



CAMS LEVEL II

ELEMENTS OF PUBLIC FINANCE AND ADMINISTRATION

TUESDAY: 26 November 2019.

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 2018.**

Monthly taxable pay (Sh.)		Annual taxable pay (Sh.)		Rate of tax % in each Sh.
1	- 12,298	1	- 147,580	10%
12,299	- 23,885	147,581	- 286,623	15%
23,886	- 35,472	286,624	- 425,666	20%
35,473	- 47,059	425,667	- 564,709	25%
Excess over	- 47,059	Excess over	- 564,709	30%

Personal relief Sh.1,408 per month (Sh.16,896 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
(ii) Pick-ups, Panel Vans (unconverted)		
Up to 1750 cc	3,600	43,200
Over 1750 cc	4,200	50,400
(iii) Land Rovers/Cruisers	7,200	86,400

Commissioner's prescribed benefit rates

Services	Monthly rates (Sh.)	Annual rates (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) Identify four constitutional commissions and two independent offices as outlined in Chapter fifteen of the Kenya Constitution, 2010. (6 marks)
- (b) (i) In relation to Public Procurement and Asset Disposal Act, 2015, distinguish between “pre-qualification procedure” and “supply chain management” (4 marks)
- (ii) Summarise five roles of the Public Procurement Regulatory Board. (5 marks)
- (c) Highlight five functions of Public Sector Accounting Standards Board (PSASB). (5 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Discuss four functions of the public debt management office as provided for under the Public Finance Management Act, 2012. (8 marks)
- (b) Kevin Muteta is a businessman operating as Kevta Enterprises and he is registered for value added tax (VAT) purposes.

Kevin has presented the following information relating to the transactions for the month of December 2018:

- December 1: Opening stock was valued at Sh.900,000.
- December 5: Imported goods valued at Sh.120,000 being cost, insurance and freight excluding import duty and VAT. Import duty rate was 20% during the month.
- December 8: Purchased goods from Joe Mwazia for Sh.450,000.
- December 9: Sold goods valued at Sh.810,000 to Poa Ltd. which is a withholding tax agent.
- December 9: Purchased goods valued at Sh.600,000 from Kyama Ltd.
- December 11: Paid Sh.15,000 for photocopying and printing of office documents.
- December 12: Purchased furniture from King Ventures Ltd. for office use at a cost of Sh.90,000.
- December 15: Sold goods to Mamba Ltd., a withholding tax agent for Sh.405,000.
- December 17: Sold goods to Lukenya Enterprises for Sh.255,000.
- December 18: Paid electricity expenses Sh.22,500 and telephone expenses Sh.13,500.
- December 20: Paid for catering expenses Sh.28,500.
- December 24: Sold goods to Lewis Karimi for Sh.300,000.

Additional information:

- Transactions are inclusive of VAT at the rate of 16% where applicable.
- VAT is withheld at the rate of 6% by the withholding tax agent.

Required:

Calculate for Kevta Enterprises for the month of December 2018:

- (i) Input VAT. (5 marks)
- (ii) Output VAT. (4 marks)
- (iii) VAT payable or refundable. (3 marks)

(Total: 20 marks)

QUESTION THREE

- (a) In a tax conference, one of the facilitators noted that, “most of the developing countries have introduced information communication technology (ICT) in taxation”.

With reference to the above statement, suggest four benefits that could be derived from application of ICT by the taxpayers and revenue authority. (4 marks)

- (b) Outline four rights of a registered person for value added tax (VAT) purposes. (4 marks)

- (c) Muturi and Mwema are partners trading as Moonlight Enterprises and sharing profits and losses in the ratio of 1:3 respectively. The partners presented the following income statement for the year ended 31 December 2018:

	Sh. “000”	Sh. “000”
Gross profit		6,432
Profit on disposal of a motor vehicle		285
Rental income		1,380
Discount received		57
Bad debts recovered		628
Hobby farming - Muturi		<u>860</u>
		9,642
Less: Expense:		
Salaries and wages	2,200	
Commissions	185	
Depreciation	240	
Advertisement	139	
Interest on capital	720	
Rates	360	
Provision for bad debts	500	
Embezzlement by employees	480	
Redundancy payment	1,200	
Professional fees	280	
Acquisition of trademark	495	
Travelling expenses	90	
Licence fee	48	
Drawings	375	
General expenses	<u>1,555</u>	<u>(8,867)</u>
Net profit		<u>775</u>

Additional information:

1. Commissions include Sh.85,000 paid to Mwema.
2. Salaries and wages include Sh.510,000 and Sh.565,000 paid to Muturi and Mwema respectively.
3. Interest on capital relates to Sh.320,000 and Sh.400,000 paid to Muturi and Mwema respectively.
4. Provision for bad debts include:

Specific provisions	220,000
General provisions	280,000
5. Drawings relates to cash taken from the business by the partners as follows:

Sh.	
Muturi	210,000
Mwema	165,000
6. General expenses include:

Sh.	
Fine and penalties	85,000
Staff NSSF contributions	40,000
Bank loan interest	180,000
Transfer to capital reserves	1,250,000
7. Rates relate to the rental income received during the year.
8. Licence fee relate to advance payment for the year 2019.
9. Bad debts recovered relate to sale of equipment.
10. Professional fees was earned by Muturi.

