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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: 29 November 2017.

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 2016.

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.)	
	(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		

Capital allowance:

Wear and tear allowance:

Class I	37.5%
Class II	30%
Class III	25%
Class IV	12.5%
Software	20%

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 100%

(Ships over 125 tonnes)

Extraction expenditure:

Written off over 5 years (20%)

Commissioner's prescribed benefit rates

Services	Monthly rates	Annual rates
	Sh.	Sh.
(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) The Constitution and the Public Finance Management Act provide for establishment of public funds.

In relation to the above statement, explain the following public funds:

- (i) Revenue funds for county government. (2 marks)
- (ii) Contingencies fund. (2 marks)
- (b) Summarise five functions of the Commission on Revenue Allocation (CRA). (5 marks)
- (c) In order to achieve its objectives, the public finance management regulatory framework or equivalent frameworks contemplate certain principles to guide all aspects of public finance.
With reference to the above statement, identify five such principles. (5 marks)
- (d) Citing six reasons, justify why an accounting officer of a procuring entity, may, at any time, prior to notification of tender award, terminate or cancel procurement or asset disposal proceedings without entering into a contract. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Explain four measures that the National Treasury should put in place when administering the Equalisation Fund in accordance with Article 204 of the Constitution. (4 marks)
- (b) Discuss three challenges faced by county governments in public finance management as observed by various oversight institutions. (6 marks)
- (c) Heritage Interiors Ltd. deals in the sale of vatable goods. The company reported the following transactions for the month of May 2017:

		Sh.	
Cash purchases			
1 May 2017	Furniture	174,000	
5 May 2017	Goods for sale	232,000	
10 May 2017	Stationery	58,000	
Purchase invoice transactions			
10 May 2017	Inventory for sale	626,400	10 June 2017
14 May 2017	Audit services	145,000	30 May 2017
16 May 2017	Inventory for sale	696,000	14 July 2017
20 May 2017	Generator fuel	104,400	25 June 2017

The company reported the following sales during the month of May 2017:

Sh.	
Cash sales	348,000
Credit sales	1,102,000

Additional information:

- The credit sales include goods exported to Rwanda amounting to Sh.116,000.
- The company returned goods worth Sh.34,800 to the suppliers during the month.
- Transactions are inclusive of VAT at the rate of 16% where applicable.

Required:

The value added tax (VAT) payable by (or refundable to) Heritage Interiors Ltd. for the month of May 2017.

(10 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Outline four instances when the commissioner of domestic taxes or equivalent office holder in your country might cancel a personal identification number (PIN). (4 marks)
- (b) Nelly Zuriya is employed by Chakaranda Limited as the procurement manager. She has provided the following details relating to her income for the year ended 31 December 2016:
- Basic salary Sh.165,000 per month (net of PAYE Sh.35,000 per month).
 - She is a registered member of the National Council for Persons with Disabilities (NCPD) and has been issued with a certificate of exemption by the Commissioner of Domestic Taxes.

3. The employer pays her a house allowance of Sh.40,000 per month. She utilises this amount to rent a house from Jibril Properties Agency for Sh.30,000 per month.
4. Nelly Zuriya has entered into an agreement with Nyumbani Medical Centre (NMC) for her personalised home care under which she pays Sh.18,000 per month. Under the agreement, NMC sends a therapist two times each week to her home. She provided documentary evidence to the Commissioner's satisfaction.
5. Chakaranda Ltd. pays Sh.28,000 each month to Beta Insurance Ltd. for Nelly's medical policy.
6. She is provided with a 2800cc saloon car leased from Decop Tours and Travel, a car-hire firm, in a chauffeur-inclusive package. The employer pays Sh.35,000 per month lease charges to Decop Tours and Travel. The car had cost Decop Tours and Travel Sh.2,000,000 in the year 2015.
7. During the year, she was sent on official duties outside her usual place of work for ten days, where she was paid subsistence and travelling allowance amounting to Sh.24,000 per day. She proved to the commissioner that Sh.3,000 per day out of the subsistence allowance she had received was reimbursement of expenses.
8. Chakaranda Ltd. paid Sh.26,000 on Nelly's behalf, being entrance fee to the Institute of Supplies Management (ISM) during the year.
9. She was provided with airtime credit of Sh.5,000 per month for her private purpose.
10. Nelly Zuriya's other income during the year comprised:

		Sh.
Dividends	: Buzuri (K) Ltd. (net)	28,500
	: Zuhury Cooperative Society Ltd. (net)	17,000
	: Transpalace Company (Zanzibar) Ltd. (gross)	10,000
Interest	: Housing Finance Company housing bonds (gross)	420,000
	: Treasury bills (net)	4,250
	: Rubicon Bank Ltd. fixed deposit account (gross)	15,000
Capital gain	: Sale of private customised landrover at a profit	120,000

Required:

- (i) The taxable income of Nelly Zuriya for the year ended 31 December 2016. (12 marks)
- (ii) The tax liability (if any) on the income computed in (b) (i) above. (2 marks)
- (iii) According to the income tax regulations relating to persons with disabilities (PWD), explain the term "home and personal care" citing examples of any two items of expenditure that might be construed as "home and personal care expenses". (2 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Superlite Manufacturing Company Ltd. commenced operations on 1 January 2016 after incurring the following expenditure:

