



CPA INTERMEDIATE LEVEL
CIFA INTERMEDIATE LEVEL
PUBLIC FINANCE AND TAXATION

TUESDAY: 23 April 2024. Afternoon Paper.

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. Do NOT write anything on this paper.

RATES OF TAX (For employment income including wife's employment, self-employment and professional income).

Year of income 2023.

Assume the following rates of tax applied throughout the year of income 2023:

Monthly taxable pay (Sh.)		Annual taxable pay (Sh.)		Rate of tax % in each Sh.
1	- 24,000	1	- 288,000	10%
24,001	- 32,333	288,001	- 388,000	25%
32,334	- 500,000	388,001	- 6,000,000	30%
500,001	- 800,000	6,000,001	- 9,600,000	32.5%
Excess over	800,000	Excess over	9,600,000	35%

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

Investment allowance: Capital expenditure incurred on:	Rate of investment allowance	Residual value (25% per year on equal instalments)	Prescribed benefit rates of motor vehicles provided by employer (i) Saloons, Hatch Backs and Estates		
				Monthly rates (Sh.)	Annual rates (Sh.)
(a) Buildings:					
• Hotel building	50% in the first year of use	25%	Up to 1200 cc	3,600	43,200
• Building used for manufacture	50% in the first year of use	25%	1201 - 1500 cc	4,200	50,400
• Hospital buildings	50% in the first year of use	25%	1501 - 1750 cc	5,800	69,600
• Petroleum or gas storage facilities	50% in the first year of use	25%	1751 - 2000 cc	7,200	86,400
• Educational/hostels building	10% per year on straight line basis		2001 - 3000 cc	8,600	103,200
• Commercial building	10% per year on straight line basis		Over - 3000 cc	4,400	172,800
(b) Machinery:			(ii) Pick-ups, Panel Vans (unconverted)		
• Machinery used for manufacture	50% in the first year of use	25%	Up to - 1750 cc	3,600	43,200
• Hospital equipment	50% in the first year of use	25%	Over - 1750 cc	4,200	50,400
• Ships or aircraft	50% in the first year of use	25%			
• Motor vehicles and heavy earth moving equipment	25% per year on straight line basis		(iii) Land Rovers/Cruisers		
• Computer software, calculators, copiers and duplicating machines	25% per year on straight line basis		7,200		86,400
• Furniture and fittings	10% per year on straight line basis				
• Telecommunication equipment	10% per year on straight line basis				
• Film equipment by a local producer	10% per year on straight line basis				
• Machinery used to undertake operations under prospecting rights and exploration under mining rights	25% per year on straight line basis	25%			
• Other machinery	50% in the first year of use				
(c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation	10% per year on straight line basis				
(d) Farm works	50% in the first year of use	25%			

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) (i) With reference to sources of public debt, distinguish between “external sources” and “domestic sources” giving an example in each case. (2 marks)
- (ii) Summarise **THREE** objectives of public debt management office. (3 marks)
- (b) Highlight **FOUR** documents that are prepared in the process of county government budget preparation clearly indicating their timelines as envisaged by the provisions of Public Financial Management Act. (4 marks)
- (c) The Public Procurement and Asset Disposal (PPAD) Act requires that all public entities delegate the responsibility of evaluating tenders to the tender evaluation committee upon submission of the tenders by the tenderers.
- Summarise **SIX** criteria used by the tender evaluation committee to conduct a preliminary evaluation of the tenders pursuant to Section 80 of the PPAD Act. (6 marks)
- (d) Outline **FIVE** roles of the council of governors in county financial management. (5 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Explain the term “special purpose vehicle” as used under the Public Private Partnerships Act. (2 marks)
- (b) Discuss **THREE** ways through which the National Assembly budget committee contributes to the scrutiny and oversight of public finance management. (6 marks)
- (c) Kenley Ltd. is a merchandising company operating in Kenya. The following transactions were extracted from the company’s records during the month of September 2023:

	Sh.
Sales at standard rate	6,199,997
Exports to Egypt	800,000
Purchases at standard rate	4,000,000
Purchase of oil and fuel for delivery van	360,500
Repairs of office furniture	64,000
Audit fees	160,000
Salaries and wages	1,480,000
Purchase of stationery	68,000
Electricity bills for the month (not paid)	56,400
Legal fees	48,600
Purchases from traders not registered for VAT	580,000
Zero rated sales	400,000

Additional information:

- The VAT accountant established that standard rate purchases were understated by 20%.
- Sales at standard rate included goods valued at Sh.278,400 sold to a credit customer who was declared bankrupt during the month.
- A customer returned goods sold at standard rate valued at Sh.58,000 to the company and a credit note was issued immediately.
- Credit suppliers issued debt notes in respect to suppliers at standard rate amounting to Sh.580,000.
- The accountant also established that an invoice of Sh.480,000 from a foreign supplier was not recorded in the books. The import duty for these goods was at the rate of 20%.
- Repairs of office furniture was carried out by a local carpenter not registered for VAT.
- Transactions are inclusive of VAT at a rate of 16% where applicable.

Required:

Compute the value added tax (VAT) payable by or refundable to Kenley Ltd. for the month of September 2023.

(12 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Explain the applicable rate and the due date for the affordable housing levy. (2 marks)
- (b) Explain **THREE** ways through which individuals could engage in tax avoidance. (3 marks)
- (c) John Musyoka is employed as a finance manager by Safari Real Estate Ltd. He reported the following details of his income and that of his wife for the year ended 31 December 2023:
1. He was entitled to a basic salary of Sh.400,000 per month (PAYE of Sh.120,000 per month was deducted).
 2. He was also entitled to an annual bonus of Sh.120,000 during the year. The bonus for the year 2023 was however not paid until February 2024.
 3. The employer provided him with a motor vehicle of 2600cc that had cost the company Sh.3,200,000 in the year 2021. The vehicle was valued at Sh.2,500,000 at the beginning of the year 2023.
 4. His annual mortgage repayment of Sh.820,000 inclusive of interest of Sh.180,000 was settled by the employer. The loan was obtained from Elite Bank on 1 January 2023 to purchase own residential house.
 5. The following deductions were made from his salary during the year:

	Sh.
Subscription to Jenga Golf club	66,000
Contribution to a registered pension scheme	180,000
 6. He received a gross dividend of Sh.80,000 from his shares in Safari Real Estate Ltd. where the withholding tax was paid by the company.
 7. His wife Janet Musyoka is employed by Bright Farmers Co-operative Society as a general manager at a basic salary of Sh.160,000 per month.
 8. She is housed within the co-operative society's farm where she contributes 5% of her basic salary as rent. She received free farm produce worth Sh.24,000 during the year.
 9. Her other income comprised of:
 - Interest income, 10 year infrastructure development bond Sh.120,000
 - Interest from Wemah Development Bank Ltd. Sh.85,000 (net).
 - Gross farming income of Sh.240,000 excluding family consumption valued at Sh.30,000.
 10. John Musyoka and his wife Janet Musyoka have been filing separate tax returns to the revenue authority.
 11. Ignore computation of affordable housing levy.

Required:

- (i) Compute the taxable income for John Musyoka and his wife Janet Musyoka for the year ended 31 December 2023. (11 marks)
- (ii) Determine the tax payable (if any) on income computed in (c) (i) above. (4 marks)

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

- (a) Explain the term "credit method" as used in double taxation agreement. (2 marks)
- (b) Describe **THREE** ways in which the operation of bonded warehouses contributes to trade facilitation and international commerce in your country. (6 marks)
- (c) Lamek Ltd. is a company engaged in manufacturing business. The following details were extracted from the financial statements of the company for the year ended 31 December 2023:

Statement of profit or loss for the year ended 31 December 2023

	Sh.	Sh.
Turnover (inclusive of VAT at the rate of 16%)		9,744,000
Profit on sale of motor vehicle		260,000
Insurance compensation for stock destroyed by fire		<u>374,200</u>
		10,378,200
Less expenses:		
Purchases	2,880,000	
New furniture	400,000	
Salaries and wages	380,000	
Legal expenses	420,000	
General expenses	1,560,000	
Corporation tax	464,000	
Advertisement	520,000	
Audit fees	194,000	
Office rent	240,000	
Purchased goodwill	90,000	
Repairs and maintenance	<u>360,000</u>	
Net profit		<u>(7,508,000)</u> <u>2,870,200</u>

Additional information:

1. Purchases were overstated by 20% and includes carriage cost of Sh.20,000 for furniture for use in the business.
2. **Legal expenses comprised:**

	Sh.
Conveyance fees - Company land	40,000
Defending the company against tax evasion case	68,000
Registration of trade mark	42,000
Negotiation of goodwill	40,000
Renewal of 100-year lease agreement	36,000
Loan negotiation fees	74,000
Defending company against trade dispute	20,000
Negotiating employee salaries with Union	<u>100,000</u>
	<u>420,000</u>
3. **General expenses included:**

	Sh.
General allowance on bad debts	38,400
Office partitions	60,000
Purchase of photocopier	180,000
Purchase of computers	350,000
Donations to charitable organisations	124,000
Construction of sewerage plant	680,000
4. **Repairs and maintenance included:**

	Sh.
Purchase of metallic doors	28,200
Purchase of motor vehicle engine	54,000
Purchase of plastic tank	60,000
Construction of fire exit	184,000
5. Advertisement costs include software expenses for office computers at a cost of Sh.190,000.

