government. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Section 68 of the Public Procurement and Asset Disposal Act requires an accounting officer of a procuring entity to keep records for each procurement for at least six years after the resulting contract has been completed or, if no contract resulted, after the procurement proceedings were terminated.
- With reference to the above statement, outline six such records that should be maintained. (6 marks)
- (b) Discuss four responsibilities of the National Treasury in the administration of the consolidated fund. (8 marks)
- (c) Summarise six factors that influence taxable capacity in your country. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Highlight four circumstances that might lead to suspension and cancellation of licences by the commissioner as per the Excise Duty Act 2015. (4 marks)
- (b) Identify any four activities that constitute tax evasion in your country. (4 marks)
- (c) Moses Bundi works for Geo-Sat Solution Ltd. as a technical director. During the year ended 31 December 2015 he received the following incomes and emoluments:
1. Basic salary of Sh.160,000 per month (PAYE Sh.42,000 per month).
 2. He was provided with a 2200cc Land Rover which had cost the company Sh.4,600,000 in the year 2010.
 3. In the month of December 2015, he received a sitting allowance of Sh.280,000.
 4. He is a member of a registered retirement benefits scheme of which he makes monthly contributions of Sh.30,000.
 5. He was housed by the company in a rented house with water, telephone and electricity. The house had a market rental value of Sh.64,000 per month and he paid a nominal rent of Sh.25,000 per month.
 6. During the year, the company paid school fees for his son amounting to Sh.280,000. This amount was disallowed for tax purposes on Geo-Sat Solution Ltd.
 7. Geo-Sat Solution Ltd. operates a medical scheme for all staff with Afya Insurance Ltd. In the year 2015, the amount paid for Moses Bundi's cover amounted to Sh.320,000.
 8. The company paid his monthly electricity, water and telephone bills averaging to Sh.18,000, Sh.12,500 and Sh.16,000 respectively.
 9. He earned interest income of Sh.180,000 during the year from his investments in Housing Development Bonds.
 10. The company paid Sh.240,000 to cover for Moses Bundi's family life insurance premiums during the year. The insurance policy covered Moses Bundi, his wife and son.
 11. In December 2015, Moses Bundi received an entertainment allowance of Sh.120,000. Half of this amount was spent on entertaining customers.
 12. Moses Bundi received a net rental income of Sh.1,800,000 from his commercial rental premises during the year. This was after deducting the following expenses:

	Sh.
Caretaker's wages	620,000
Building an extension	840,000
Interest on mortgage	120,000
Fixing metallic doors	320,000
Purchase of a water tank	150,000

Required:

- (i) Taxable income of Moses Bundi for the year ended 31 December 2015. (10 marks)
- (ii) Tax liability (if any) from the income computed in (c)(i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

(a) You are provided with the following information relating to Nuts Processing Ltd. from the month of May 2015 to December 2015:

1. Sales for the month of May 2015 were Sh.800,000. The sales increased by 5% in June 2015 and by 10% in each of the following months.
2. Purchases for the month of May 2015 were Sh.550,000 but increased by 5% in each of the following months.
3. The company is registered for value added tax (VAT) purposes.
4. The prices are stated exclusive of VAT at the rate of 16%.
5. The total VAT paid from the month of June 2015 to December 2015 was Sh.580,000.

Required:

Using the information provided, confirm whether Nuts Processing Ltd. paid the correct VAT from the month of June 2015 to December 2015. (10 marks)

(b) Nafaka Millers Limited is a maize and wheat flour milling company. The company started its operations on 5 January 2015 after incurring the following expenditure:

	Sh.
Cost of land	1,600,000
Furniture and fittings	250,000
Factory building	4,200,000
Packing machine	960,000
Digital weighing scale	60,000
Processing machine	540,000
Tractor	2,400,000
Computers	620,000
Mobile phones	140,000
Combined harvester	1,800,000

Additional information:

1. The company constructed the following structures during the year which were utilised from 1 September 2015:

	Cost of construction (Sh.)
Sports pavilion	624,000
Labour quarters	1,200,000
Recreation facility	480,000
Factory extension	960,000

2. The company disposed of two computers at Sh.30,000 each on 1 August 2015.
3. The cost of processing machines includes the installation cost of Sh.120,000.

Required:

Capital allowances due to Nafaka Millers Limited for the year ended 31 December 2015. (10 marks)
(Total: 20 marks)

QUESTION FIVE

(a) Outline four contents of a notice of assessment. (4 marks)

(b) In a tax seminar, one of the facilitators noted that "introduction of information communication technology in taxation, such as the iTax system by the Revenue Authority has benefited both the taxpayer and the Revenue Authority".

Citing four benefits of iTax system or any other tax system used in your country, justify the facilitators' comment. (4 marks)

(c) Mambo and Kaka are in partnership operating a hardware shop as Maka enterprises and sharing profits or losses equally. The following is the income statement of the partnership business for the year ended 31 December 2015:

	Sh.	Sh.
Sales (inclusive of VAT at the rate of 16%)		9,280,000
Capital gain on sale of property		290,000
Rental income		240,000
Dividends from Waki Cooperative (net)		170,000
Unrealised foreign exchange gain		<u>94,000</u>
		10,074,000
Less expenses:		
Cost of goods sold	4,000,000	
Purchase of computers	160,000	
Salaries and wages	360,000	
General expenses	720,000	
Legal expenses	940,000	
Conveyance fees	92,800	
Farmworks at cost	60,000	
Repairs and maintenance	24,500	
Interest on partners capital	450,000	
Mambo's mortgage interest	65,800	
Donations to Tennis club	34,800	
Commission to Kaka	<u>21,100</u>	<u>(6,929,000)</u>
Net profit		<u>3,145,000</u>

Additional information:

1. General expenses include:

	Sh.
• Embezzlement by Kaka	24,000
• Partition of staff offices	48,000
• Staff catering expenses	50,000
• Pension contributions	180,000
• Prepaid rent and rates	32,400
• Stamp duty on land transfer	64,000
2. Legal expenses include:

	Sh.
• Drafting a partnership deed	42,000
• Negotiating a bank loan	28,400
• Executing a customs bond security	24,600
• Defending the business against breach of contract	38,000
3. Salaries to partners and interest on partners capital is to be shared according to the profit and loss sharing ratio.
4. Salaries and wages include salaries to employees of Sh.160,000 while the balance was paid to partners.
5. Cost of goods sold include purchases valued at Sh.300,000 which had been overstated by 20%.

Required:

- (i) Adjusted taxable profit or loss for the partnership for the year ended 31 December 2015. (8 marks)
 - (ii) A schedule showing distribution of partner's taxable income for the year ended 31 December 2015. (4 marks)
- (Total: 20 marks)**