	Sh.
Processing machinery	6,200,000
Factory land and buildings	10,500,000
Delivery van	2,600,000
Water pump	420,000
Computers	380,000
Staff canteen construction	960,000
Lorry (4 tonnes)	3,200,000
Furniture	180,000
Digital weighing machines	250,000
Computer software	320,000
Staff clinic construction	1,200,000
Tractor	2,800,000

Additional information:

1. Factory land and buildings include factory land purchased at a cost of Sh.5,800,000.
2. A perimeter wall was constructed at a cost of Sh.960,000 during the year.
3. A godown and staff quarters were constructed at a cost of Sh.2,800,000 and Sh.1,600,000 respectively and put into use from 1 October 2016.

Required:

Capital allowances due to Superlite Manufacturing Company Ltd. for the year ended 31 December 2016. (10 marks)

(b) Baraka Ltd. has provided the following income statement for the year ended 31 December 2016:

Income	Sh.	Sh.
Sales		1,920,000
Foreign exchange gain realised		620,000
Proceeds from sale of old machinery		120,000
Discount received		<u>136,000</u>
		2,796,000
Expenditure		
Interest on loan	220,000	
Stationery	180,000	
Loan repayment	460,000	
Legal fees	380,000	
Depreciation	150,000	
Directors emoluments	360,000	
Dividends	980,000	
Audit fees	280,000	
General expenses	840,000	
Bad debts	96,000	
Provision for income tax	<u>120,000</u>	<u>(4,066,000)</u>
Net loss		<u>(1,270,000)</u>

Additional information:

1. Audit fees include Sh.100,000 for auditing a subsidiary company and Sh.80,000 for the preparation of revised accounts.
2. Legal fees include:

	Sh.
Drafting a lease agreement (99 years)	80,000
Breach of contract	180,000
VAT penalties	64,000
Legal cost of debt collection	56,000
3. General expenses comprise:

Office partitions	120,000
Staff Christmas party	250,000
Embezzlement by cashier	60,000
Staff catering costs	220,000
Stamp duty on land transfer	190,000
4. Bad debts represented the general provision as at the end of the year.
5. Capital allowances were agreed with the commissioner of revenue authority at Sh.220,000 for the year.

Required:

Adjusted taxable income for Baraka Ltd. for the year ended 31 December 2016.

(10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Outline four activities specified under the Excise Duty Act that a person should not undertake unless the person is licensed or registered by the commissioner to undertake. (4 marks)
- (b) Summarise four actions that the revenue authority in your country could take against tax payers for recovery of overdue tax. (4 marks)
- (c) Kayla and Lucas are in partnership operating a mini supermarket as Kaylu Traders and sharing profits or losses in the ratio of 2:3 respectively. The following is the income statement of the partnership business for the year ended 31 December 2016:

	Sh."000"	Sh."000"
Sales		31,200
Less: Cost of sales		
Opening stock	9,900	
Purchases	17,100	
Closing stock	<u>(6,200)</u>	<u>(20,800)</u>
Gross profit		10,400
Add: Other income		
VAT refund		110
Dividend income (net)		600
Profit on disposal of furniture		1,576
Discount received		440
Rental income		<u>1,917</u>
		15,043

	Sh."000"	Sh."000"
Less: Expenses		
Insurance premiums	512	
Legal fees	1,660	
Depreciation	614	
Repairs and maintenance	2,400	
VAT paid	250	
Interest on capital: Kayla	435	
Lucas	197	
Sundry expenses	2,883	
Motor vehicles expenses	564	
Custom duty	243	
Auditing expenses	613	
Bad and doubtful debts	165	
Rent and rates	437	
Salaries and wages	1,574	(12,547)
Net income		<u>2,496</u>

Additional information:

1. Both opening stock and closing stock were overcasted by 20%.
2. Insurance premiums include Sh.301,000 paid to insure Kayla's private car.
3. Legal fees include:

	Sh.
Parking fines	160,000
Settling a dispute with a customer	109,000
Appeal against a tax assessment	67,000
Court expenses for breach of a contract	426,600
Preparation of tender documents	250,700

4. Sundry expenses include:

	Sh.
Interest charged on hire purchase	453,000
Cash embezzled by the cashier	602,000
Registration of a trade mark	300,000

5. Repair and maintenance comprised:

	Sh.
Fixing a broken door	24,000
Installation of CCTV cameras	867,000
Purchase of furniture	560,000

6. Salaries and wages included salaries to Kayla and Lucas of Sh.640,000 and Sh.480,000 respectively.

7. The partners took goods for personal use which had a cost price of Sh.240,000. The gross profit margin was 20%.

8. Bad and doubtful debts include:

	Sh.
Specific provision for bad debts	99,000
Provision for general bad debts	66,000

9. Capital allowances were agreed with the commission of revenue authority at Sh.1,574,000.

Required:

- (i) Adjusted taxable profit or loss for the partnership for the year ended 31 December 2016. (10 marks)
- (ii) A schedule showing the distribution of the partner's profit or loss computed in (c) (i) above. (2 marks)

(Total: 20 marks)