Required:

- (i) Prepare a statement of adjusted taxable profit or loss for the year ended 31 December 2023. (10 marks)
- (ii) Determine corporation tax payable or refundable, assuming total instalment tax paid was Sh.2,084,920. (2 marks)

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

- (a) Summarise **FOUR** criticisms associated with the imposition of miscellaneous fees and levies in developing countries. (4 marks)
- (b) Identify **FOUR** benefits that could accrue to a taxpayer from appointing a tax representative. (4 marks)
- (c) Fantah Manufacturing Company Ltd. started its operation on 1 January 2022 producing soft drinks for the local market.

The company acquired the following assets on commencement of its operations:

	Sh.
Land	12,500,000
Factory building	44,000,000
Office building	8,000,000
Processing machinery	2,400,000
Patents	400,000
File cabinet	100,000
Office furniture	480,000
Electric ceiling fans	230,000
Delivery vans	12,000,000
LCD television	120,000
Photocopier	280,000
Computers	1,800,000
Telecommunication equipment	640,000
Borehole	2,400,000
Water tanks	720,000
Water pump	360,000
3 lorries (4 tonnes)	9,600,000

Additional information:

1. The company disposed of computers and electric ceiling fans that were not suitable for the company on 1 January 2023 which had cost Sh.240,000 and Sh.80,000 respectively.
2. The company acquired the following assets during the year 2023:

	Sh.
Trucks and trailers	4,800,000
Data handling machine	360,000
2-saloon cars (each Sh.3,600,000)	7,200,000
Workshop machinery	2,100,000

Required:

Compute investment allowances due to the company for the years ended 31 December 2022 and 31 December 2023.

(12 marks)

(Total: 20 marks)

.....

Someakenya.com App



**CPA INTERMEDIATE LEVEL
CIFA INTERMEDIATE LEVEL**

PUBLIC FINANCE AND TAXATION

TUESDAY: 5 December 2023. Afternoon Paper.

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. Do NOT write anything on this paper.

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

Year of income 2022.

Monthly taxable pay (Sh.)		Annual taxable pay (Sh.)		Rate of tax % in each Sh.
1	- 24,000	1	- 288,000	10%
24,001	- 32,333	288,001	- 388,000	25%
Excess over	- 32,333	Excess over	- 388,000	30%

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

Investment allowance: Capital expenditure incurred on:	Rate of investment allowance	Residual value (25% per year on equal instalments)	Prescribed benefit rates of motor vehicles provided by employer (i) Saloons, Hatch Backs and Estates																					
			<table border="1"> <thead> <tr> <th></th> <th>Monthly rates (Sh.)</th> <th>Annual rates (Sh.)</th> </tr> </thead> <tbody> <tr> <td>Up to 1200 cc</td> <td>3,600</td> <td>43,200</td> </tr> <tr> <td>1201 - 1500 cc</td> <td>4,200</td> <td>50,400</td> </tr> <tr> <td>1501 - 1750 cc</td> <td>5,800</td> <td>69,600</td> </tr> <tr> <td>1751 - 2000 cc</td> <td>7,200</td> <td>86,400</td> </tr> <tr> <td>2001 - 3000 cc</td> <td>8,600</td> <td>103,200</td> </tr> <tr> <td>Over 3000 cc</td> <td>14,400</td> <td>172,800</td> </tr> </tbody> </table>		Monthly rates (Sh.)	Annual rates (Sh.)	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
	Monthly rates (Sh.)	Annual rates (Sh.)																						
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																						
(a) Buildings: <ul style="list-style-type: none"> Hotel building Building used for manufacture Hospital buildings Petroleum or gas storage facilities Educational/hostels building Commercial building 	<ul style="list-style-type: none"> 50% in the first year of use 50% in the first year of use 50% in the first year of use 50% in the first year of use 10% per year on straight line basis 10% per year on straight line basis 	<ul style="list-style-type: none"> 25% 25% 25% 25% 25% 																						
(b) Machinery: <ul style="list-style-type: none"> Machinery used for manufacture Hospital equipment Ships or aircraft Motor vehicles and heavy earth moving equipment Computer software, calculators, copiers and duplicating machines Furniture and fittings Telecommunication equipment Film equipment by a local producer Machinery used to undertake operations under prospecting rights and exploration under mining rights Other machinery 	<ul style="list-style-type: none"> 50% in the first year of use 50% in the first year of use 50% in the first year of use 25% per year on straight line basis 25% per year on straight line basis 10% per year on straight line basis 10% per year on straight line basis 25% per year on straight line basis 50% in the first year of use 10% per year on straight line basis 	<ul style="list-style-type: none"> 25% 25% 25% 25% 25% 25% 25% 25% 25% 	(ii) Pick-ups, Panel Vans (unconverted) <table border="1"> <thead> <tr> <th></th> <th>Monthly rates (Sh.)</th> <th>Annual rates (Sh.)</th> </tr> </thead> <tbody> <tr> <td>Up to 1750 cc</td> <td>3,600</td> <td>43,200</td> </tr> <tr> <td>Over 1750 cc</td> <td>4,200</td> <td>50,400</td> </tr> </tbody> </table>		Monthly rates (Sh.)	Annual rates (Sh.)	Up to 1750 cc	3,600	43,200	Over 1750 cc	4,200	50,400												
	Monthly rates (Sh.)	Annual rates (Sh.)																						
Up to 1750 cc	3,600	43,200																						
Over 1750 cc	4,200	50,400																						
(c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation	10% per year on straight line basis		(iii) Land Rovers/Cruisers 7,200 86,400																					
(d) Farm works	50% in the first year of use	25%																						

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) Summarise **FOUR** roles of the Cabinet Secretary of the National Treasury and Planning in relation to public debt management. (4 marks)

- (b) The Cabinet Secretary for the National Treasury or the state officer responsible for finance in your country is mandated by law to manage the national budget process. One of the task is to issue circulars for setting guidelines to be followed to all government entities.

With reference to the above statement, highlight **FOUR** contents of such a circular. (4 marks)

- (c) In a tax seminar, one of the facilitators noted that, "Not later than three months after the end of each financial year, the National Treasury shall prepare and submit to the Auditor-General financial statements for that year including certain information in respect of the contingencies fund as provided in the Public Finance Management Act, 2012.

With reference to the above statement, outline **FOUR** contents of information included in the financial statements in respect to contingencies fund. (4 marks)

- (d) Summarise **FOUR** roles of internal audit as an oversight function in public finance management. (4 marks)

- (e) The Committee of National Assembly submits to the National Assembly recommendations on revenue matters for approval. This is included in the finance bill as per the Public Finance Management Act, 2012.

With reference to the above statement, examine **FOUR** considerations that guide the recommendations by the committee. (4 marks)

(Total: 20 marks)

QUESTION TWO

- (a) An accounting officer of a public entity shall be primarily responsible for ensuring that the public entity complies with the Public Procurement and Asset Disposal Act.

With reference to the above provision, outline **FOUR** responsibilities of an accounting officer of a procuring entity. (4 marks)

- (b) Citing **THREE** benefits derived by the government, justify the establishment of Public Private Partnerships (PPPs) arrangement adopted by most developing countries. (6 marks)

- (c) Janette Cheptoo is a practicing accountant under Cheptoo and Associates. Her firm is registered for value added tax (VAT) purposes.

The firm made the following transactions in the month of October 2023:

- October 2: Tax consultancy work for Betterlife Ltd. at a fee amounting to Sh.840,000 exclusive of VAT.
- October 4: Audit for Rwandacell, a company based in Rwanda at a fee amounting to Sh.920,000 exclusive of VAT.
- October 10: Consultancy services for Whitestar Ltd. She billed the company Sh.348,000 inclusive of VAT.
- October 15: The firm was contracted by Zedcom Ltd. to undertake review of its internal control system at a fee of Sh.603,200 inclusive of VAT.
- October 17: Conducted an audit for Whitestar Ltd. for the year ended 31 December 2022. The fee charged was Sh.487,200 inclusive of VAT.
- October 18: Stima Ltd. contracted the firm to conduct a survey on power consumption at a fee of Sh.2,400,000 exclusive of VAT.
- October 19: The firm audited accounts of Glory Ministries, a church where Cheptoo serves as a volunteer auditor. She estimated that the fees would have been Sh.720,000 excluding VAT.
- October 21: Billed Whitestar Ltd. Sh.136,880 inclusive of VAT for debt collection services.
- October 22: The firm undertook a financial consultancy services for Speed Netcom S.A, a company based in South Africa. The fee charged was Sh.640,000 exclusive of VAT.
- October 24: Conducted an audit for Walkah Ltd. at a fee of Sh.232,000 inclusive of VAT.