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Required:

- (i) Adjusted profit or loss for the partnership business for the year ended 31 December 2018. (9 marks)
- (ii) The allocation of profit or loss in (c) (i) above to the partners. (3 marks)

(Total: 20 marks)**QUESTION FOUR**

- (a) Discuss four principles of an optimal tax system as advocated by Adam Smith. (8 marks)
- (b) John Mwea is an employee of Mavuno Ltd. He has provided the following information relating to his income for the year ended 31 December 2018:
1. Basic salary Sh.120,000 per month (PAYE Sh.47,100 per month).
 2. He was provided with a house from 1 January 2018. The house was fully furnished by the employer at a cost of Sh.250,000 on 1 August 2018.
 3. He benefited from free medical treatment during the year valued at Sh.192,000 under the medical scheme operated by the company for all its employees.
 4. He was provided with a security guard and a cook whom the company paid monthly salaries of Sh.24,000 and Sh.21,750 respectively from 1 September 2018.
 5. The employer provided him with a pickup motor vehicle of 2000cc for his personal use. The company had bought the pickup for Sh.2,700,000 on 1 January 2017.
 6. He was provided with Sh.207,000 during the year by the company as school fees to support his two children. This amount was recovered in the company's books as an expense.
 7. He is a member of a registered pension scheme where he contributed Sh.32,000 per month.
 8. The company paid for his life insurance premiums of Sh.6,000 per month.
 9. He received free goods worth Sh.120,000 from the company during the year.
 10. He received 20,000 shares from the company at a cost of Sh.20 per share. The market value per share was Sh.23.

Required:

- (i) Taxable income for John Mwea for the year ended 31 December 2018. (10 marks)
- (ii) Tax payable (if any) from the income computed in (b) (i) above. (2 marks)

(Total: 20 marks)**QUESTION FIVE**

- (a) All taxes may be classified as direct or indirect taxes.
List two types of taxes under each of the above categories. (4 marks)
- (b) Explain two circumstances under which the commissioner may allow an application for the extension of time to file a notice of objection. (4 marks)
- (c) Chakacha Ltd. presented the following income statement for the year ended 31 December 2018:

Income	Sh.	Sh.
Gross profit		6,800,000
Discount received		36,000
Dividends from subsidiary company		60,000
Interest on treasury bills		<u>93,200</u>
		6,989,200
Less: Expenses:		
Directors remuneration	280,000	
Depreciation	340,000	
Bad debts	220,000	
Audit fees	180,000	
Interest expense	130,000	
Miscellaneous expenses	342,000	
VAT paid	186,000	
Insurance premiums	280,000	
Hire purchase interest	82,000	
NHIF contributions	122,000	
Purchase of furniture	260,000	
Legal expenses	186,000	
General provisions	160,000	
Stamp duty	56,000	
Rent and rates	<u>124,000</u>	<u>(2,948,000)</u>
Net profit		<u>4,041,200</u>

Additional information:

1.	Insurance premiums include Sh.125,000 paid to the National Hospital Insurance Fund (NHIF) as a penalty for late submission of contributions.	
2.	Director's remuneration comprised the following:	
		Sh.
	Director's official travelling expenses	22,000
	Director's fees	120,000
	Payments to a director for wrongful contract termination	<u>138,000</u>
		<u>280,000</u>
3.	Audit fees included:	
		Sh.
	Tax appeal against assessment	12,800
	Book keeping fees	48,000
	Audit fees in relation to discontinued operations	<u>119,200</u>
		<u>180,000</u>
4.	Bad debts comprised of the following:	
		Sh.
	General bad debts provisions	82,000
	Bad debt written off in relation to customers	26,400
	Embezzlement by the accountant	<u>111,600</u>
		<u>220,000</u>
5.	Miscellaneous expenses included the following:	
		Sh.
	Company marketing activities	32,800
	Acquisition of 100 years lease on business premises	120,000
	Director's Christmas party	182,000
	Subscription to Kenya National Chamber of Commerce	<u>7,200</u>
		<u>342,000</u>

Required:

- (i) Adjusted taxable profit or loss of Chakacha Ltd. for the year ended 31 December 2018. (10 marks)
- (ii) Tax payable (if any) by Chakacha Ltd. for the year ended 31 December 2018 from the adjusted profit obtained in (c) (i) above. (2 marks)

(Total: 20 marks)

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