October 26:	Provided accountancy services to Compassionate Children Home on volunteer basis. She estimated the value of the services was Sh.139,200 inclusive of VAT.
October 31:	She paid the following expenses which were inclusive of VAT where applicable:
	Sh.
	Electricity 25,520
	Water bills from county water and sewerage company 5,400
	Garbage collection 35,960
	Rent for the office 127,600
	Stationery 26,680
	Computer repairs 30,160
	Telephone bills 19,720

Required:

- (i) Prepare a value added tax (VAT) account for the month of October 2023 for Cheptoo and Associate. (8 marks)
- (ii) Assuming Whitestar Ltd. was adjudged bankrupt by a court having paid Cheptoo and Associate Sh.237,800 only and that all conditions for claiming bad debt refund are met, compute the amount of VAT bad debt refund that is claimable by Cheptoo and Associates. (2 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Explain the following terms as used in customs and excise taxes:
- (i) Transshipment. (2 marks)
- (ii) Ex-factory selling price. (2 marks)
- (iii) Prohibited goods. (2 marks)
- (b) Rosemary Aswani is a resident individual who is employed as a senior financial analyst by United Homes Ltd. from the year 2022.

She has provided the following information relating to her income for the year ended 31 December 2022:

1. She received a monthly basic salary of Sh.204,000 from United Homes and a bonus equal to one month basic salary for her exemplary performance. PAYE deducted during the year was Sh.607,200.
2. Terminal dues received from her previous employer for services not rendered amounted to Sh.1,400,000. Her 4-year contract of employment was terminated after 2 years in December 2021 and payment was made as per the employment contract.
3. A commission of Sh.100,000 was paid to her for promoting the sale of houses where two houses were sold to the customers she had referred to the business.
4. She attended a five day master class for financial analysts organised by her professional body and the employer paid Sh.100,000 for the seminar and she was paid daily subsistence allowance of Sh.12,000 by the employer.
5. She was given an offer to buy a house from United Homes at 20% below the market selling price. She accepted the offer and bought one house whose market selling price was Sh.8,000,000.
6. She has a fixed deposit account of Sh.2,500,000 at Maisha Bank Ltd. from which she received interest of Sh.150,000 during the year.
7. She has a life insurance policy where she pays 60% of the premiums while the employer pays the balance. Annual premiums as per the insurance policy was Sh.240,000 for the year.
8. She was provided with a leased saloon car of 2000cc by the employer for both personal use and official duties on 1 September 2022. The saloon car had an initial cost of Sh.2,800,000 and lease charges were Sh.36,000 per month.
9. United Homes has a medical cover for all management staff. She was entitled to a maximum cover of Sh.880,000 per year although she utilised Sh.420,000 on medical costs during the year.
10. She paid subscription fees to her professional body amounting to Sh.24,000 during the year.
11. Her other incomes include:
 - Royalties income of Sh.180,000 net of withholding tax.
 - Gross farming income of Sh.450,000 out of which Sh.80,000 was in respect of own consumption of farm produce.
 - Part time practice as content creator where she made Sh.600,000 during the year.

Required:

- (i) Compute taxable income for Rosemary Aswani for the year ended 31 December 2022. (12 marks)
- (ii) Determine tax payable (if any) on the income computed in (b) (i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) In relation to Tax Procedures Act 2015, explain the circumstances when a taxpayer may appeal to:
- (i) Tax appeals tribunal. (2 marks)
- (ii) High court. (2 marks)
- (b) Bright Décor Ltd. is a company engaged in furniture and fittings making for both local and export market. The company provided the following statement of profit or loss for the year ended 31 December 2022:

Bright Decor Ltd.		
Statement of profit or loss for the year ended 31 December 2022		
	Sh. "000"	Sh. "000"
Sales		95,000
Cost of sales:		
Opening inventory	6,000	
Purchases	40,000	
Closing inventory	<u>(10,000)</u>	<u>(36,000)</u>
Gross profit		59,000
Other incomes:		
Interest from Bestway Bank (gross)		1,800
Insurance recovery - Pick-up		1,000
Profit from sale of marketable securities		900
Dividend from Tea Co-operative Society (net)		600
Income from sale of saw dust		<u>2,100</u>
		<u>65,400</u>
Less expenses:		
Finance charges	500	
Insurance	2,000	
Salary and wages	4,800	
NHIF contributions - Staff	300	
Intangible assets written off	1,400	
Legal expenses	2,000	
Bad debts	200	
Repairs and maintenance	2,500	
Floating expenses	1,400	
Pick up scrapped in an accident	2,000	
Depreciation	3,400	
Donations to local church	800	
Rates and licenses	4,000	
Directors allowances	4,000	
Travelling expenses	6,000	
Pension to retired staff	8,700	
Entertainment	1,100	
Computer software purchase	300	
Telephone expenses	<u>200</u>	<u>(45,600)</u>
Net profit for the year		<u>19,800</u>

Additional information:

- Directors allowances include Sh.1,200,000 paid to defend one of the directors in a private legal suit.
- Legal expenses comprise:**

	Sh. "000"
Preparing lease for 100 years	800
Collection of business debts	200
Defence against claims of breach of trade agreement	800
Purchase of directors private residence	<u>200</u>
	<u>2,000</u>

3. 40% of entertainment expenses relate to one of the directors entertainment while on a family holiday in Paris.
4. Inventories were valued at 10% below the cost price consistently.
5. The cost of floating shares was in respect of a private placement where 30% of the shares were sold.
6. Capital allowances were agreed at Sh.2,000,000. No investment allowance had been claimed in respect of the computer software.
7. Bad debts include an estimated default of Sh.80,000.

Required:

- (i) Compute the taxable profit or loss for Bright Decor Ltd. for the year ended 31 December 2022. (8 marks)
 - (ii) Compute the tax payable (if any) on the income computed in (b) (i) above. (2 marks)
- (c) Fountain Ltd. manufactures soft drinks for sale in the local market. The company started operations on 1 January 2021 and acquired/constructed the following assets:

Asset	Year of acquisition/ construction	Cost of acquisition/ construction Sh.
Factory building	2021	40,000,000
Factory machinery	2021	12,500,000
2 lorries (Sh.5,000,000 each)	2021	10,000,000
Godown	2021	4,100,000
Computers	2021	800,000
Computer software	2021	240,000
2 saloon cars (Sh.3,500,000 each)	2022	7,000,000
Other machineries	2022	300,000

Required:

Compute the investment allowances for Fountain Ltd. for each of the two years ended 31 December 2021 and 31 December 2022. (6 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Identify **THREE** distinctions between “direct taxes” and “indirect taxes”. (3 marks)
- (b) Hezron Mwaniah, the owner of fleet of vehicles has learnt that, there were changes on motor vehicles advance tax introduced in the Finance Act 2023.

Required:

Advise Hezron Mwaniah on the rate of advance tax and the effective date as provided in the finance Act, 2023. (2 marks)

- (c) The Revenue Authority in your country established a Medium Taxpayers Office (MTO).
In relation to the above statement, propose **THREE** objectives of the Medium Taxpayers Office (MTO). (3 marks)

- (d) James and Patrick are partners trading as Highway Enterprises and sharing profits and losses equally.

The following information was extracted from their books of accounts for the year ended 31 December 2022:

	Sh.	Sh.
Sales		93,800,000
Rental income (commercial properties)		750,000
Dividend income (gross)		560,000
Sundry receipts		200,000
Gain on foreign exchange realised		65,000
Interest on deposit with foreign bank		48,000
Profit on disposal of machinery		<u>35,000</u>
		95,458,000

Less expenses:

Cost of goods sold	66,750,000
Registration of patents	145,000
Hosting of business website	72,000
Purchase of a computer	220,000
Staff salaries and wages	5,620,000

	Sh.	Sh.
Partners salary: James	1,150,000	
Patrick	1,140,000	
Audit fees	225,000	
Insurance	350,000	
Purchase of office machinery	480,000	
Commission to partners: James	2,120,000	
Patrick	2,180,000	
Stamp duty	126,000	
Impairment of goodwill	114,000	
Bank charges	65,000	
Fixing of neon sign	80,000	
VAT paid	180,000	
Repair of machinery	18,000	
Purchase of telephone equipment	53,000	
Legal fees	280,000	
Gift to employees for meeting target	160,400	
Donation to Red Cross	75,000	
Loan to employees written off	138,400	
Cost of relocating to new premises	275,600	
Redundancy payments to employees	1,184,300	
Investment seminar for retired employees	325,500	
Depreciation	<u>185,000</u>	<u>(83,712,200)</u>
Net profit		<u>11,745,800</u>

Additional information:

1. **Insurance comprises:**

Insurance cover for imported machinery against loss on transit	Sh. 150,000
Insurance cover for business premises	<u>200,000</u>
	<u>350,000</u>
2. Legal fees include Sh.25,000 incurred on drafting a loan arrangement between the partnership and a bank.
3. Cost of goods sold include carriage cost of a machine to the business premises amounting to Sh.34,000.
4. Closing inventory was overvalued by Sh.25,000 and opening inventory undervalued by Sh.48,000.
5. Dividend income was from investment in share in a local Farmers Cooperative Society.

Required:

- (i) Compute adjusted taxable profit or loss of the partnership for the year ended 31 December 2022. (10 marks)
- (ii) Allocation of taxable profit or loss computed in (d) (i) above to the partners. (2 marks)

(Total: 20 marks)

.....



CPA INTERMEDIATE LEVEL

CIFA INTERMEDIATE LEVEL

PUBLIC FINANCE AND TAXATION

TUESDAY: 22 August 2023. Afternoon Paper.

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. Do NOT write anything on this paper.

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

Year of income 2022.

Monthly taxable pay (Sh.)	Annual taxable pay (Sh.)	Rate of tax % in each Sh.
1 - 24,000	1 - 288,000	10%
24,001 - 32,333	288,001 - 388,000	25%
Excess over - 32,333	Excess over - 388,000	30%

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

Investment allowance: Capital expenditure incurred on:	Rate of investment allowance	Residual value (25% per year on equal instalments)	Prescribed benefit rates of motor vehicles provided by employer (i) Saloons, Hatch Backs and Estates																					
(a) Buildings:			<table border="1"> <thead> <tr> <th></th> <th>Monthly rates (Sh.)</th> <th>Annual rates (Sh.)</th> </tr> </thead> <tbody> <tr> <td>Up to 1200 cc</td> <td>3,600</td> <td>43,200</td> </tr> <tr> <td>1201 - 1500 cc</td> <td>4,200</td> <td>50,400</td> </tr> <tr> <td>1501 - 1750 cc</td> <td>5,800</td> <td>69,600</td> </tr> <tr> <td>1751 - 2000 cc</td> <td>7,200</td> <td>86,400</td> </tr> <tr> <td>2001 - 3000 cc</td> <td>8,600</td> <td>103,200</td> </tr> <tr> <td>Over 3000 cc</td> <td>14,400</td> <td>172,800</td> </tr> </tbody> </table>		Monthly rates (Sh.)	Annual rates (Sh.)	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
	Monthly rates (Sh.)	Annual rates (Sh.)																						
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																						
<ul style="list-style-type: none"> Hotel building Building used for manufacture Hospital buildings Petroleum or gas storage facilities Educational/hostels building Commercial building 	<ul style="list-style-type: none"> 50% in the first year of use 50% in the first year of use 50% in the first year of use 50% in the first year of use 10% per year on straight line basis 10% per year on straight line basis 	<ul style="list-style-type: none"> 25% 25% 25% 25% 10% 10% 																						
(b) Machinery:			(ii) Pick-ups, Panel Vans (unconverted)																					
<ul style="list-style-type: none"> Machinery used for manufacture Hospital equipment Ships or aircraft Motor vehicles and heavy earth moving equipment Computer software, calculators, copiers and duplicating machines Furniture and fittings Telecommunication equipment Film equipment by a local producer Machinery used to undertake operations under prospecting rights and exploration under mining rights Other machinery 	<ul style="list-style-type: none"> 50% in the first year of use 50% in the first year of use 50% in the first year of use 25% per year on straight line basis 25% per year on straight line basis 10% per year on straight line basis 10% per year on straight line basis 25% per year on straight line basis 50% in the first year of use 10% per year on straight line basis 	<ul style="list-style-type: none"> 25% 25% 25% 25% 	<table border="1"> <tbody> <tr> <td>Up to 1750 cc</td> <td>3,600</td> <td>43,200</td> </tr> <tr> <td>Over 1750 cc</td> <td>4,200</td> <td>50,400</td> </tr> </tbody> </table>	Up to 1750 cc	3,600	43,200	Over 1750 cc	4,200	50,400															
Up to 1750 cc	3,600	43,200																						
Over 1750 cc	4,200	50,400																						
(c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation	10% per year on straight line basis		(iii) Land Rovers/Cruisers 7,200 86,400																					
(d) Farm works	50% in the first year of use	25%																						

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) Explain the following terms as used in public finance management:
- (i) Equitable share. (2 marks)
 - (ii) Conditional grants. (2 marks)
 - (iii) Own source revenue. (2 marks)
- (b) The societal needs of most developing countries are mostly greater than the resources available to the government. The countries must therefore develop a public financial management framework to act as a tool for guiding formulation and implementation of public policies so as to improve the welfare of the citizens.
- In relation to the above statement, outline **FOUR** principles of public financial management regulations that govern all aspects of public finance in your country. (4 marks)
- (c) Summarise **FOUR** roles of the Senate as an oversight function in public finance management. (4 marks)
- (d) Discuss **THREE** parameters used by the Commission on Revenue Allocation in sharing revenue among county governments or their equivalent in your country. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Developing countries face significant challenges in meeting their development objectives and at the same time ensuring that their debt levels remain sustainable. They are therefore, advised by the International Monetary Fund (IMF) and World Bank to develop a framework for Debt Sustainable Analysis that is country specific.
- With reference to the above statement, analyse **TWO** objectives of conducting an annual debt sustainability analysis in your country. (4 marks)
- (b) According to the Public Procurement and Asset Disposal Act, 2015, the county treasury is required to establish a procurement function.
- In relation to the above provision, outline **SIX** responsibilities of the county government procurement function. (6 marks)
- (c) Baraka Traders has provided you with the following details in respect of transactions for the month of December 2022:

	Sh.
December 4: Purchases	725,000
December 8: Return outwards	58,000
December 12: Catering expenses	87,000
December 15: Repairs of delivery van	29,000
December 18: Audit fees	26,100
December 20: Cost insurance and freight (CIF) imports	125,000
December 22: Sales (local)	1,131,000
December 24: Sales (export)	250,000
December 27: Exempt sales	350,000
December 28: Photocopying	11,600
December 30: Telephone bill	23,200

Additional information:

1. Input tax relating to goods sold as exempt sales could not be directly identified and it was found appropriate to restrict deductible input tax.
2. All transactions are inclusive of value added tax (VAT) at the rate of 16% where applicable.
3. Import duty is at 20% on cost, insurance and freight (CIF) basis.
4. A debtor of goods valued at Sh.50,750 was declared bankrupt on 15 December 2022.

Required:

- (i) Compute output tax. (2 marks)
- (ii) Compute deductible input tax. (4 marks)

- (iii) Determine VAT payable by or refundable to Baraka Traders. (2 marks)
- (iv) Advise the management of Baraka Traders on the penalty applicable for late filing and late payment of VAT. (2 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Explain the term “export levy” as used in miscellaneous fees and levies. (2 marks)
- (b) Summarise **FOUR** roles that taxation policies of a country play in achieving budgetary objectives. (4 marks)
- (c) Solomon Chuchuh is employed as the Managing Director of Utamu Millers Ltd. During the year ended 31 December 2022, he presented the following information relating to his income:

1. His basic salary was Sh.120,000 per month net of PAYE of Sh.48,000 per month.
2. He was provided with lunch by the employees from 1 August 2022 of Sh.6,000 per month.
3. He enjoyed a medical allowance from the company which is only available to senior managers. The allowance was Sh.12,500 per month.
4. The company paid for him Life Insurance premiums of Sh.4,800 per month for each member of his family from 1 September 2022. This included himself, wife and the daughter.
5. During the year, the employer paid a total of Sh.200,000 as school fees for his daughter. This amount was allowed in the company’s income statement.
6. He was provided with a fully furnished house with electricity and water. The employer paid monthly rent of Sh.50,000 for the house and deducted 5% of his basic salary for rent. The cost of furniture was Sh.240,000 while the monthly electricity bill and water bill amounted to Sh.1,800 and Sh.1,000 per month respectively.
7. On 1 October 2022, the company provided him with the following:
 - A land cruiser which was acquired at a cost of Sh.3,200,000 with an engine capacity of 3000cc.
 - A house servant and a night watchman whose monthly salaries were Sh.12,500 and Sh.15,000 respectively. The fair market value was agreed with commissioner at Sh.14,000 per month for each of them.
8. He contributed 15% of his monthly basic salary towards a registered pension scheme while the employer contributed 10% of his basic salary towards the same scheme.
9. Other incomes for the year include:
He has invested in the real estate and from his rental houses, he reported a net rental income of Sh.2,400,000 after deducting the following expenditure:

	Sh.
Caretaker wages	420,000
Fencing cost	640,000
Loan repayment	320,000
Monthly rental income tax	487,820
Insurance, rent and rates	248,000
Advertising	360,000
Partitioning and CCTV cameras	222,000
Repairs and maintenance	<u>268,200</u>
	<u>2,966,020</u>

10. Dividend received from United Millers Co-Operative Society was Sh.306,000 net and interest received from Fanaka Bank Ltd. was Sh.240,000 net.

Required:

- (i) Compute the total taxable income for Solomon Chuchuh for the year ended 31 December 2022. (12 marks)
- (ii) Determine tax payable (if any) from the income computed in (c) (i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Highlight **FOUR** factors that have contributed to the growth of Public Private Partnership (PPPs) arrangements in most developing countries. (4 marks)
- (b) Outline **FOUR** determinants of taxable capacity in your country. (4 marks)
- (c) Mambo, Moto and Mutokah are in a partnership sharing profits and losses in the ratio of 2:1:1 respectively.

Their statement of profit or loss for the year ended 31 December 2022 was as follows:

	Sh.	Sh.
Gross profit		4,200,000
Sale of delivery van proceeds		1,400,000
Expenses:		
Advertisement	380,000	
Depreciation	148,000	
Rent and rates	120,000	
General expenses	450,000	
Value added tax (VAT)	150,000	
Bad debts	250,000	
Purchase of furniture	620,000	
Salaries and wages	900,000	
Legal fees	540,000	
Goodwill written off	225,000	
Interest on capital - Mambo	80,000	
Moto	<u>140,000</u>	<u>(4,003,000)</u>
Net profit		<u><u>1,597,000</u></u>

Additional information:

- Advertisement expenses include Sh.120,000 spent on acquisition of a neon sign.
- General expenses comprised the following:

	Sh.
Partners end year party	150,000
Staff catering services	90,000
Embezzlement by cashier	210,000
- Bad debts represented the general provision made for the year.
- Legal fees comprised the following:

	Sh.
Parking fines	130,000
Settling a dispute with a customer	200,000
Appeal on a tax assessment	210,000
- Investment allowances were agreed at Sh.386,000 with the Commissioner of domestic taxes.

Required:

- Prepare adjusted taxable profit or loss of the partnership for the year ended 31 December 2022. (7 marks)
 - The allocation of the taxable profit or loss in (c) (i) above to the partners. (2 marks)
- (d) Bright Traders is a small business in the Jua Kali sector. The following information has been presented to you for the year ended 31 December 2022:

- Sales for the year were reported as follows:

	Sh.
January - April	1,800,000
May - August	2,200,000
September - December	3,200,000

- The business purchased goods four times during the year as follows:

	Sh.
January	600,000
May	800,000
September	200,000
December	500,000

- Expenses incurred during the year were as follows:

	Sh.
Salaries and wages	260,000
Electricity expenses	180,000
Legal expenses	100,000
Stationery	60,000
Water expenses	28,000
Rent expenses	280,000

The proprietor of Bright Traders is not conversant with turnover tax requirements and has approached you to advise him on whether the business is liable to turnover tax and if so, the amount of tax payable for the year ended 31 December 2022.

Required:

Using the information provided above, advise the proprietor of Bright Traders on his turnover tax position and turnover tax liability (if any). (3 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Following the convergence of market economies, most business transactions currently take place through the digital market place. Most countries have come up with ways of taxing the digital economy, although some countries continue to struggle in taxation of this economy.

With reference to the above statement, suggest **FOUR** challenges faced by your country in taxing the digital economy. (4 marks)

- (b) Section 17 of the Excise Act empowers the commissioner to consider an application for excise license and either grant or refuse to issue the applicant with the license.

Identify **THREE** instances in which the commissioner may refuse to grant an excise license to the applicant. (3 marks)

- (c) Sky Rift Growers Ltd. was incorporated in the year 2021, but commenced agribusiness on 1 January 2022. The statement of profit or loss for the company for the year ended 31 December 2022 was as follows:

Sky Rift Growers Ltd.		
Statement of profit or loss for the year ended 31 December 2022		
	Sh.	Sh.
Sales		28,000,000
Dividend income		270,000
Interest income (net)		264,000
Surplus from pension scheme		<u>120,000</u>
		28,654,000
Expenses		
Administration expenses	1,570,000	
Clearing land and planting roses	8,940,000	
General insurance	200,800	
Bad debts	460,000	
Lease expenses	600,000	
Donations	42,000	
Repairs and renewals	252,000	
Loss on sale of investment	96,000	
Legal and professional fees	300,000	
Transport costs	296,000	
Depreciation	840,000	
Farm works	12,640,000	
Loan repayment	280,000	
Pension contribution	350,000	
Compensation to staff for work injury	420,600	
Motor vehicle expenses	<u>186,000</u>	<u>(27,473,400)</u>
		<u>1,180,600</u>

Additional information:

- The company's main activity is growing flowers for local and export market.
- The company has leased the land on which it grows flowers from Enkalop Roses Ltd. One of its shareholders, Enkalop Roses Ltd. owns 25% of the share capital in Sky Rift Growers Ltd.
- Donations were made to the National Flowers Council to support its activities.
- The loss on sale of investment relates to sale of shares that Sky Rift Growers Ltd. held in a quoted company.
- Bad debts comprise:**

	Sh.
General provision	220,000
Specific provision	240,000

6. The surplus from pension scheme arose after an actuarial valuation was carried out by a firm of actuaries.
7. Dividend income was received from Enkalop Roses Ltd.
8. **Repairs and renewals were analysed as follows:**

	Sh.
Repair of plough	97,200
Repair of green house	34,800
Office partitions	<u>120,000</u>
	<u>252,000</u>

	Sh.
9. Farmworks cost comprises:	
Farmhouse where the farm manager resides	5,100,000
Irrigation system (including water pump Sh.120,000)	800,000
Electrification network	1,200,000
Construction of gabions	300,000
Construction of godowns at the firm	2,400,000
Plough and lawn mower	380,000
Labour quarters for workers	1,800,000
Farm implements	540,000
Surveillance cameras	<u>120,000</u>
Total	<u>12,640,000</u>

Required:

- (i) Compute the investment allowances due to Sky Rift Growers Ltd. for the year ended 31 December 2022. (5 marks)
 - (ii) Compute total taxable income for the company for the year ended 31 December 2022. (7 marks)
 - (iii) Determine the tax liability due to the company for the year ended 31 December 2022. (1 mark)
- (Total: 20 marks)**

.....

Someakenya.com



CPA INTERMEDIATE LEVEL

CIFA INTERMEDIATE LEVEL

PUBLIC FINANCE AND TAXATION

TUESDAY: 25 April 2023. Afternoon Paper.

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. Do NOT write anything on this paper.

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

Year of income 2022.

Monthly taxable pay (Sh.)	Annual taxable pay (Sh.)	Rate of tax % in each Sh.
1 - 24,000	1 - 288,000	10%
24,001 - 32,333	288,001 - 388,000	25%
Excess over - 32,333	Excess over - 388,000	30%

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

Investment allowance:	Rate of investment allowance	Residual value (25% per year on equal instalments)	Prescribed benefit rates of motor vehicles provided by employer
Capital expenditure incurred on:			(i) Saloons, Hatch Backs and Estates
			Monthly rates (Sh.) Annual rates (Sh.)
(a) Buildings:			Up to 1200 cc 3,600 43,200
• Hotel building	50% in the first year of use	25%	1201 - 1500 cc 4,200 50,400
• Building used for manufacture	50% in the first year of use	25%	1501 - 1750 cc 5,800 69,600
• Hospital buildings	50% in the first year of use	25%	1751 - 2000 cc 7,200 86,400
• Petroleum or gas storage facilities	50% in the first year of use	25%	2001 - 3000 cc 8,600 103,200
• Educational/hostels building	10% per year on straight line basis		Over - 3000 cc 14,400 172,800
• Commercial building	10% per year on straight line basis		
(b) Machinery:			(ii) Pick-ups, Panel Vans (unconverted)
• Machinery used for manufacture	50% in the first year of use	25%	Up to - 1750 cc 3,600 43,200
• Hospital equipment	50% in the first year of use	25%	Over - 1750 cc 4,200 50,400
• Ships or aircraft	50% in the first year of use	25%	
• Motor vehicles and heavy earth moving equipment	25% per year on straight line basis		
• Computer software, calculators, copiers and duplicating machines	25% per year on straight line basis		
• Furniture and fittings	10% per year on straight line basis		
• Telecommunication equipment	10% per year on straight line basis		
• Film equipment by a local producer	25% per year on straight line basis		
• Machinery used to undertake operations under prospecting rights and exploration under mining rights	50% in the first year of use	25%	
• Other machinery	10% per year on straight line basis		
(c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation	10% per year on straight line basis		(iii) Land Rovers/Cruisers 7,200 86,400
(d) Farm works	50% in the first year of use	25%	

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) Explain the following terms as used in division and sharing of revenue in relation to the public finance management:
- (i) Vertical sharing. (2 marks)
 - (ii) Horizontal sharing. (2 marks)
- (b) Outline **FIVE** different entities whose accounts the Auditor General is required to audit and report within six months after the end of each financial year as provided in the constitution of Kenya, 2010. (5 marks)
- (c) Identify **FIVE** matters that are included in the budget estimates submitted to the County Assemblies by the County Executive Committee members for finance in respect of the budget for every financial year. (5 marks)
- (d) In a public finance workshop, one of the facilitators noted that “public debt in most developing countries are at high level and could slowly be approaching distress levels”.

With reference to the above statement, summarise **SIX** measures that could be taken to mitigate the level of increasing public debts. (6 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain the term “electronic reverse auction” as used in Public Procurement and Asset Disposal Act, 2015. (2 marks)
- (b) Summarise **FOUR** benefits of applying e-procurement in the public sector. (4 marks)
- (c) The Public Private Partnership (PPP) Act establishes the public private partnership project facilitation fund as a mechanism for financing the PPP arrangements. Highlight **FOUR** sources of funds deposited into this fund. (4 marks)
- (d) Hyrax Stores Ltd. deals in a variety of vatable and non-vatable goods. The following transactions took place during the month of January 2023:

January 2: Sold goods on credit to Kikoi Traders for Sh.800,000.
January 3: Purchased goods on cash basis from Riverroad Traders for Sh.196,000.
January 5: Purchased electronic tax register for Sh.150,000 and paid by cheque.
January 7: Kikoi Traders returned goods valued at Sh.60,000 and received a credit note.
January 9: Sold goods to JB Ltd., a company based in Uganda for Sh.300,000.
January 12: Paid electricity bills amounting to Sh.16,000.
January 14: Received a debit note of Sh.48,000 from Riverroad Traders.
January 18: Purchased office stationery for Sh.36,000
January 20: Supplied goods to Ministry of Trade valued at Sh.1,600,000.
January 21: Imported goods from Dubai for Sh.800,000 exclusive of import duty at the rate of 25% and value added tax at the rate of 16%.
January 24: Purchased fuel for business vehicles for Sh.150,000.
January 28: Paid Sh.68,000 for catering services.
January 29: Paid Sh.45,000 for audit services

Transactions are stated exclusive of VAT at the rate of 16% where applicable.

Required:

- (i) A value added tax (VAT) account for the month of January 2023. (9 marks)
- (ii) Comment on the penalties and interest due where the VAT is not paid by Hyrax Stores Ltd. on the due date. (1 mark)

(Total: 20 marks)

QUESTION THREE

- (a) Highlight **THREE** benefits of the Integrated Customs Management System (ICMS) in the administration of customs taxes. (3 marks)
- (b) Identify **THREE** activities that require a licence or registration by the commissioner before undertaking as per the excise duty Act 2015. (3 marks)

(c) Oscar Ebala is employed as an IT Officer by County University. He reported the following details of his income and that of his wife for the year ended 31 December 2022:

1. He was entitled to a basic salary of Sh.1,200,000 per annum net of PAYE of Sh.250,000 per annum.
2. The employer provided him with a motor vehicle of 2600cc that had cost Sh.2,800,000, from 1 August 2022.
3. Sitting allowance for attending the university meetings at the head office for the year amounted to Sh.120,000 out of which 30% was in relation to reimbursement of travel costs incurred between the month of January 2022 to July 2022. This amount was paid in January 2023.
4. The employer had provided him with a house within the university where he lived up to 30 June 2022. The market rental value of the house was Sh.45,000 per month and he contributed Sh.10,000 per month towards the rent.
5. On 1 July 2022, he moved to his residential house which he purchased using his savings from Home Ownership Savings Plan (HOSP) where he was contributing Sh.8,000 per month up to 30 June 2022. He also obtained a mortgage loan from Technology SACCO to top up the savings from HOSP. For the 6 months up to 31 December 2022 he had paid Sh.360,000 (inclusive of interest Sh.100,000) for the mortgage loan. Half of this amount was reimbursed by the employer at year end.
6. Technology SACCO paid him Sh.24,000 net as dividend on his shares and interest of Sh.48,000 gross on his deposits.
7. The following deductions were made from his salary during the year:

	Sh.
Family life insurance premiums	48,000
Subscription to ICT Association	16,000
Contribution to registered pension scheme	300,000
8. He enrolled for an online Cyber Security Certification course in September 2022 and the employer paid his fee of Sh.60,000.
9. His wife Erica Ebala works for an IT Consultancy firm where she received a basic salary of Sh.60,000 per month and other benefits from employment as follows:
 - Medical allowance of Sh.15,000 per month. The firm has a medical scheme for all senior employees only.
 - She worked out of office for 7 days to install a Human Resource Management Software where she received a subsistence allowance of Sh.7,000 per day.
 - She attended a one week training on Artificial Intelligence Master Class. The employer paid Sh.120,000 for the training.

Her other income comprised of:

 - Part time IT Consultancy (Sh.120,000)
 - Royalties on sale of literature books Sh.95,000 net of tax at source.
10. Oscar Ebala and his wife have a tradition of filing tax returns separately to the Revenue Authority.

Required:

- (i) Compute the separate taxable income for Oscar Ebala and his wife for the year ended 31 December 2022. (10 marks)
 - (ii) Determine tax payable (if any) on income computed in (c) (i) above. (4 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Distinguish between a “single tax system” and a “multiple tax system”. (4 marks)
- (b) In a tax seminar, one of the facilitators noted that, “tax evasion has remained a major challenge for revenue authorities in most developing countries, in effort to achieve revenue collection target”.

With reference to the above statement, propose **FOUR** measures that could be applied to curb tax evasion. (4 marks)

(c) Zahari Processors Ltd. presented the following statement of profit or loss for the year ended 31 December 2022:

	Sh. “000”	Sh. “000”
Turnover		760,000
Cost of sales		<u>(296,000)</u>
Gross profit		464,000
Other income		
Provision for foreign exchange gain		84,000
Gain on sale of motor vehicle		28,000
Release of liability		32,000
Refund of excise duty		16,000
Investment income (gross)		<u>24,000</u>
Total income		648,000
Less expenses		
Purchase of trademark	48,800	

	Sh. “000”	Sh. “000”
Design of company website	12,400	
Directors fees	28,000	
Donations to charitable institutions	2,400	
Depreciation expense	3,240	
Marketing expenses	5,900	
Management and professional fees	1,896	
General expenses	6,000	
Legal costs	5,400	
Loan repayment	2,600	
Allowance for doubtful debts	2,250	
Impairment loss of property	<u>1,500</u>	(120,386)
Net profit for the year		<u>527,614</u>

Additional information:

1. On 1 April 2022, the company acquired the following assets:

	Sh. “000”
Factory building	28,800
Warehouse	2,800
Processing machinery	16,000
Lorry (4 tonnes)	3,500
Drainage system	2,600
Saloon car	4,840

2. Management and professional fees comprised:
- | | Sh. “000” |
|---------------------------------|--------------|
| Development of a strategic plan | 1,280 |
| Tax consultancy fees | 208 |
| Audit fees | 152 |
| Environmental assessment fees | <u>256</u> |
| | <u>1,896</u> |

3. General expenses included:
- | | Sh. “000” |
|------------------------------------|--------------|
| Installation of neon sign | 820 |
| Car grant to a director | 2,800 |
| Installation of processing machine | 1,560 |
| Staff Christmas party | 240 |
| Retrenchment costs | <u>580</u> |
| | <u>6,000</u> |

4. Legal fees comprised:
- | | Sh. “000” |
|--|--------------|
| Defence against claims of breach of trade agreement | 1,450 |
| Renewal of Kenya Association of Manufacturers Membership | 680 |
| Negotiating a bank loan | 1,168 |
| Preparation of employment contracts | 1,250 |
| Drafting lease agreement – 60 years | <u>852</u> |
| | <u>5,400</u> |

5. Release of liability was in respect of a loan obtained from one director who decided to write off the loan as it was due for over four years.

Required:

Compute the total taxable profit or loss for Zahari Processors Ltd. for the year ended 31 December 2022. (12 marks)
(Total: 20 marks)

QUESTION FIVE

- (a) Explain the following terms as used in investment allowances:

(i) Trading receipt. (2 marks)

(ii) Balancing deduction. (2 marks)

- (b) Describe **THREE** instances where a taxpayer is considered to have made self-assessment return, as provided under Section 28 of the Tax Procedures Act, 2015. (6 marks)

- (c) You have been provided with the following incomes from various sources. You are required to determine how much withholding tax is deductible from each source:
- (i) Withdrawal of Sh.1,800,000 (gross) from a registered pension scheme by a resident who retired early in year 2022 at an age of 49 years after serving for 12 years. (2 marks)
 - (ii) Royalties of Sh.760,000 gross received by Janet Nikoye a popular Ugandan musician from sale of ringtone tunes in Kenya. (1 mark)
 - (iii) Moses Patibhai received Sh.68,000 (net) for placing bets on football from Shinda Pesa, a sports betting house. (1 mark)
- (d) Shebe Abdallah disposed of his property in September 2022 for Sh.18,500,000. The property consisted of a piece of land he had bought in 2007 for Sh.1,300,000. He had incurred legal costs of Sh.650,000 on its transfer in addition to stamp duty of Sh.13,000. He put up a hotel building at a cost of Sh.9,800,000 and was completed in 2008. A local politician laid claim to the property in 2011. Sheba Abdallah filed a suit against her and won having spent legal charges amounting to Sh.3,450,000 on the case.

The following costs were incurred to dispose of the property:

	Sh.
Valuation costs	247,000
Advertisement	52,000
Commission to buyer-seeking agents	1,850,000

Additional information:

1. During the existence of the hotel business, the buildings had been allowed investment deductions amounting to Sh.740,000.
2. The capital gains tax rate during the year was 5%.

Required:

- (i) Compute the capital gains tax (CGT) if any payable by Shebe Abdallah on the disposal of his property. (5 marks)
- (ii) Citing a reason, identify which of the following forms Shebe will use to file returns on transactions in (d) (i) above.
 - CGT1.
 - CGT2P.
 - CGT3.

(1 mark)

(Total: 20 marks)

.....

CPA INTERMEDIATE LEVEL

CIFA INTERMEDIATE LEVEL

PUBLIC FINANCE AND TAXATION

TUESDAY: 6 December 2022. Afternoon Paper.

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. Do NOT write anything on this paper.

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

Year of income 2021.

Assume that the following rates of tax applied throughout the year of income 2021:

Monthly taxable pay (Sh.)	Annual taxable pay (Sh.)	Rate of tax % in each Sh.
1 - 24,000	1 - 288,000	10%
24,001 - 32,333	288,001 - 388,000	25%
Excess over - 32,333	Excess over - 388,000	30%

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

Investment allowance:	Rate of investment allowance	Residual value (per year on reducing balance)	Prescribed benefit rates of motor vehicles provided by employer
Capital expenditure incurred on:			(i) Saloons, Hatch Backs and Estates
			Monthly rates (Sh.) Annual rates (Sh.)
(a) Buildings:			Up to 1200 cc 3,600 43,200
• Hotel building	50% in the first year of use	25%	1201 - 1500 cc 4,200 50,400
• Building used for manufacture	50% in the first year of use	25%	1501 - 1750 cc 5,800 69,600
• Hospital buildings	50% in the first year of use	25%	1751 - 2000 cc 7,200 86,400
• Petroleum or gas storage facilities	50% in the first year of use	25%	2001 - 3000 cc 8,600 103,200
• Educational/hostels building	10% per year on reducing balance		Over - 3000 cc 14,400 172,800
• Commercial building	10% per year on reducing balance		
(b) Machinery:			(ii) Pick-ups, Panel Vans (unconverted)
• Machinery used for manufacture	50% in the first year of use	25%	Up to - 1750 cc 3,600 43,200
• Hospital equipment	50% in the first year of use	25%	Over - 1750 cc 4,200 50,400
• Ships or aircraft	50% in the first year of use	25%	
• Motor vehicles and heavy earth moving equipment	25% per year on reducing balance		
• Computer software, calculators, copiers and duplicating machines	25% per year on reducing balance		
• Furniture and fittings	10% per year on reducing balance		
• Telecommunication equipment	10% per year on reducing balance		
• Film equipment by a local producer	10% per year on reducing balance		
• Machinery used to undertake operations under prospecting rights and exploration under mining rights	25% per year on reducing balance	25%	
• Other machinery	50% in the first year of use		
(c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation	10% per year on reducing balance		(iii) Land Rovers/Cruisers 7,200 86,400
(d) Farm works	50% in the first year of use	25%	

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 types of funds:
- (i) The contingency fund. (2 marks)
 - (ii) The equalisation fund. (2 marks)
- (b) An accounting officer of a procuring entity is empowered at any time, prior to notification of tender award, to terminate or cancel procurement or asset disposal proceedings without entering into a contract.

Highlight **SIX** circumstances under which the procurement or asset disposal proceedings may be terminated or cancelled as provided under the Public Procurement and Asset Disposal Act, 2015. (6 marks)

- (c) Outline **SIX** contents that should be included in development plan prepared by every county government as specified under Section 126 (1) of the Public Finance Management Act, 2012. (6 marks)
- (d) "Each year, the county treasury shall submit to the county assembly a statement setting out the debt management strategy of the county government".

With reference to the above statements, identify **FOUR** items that the county treasury should include in the statement. (4 marks)

(Total: 20 marks)

QUESTION TWO

- (a) The Revenue Authority is empowered to undertake different types of tax audit to ascertain the actual tax liability of the tax payers involved. The tax audit may be triggered by general or specific details that come to the attention of the Commissioner.

With reference to the above statement, suggest **FOUR** triggers of PAYE audit. (4 marks)

- (b) A contracting authority is empowered to use direct procurement method as one of the Public Private Partnerships (PPPs) procurement methods by the Act.

In relation to the above statement, summarise **SIX** circumstances under which a contracting authority could use direct procurement as one of the PPPs procurement method. (6 marks)

- (c) The following are the transactions of Starlite Traders for the month of August 2022. The business is registered for value added tax (VAT) purposes:

	Sh.
Income:	
Sales to unregistered customers	2,337,480
Sales to registered customers	<u>5,939,483</u>
	8,276,963
Expenditure:	
Purchases from VAT registered suppliers	3,617,924
Purchases from VAT unregistered suppliers	1,780,020
Depreciation	240,600
Electricity	204,450
Printing and stationery	66,700
Motor vehicle parking charges	42,050
Water bill	23,200
Legal fees	133,400
Motor vehicle fuel	167,400
Repair and maintenance	105,850
Computer software	49,532
Salary and wages	960,000

Additional information:

1. The reported sales to unregistered customers include goods sold to a customer in South Sudan of Sh.536,000.
2. An invoice of Sh.160,000 issued to Wema Traders has been omitted from the records during the month.
3. Motor vehicle fuel and repairs and maintenance relates to the van used to supply goods to customers.

4. Water bill related to the water supplied by the county government during the month.
All transactions are inclusive of value added tax (VAT) at the standard rate of 16% where applicable.

Required:

A value added tax (VAT) account for the month of August 2022 for Starlite Traders. (10 marks)
(Total: 20 marks)

QUESTION THREE

- (a) Explain the term “Certificate of Origin” as used under customs and excise taxes. (2 marks)
- (b) Identify **FOUR** categories of information the Commissioner should include in the default assessment sent to the taxpayer. (4 marks)
- (c) Henry Mwala who holds a dual citizenship, had been living in Denmark since September 2014. He returned to the country on 17 December 2020 and opened a hardware shop on 2 January 2021. On 1 July 2021, he secured a formal employment with Bestfreight Ltd. a logistic company as a fleet manager.

He provided the following information relating to his income for the year ended 31 December 2021:

1. Basic salary Sh.180,000 per month (PAYE Sh.46,000 per month).
2. He was paid overtime amounting to Sh.30,000 per month and risk allowance of Sh.25,000 per month during the year.
3. The employer provided him with meals worth Sh.5,000 per month.
4. He received house allowance of Sh.60,000 per month.
5. Up to 30 September 2021, he used his personal car for official duties and the employer reimbursed a monthly mileage allowance of Sh.40,000.
6. On 1 October 2021, he was provided with a saloon car of 2400cc purchased by the company in year 2019 at a cost of Sh.2,000,000.
7. He was out of office on official duties for five days and received a per diem of Sh.6,000 from the employer.
8. The company paid school fees of Sh.80,000 for each of his three children during the year. This was included in the employer’s books of accounts.
9. The employer bought a Sh.120,000 air ticket to facilitate Henry Mwala to visit the rest of his family in Denmark during his annual leave.
10. With effect from 1 July 2021, he contributed Sh.15,000 (monthly) as pension contribution and Sh.92,000 for life insurance annual premium respectively.
11. He bought a residential house on 1 September 2021 through mortgage of Sh.6,000,000 provided by Excel Bank Ltd. at an interest rate of 16% per annum. He moved into the house on 2 October 2021.
12. The net loss from the hardware shop during the year amounted to Sh.370,000.

This was after deducting the following:

	Sh.
Salary (sales person)	1,050,000
VAT paid	180,000
Rent	680,000
Electricity	30,000
Furniture and fittings	250,000
Computers	300,000

Required:

- (i) Determine total taxable income for Henry Mwala for the year ended 31 December 2021. (12 marks)
- (ii) Compute tax payable (if any) from the income computed in (c) (i) above. (2 marks)
(Total: 20 marks)

QUESTION FOUR

- (a) Explain the term “Railway development levy” as used in taxation. (2 marks)
- (b) Highlight **THREE** benefits derived by member countries of the East African Community from use of the Single Customs Territory. (3 marks)
- (c) Identify **THREE** objectives of fiscal policies adopted by most developing countries. (3 marks)

(d) Leeds Manufacturing Ltd. commenced operations on 1 January 2021 after incurring the following expenditure:

	Sh.
Factory building	24,200,000
Land	16,000,000
Processing machinery	12,500,000
Power generator	1,800,000
Delivery van	3,600,000
Computers	650,000
Staff canteen	2,350,000
Boilers	800,000
Computer software	420,000
Staff clinic	960,000
Lorry (4 tonnes)	3,200,000
Duplicating machines	240,000
Furniture and fittings	530,000

Additional information:

- The factory building includes the cost of a showroom and a retail shop of Sh.1,850,000 and Sh.1,690,000 respectively.
- A perimeter wall was constructed at a cost of Sh.4,200,000 and utilised from 1 October 2021.
- The company acquired the following additional assets during the year ended 31 December 2021:

Asset	Cost Sh.	Date of first use
2 saloon cars for directors at (Sh.4,000,000) each	8,000,000	12 January 2021
Plant and machinery	680,000	20 January 2021
Mitsubishi canter	3,200,000	20 January 2021
Electronic type-writers	190,000	2 March 2021
Labour quarters	2,400,000	1 June 2021
Parking bay	560,000	1 June 2021
Mobile forklift	3,000,000	10 October 2021
Water pump	280,000	15 October 2021
Calculators	10,000	1 December 2021
Conveyor belts	1,800,000	1 December 2021
Workshop machine	720,000	5 December 2021

- In June 2021, one of the saloon cars was involved in an accident and the insurance company paid Sh.3,000,000 as compensation.
- A borehole was drilled at a cost of Sh.1,400,000 and put in to use on 1 November 2021.
- The company made a gross profit of Sh.56,000,000 during the year ended 31 December 2021.
- The following were the summary of operating expenses incurred during the year ended 31 December 2021:

	Sh.
Selling and distribution expenses	8,400,000
Administrative expenses	4,200,800
Depreciation	16,000,000
Instalment tax paid	780,000
Tax penalty and interest paid	420,000
Bad debt written off	120,000

Required:

- Compute Leeds Manufacturing Ltd.'s Investment allowances for the year ended 31 December 2021. (9 marks)
 - Ascertain the taxable profit or loss for the year ended 31 December 2021. (3 marks)
- (Total: 20 marks)**

QUESTION FIVE

- Identify **FOUR** factors that might influence tax shifting. (4 marks)
- Summarise **FOUR** roles of the Parliamentary Budget Office. (4 marks)

(c) Hightec Ltd. presented the following statement of profit or loss for the year ended 31 December 2021:

	Sh.	Sh.
Sales		64,000,000
Less: Cost of sales		<u>(42,400,000)</u>
Gross profit		21,600,000
Other incomes:		
Gain on disposal of property		280,000
Dividend income		800,000
Sundry income		450,000
Interest income		<u>420,000</u>
Total income		23,550,000
Expenditure:		
Preliminary expenses	1,540,000	
General insurance	424,600	
Legal costs	820,000	
Medical expenses	36,200	
Donations	980,000	
General provision for bad debts	360,000	
Household expenses	845,000	
Depreciation	148,200	
Salaries and wages	1,560,000	
Miscellaneous expenses	236,000	
Advertising expense	<u>192,400</u>	<u>(7,142,400)</u>
Net profit		<u>(16,407,600)</u>

Additional information:

1. Dividend income was received from:

	Sh.
Apex Ltd. (Associate company)	240,000 Gross
Jijenge Co-operative Society	180,000 Net
Tawah Ltd. Company (Uganda)	380,000 Gross

2. Interest income was received from:

	Sh.
Tenzi Sacco Ltd.	285,000 Net
Tilda Limited	135,000 Gross

3. Donations include Sh.340,000 made to a golf club during a national golf tournament. The balance was made to an organisation involved in household poverty reduction campaigns, and it is a tax exempt organisation.
4. Inventories at each year end has consistently been undervalued by 20%. Closing inventory amounted to Sh.2,600,000 and included a photocopy machine of Sh.180,000.
5. Sundry income represents recovery of bad debts previously allowed as a deduction against taxable income of Sh.200,000 and insurance recovery on stolen cash while in transit of Sh.250,000.
6. Miscellaneous expenses comprised of tools and implements of Sh.180,000 and computer software purchased at a cost of Sh.56,000.
7. Advertising expense includes annual trade fair fee of Sh.40,000 and Sh.50,000 fee for renewing billboards advertising license.
8. Legal costs include Sh.236,000 incurred in successfully defending the company against allegations of breach of contract, Sh.180,000 in respect of renewal of trademark, and Sh.40,000 in respect of an appeal against VAT assessment by the revenue authority.
9. Sales and purchases are quoted inclusive of VAT at the rate of 16%. Purchases for the year amounted to Sh.43,600,000 while opening inventory was valued at Sh.1,400,000.
10. Medical expenses represent reimbursements to staff for medical bills paid. The medical scheme only covers senior employees.

Required:

- (i) Prepare the adjusted taxable profit or loss of Hightec Ltd. for the year ended 31 December 2021. (10 marks)
- (ii) Determine the tax liability (if any) arising from the profit or loss computed in (c) (i) above. (2 marks)

(Total: 20 marks)

.....

CPA INTERMEDIATE LEVEL

CIFA INTERMEDIATE LEVEL

PUBLIC FINANCE AND TAXATION

THURSDAY: 4 August 2022. Afternoon paper.

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. Do NOT write anything on this paper.

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

Year of income 2021.

Assume that the following rates of tax applied throughout the year of income 2021:

Monthly taxable pay (Sh.)		Annual taxable pay (Sh.)		Rate of tax % in each Sh.
1	- 24,000	1	- 288,000	10%
24,001	- 32,333	288,001	- 388,000	25%
Excess over	- 32,333	Excess over	- 388,000	30%

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

Investment allowance:	Rate of investment allowance	Residual value (per year on reducing balance)	Prescribed benefit rates of motor vehicles provided by employer	
Capital expenditure incurred on:			(i) Saloons, Hatch Backs and Estates	
			Monthly rates (Sh.)	Annual rates (Sh.)
(a) Buildings:			(ii) Pick-ups, Panel Vans (unconverted)	
• Hotel building	50% in the first year of use	25%	Up to - 1200 cc	3,600
• Building used for manufacture	50% in the first year of use	25%	1201 - 1500 cc	4,200
• Hospital buildings	50% in the first year of use	25%	1501 - 1750 cc	5,800
• Petroleum or gas storage facilities	50% in the first year of use	25%	1751 - 2000 cc	7,200
• Educational/hostels building	10% per year on reducing balance		2001 - 3000 cc	8,600
• Commercial building	10% per year on reducing balance		Over - 3000 cc	14,400
(b) Machinery:			(iii) Land Rovers/Cruisers	
• Machinery used for manufacture	50% in the first year of use	25%	7,200	86,400
• Hospital equipment	50% in the first year of use	25%		
• Ships or aircraft	50% in the first year of use	25%		
• Motor vehicles and heavy earth moving equipment	25% per year on reducing balance			
• Computer software, calculators, copiers and duplicating machines	25% per year on reducing balance			
• Furniture and fittings	10% per year on reducing balance			
• Telecommunication equipment	10% per year on reducing balance			
• Film equipment by a local producer	25% per year on reducing balance			
• Machinery used to undertake operations under prospecting rights and exploration under mining rights	50% in the first year of use	25%		
• Other machinery	10% per year on reducing balance			
(c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation	10% per year on reducing balance			
(d) Farm works	50% in the first year of use	25%		

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) Summarise four functions of the Commission on Revenue Allocation (CRA). (4 marks)
- (b) Highlight two objectives of the public debt management office. (2 marks)
- (c) Explain three roles of the Cabinet Secretary of the National Treasury in public debt management. (6 marks)
- (d) Outline the stages to be followed in the budget process for the national government in any financial year. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) An accounting officer of a procuring entity may use restricted tendering if any of the provided conditions are satisfied.
- With reference to the above statement, state four such conditions as provided under the Public Procurement and Asset Disposal Act (PPADA), 2015. (4 marks)
- (b) Outline six values and principles of the constitution and relevant legislation that should guide public procurement and asset disposal by state organs and public entities, as provided for under the PPADA, 2015. (6 marks)
- (c) The following information was extracted from the books of Pately Traders, a registered business for Value Added Tax (VAT) purposes for the month of May 2022:

	Sh.
Export sales	375,000
Imported goods for resale (dutiable value)	2,250,000
Telephone expenses	180,000
Audit fees	450,000
Exempt sales	1,460,000
Purchase at zero rate	600,000
Purchase at standard rates	3,700,000
Sales at standard rate	8,750,000

Transactions are stated exclusive of VAT at the rate of 16% where applicable.

Additional information:

- Pately Traders received debit notes and credit notes of Sh.1,000,000 and Sh.500,000 respectively for standard rate supplies.
- The imported goods for resale were subject to custom duty at the rate of 25%. These goods were subsequently transported to the business premises at a cost of Sh.100,000 and repackaged at a cost of Sh. 25,000. The goods were later sold at a mark up of 10% (sales proceeds on these goods were not included in the reported sales at standard rate).
- A debtor for goods sold at standard rate for Sh.300,000 was declared bankrupt.
- Telephone expenses relate to bills received from the provider of wireless telephone services.

Required:

- VAT payable by or refundable to Pately Traders for the month of May 2022. (10 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Explain the following terms as used in taxation:
- (i) Absolute taxable capacity. (2 marks)
- (ii) Relative taxable capacity. (2 marks)
- (b) Propose four reasons why you would discourage the government from embarking on Public Private Partnerships (PPPs). (4 marks)
- (c) Henry Musoki is employed as the Finance Manager at Pandah Ltd. He has provided the following details relating to his income for the year ended 31 December 2021:
1. His employment contract provided for the following:

	Sh.
Basic monthly salary	182,500
Transport allowance per month	12,000
Leave pay (paid in December)	60,000

2. He was accommodated in a company owned house where he was deducted Sh.25,000 per month as nominal rent. If the house had been rented at market value, the company could have been charging monthly rentals of Sh.45,000. The company furnished the house for him at Sh.260,000.
3. He was paid Sh.120,000 as a labour day award by the company for being the most hard working and committed employee during the year.
4. The company has a registered pension scheme for its employees where it contributes 15% of each employees' basic salary. Henry Musoki contributed 10% of his monthly basic salary towards the scheme.
5. He was enrolled to a medical scheme with Bahati Insurance Ltd. where he spent Sh.230,000 on medical bills during the year. The medical scheme catered for senior employees only.
6. His wife was given goods worth Sh.180,000 by the company during the Christmas season.
7. The company provided him with a cook and a security guard from 1 October 2021 where it paid them monthly salaries of Sh.15,000 and Sh.20,000 respectively.
8. On 1 July 2021, he secured an education insurance policy for his child at an annual premium of Sh.150,000 payable by the company.
9. He was out of the work station in the month of September 2021 for 8 days for which he was paid a daily per diem allowance of Sh.5,000.
10. PAYE deducted by the company from his salary was Sh.46,500 per month.

Required:

- (i) Taxable income for Henry Musoki for the year ended 31 December 2021. (10 marks)
- (ii) Tax payable if any on the income computed in (c) (i) above. (2 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Outline four functions of the controller of budget in respect to public finance matters. (4 marks)
- (b) Parkim Ltd., a large manufacturing company has provided you with the following statement of profit or loss for the year ended 31 December 2021:

	Sh. "000"	Sh. "000"
Gross profit		32,000
Less: General expenses	1,400	
Loan repayment	1,600	
Directors fees	4,200	
VAT paid	2,700	
Depreciation	5,700	
Salaries and wages	2,400	
Donations to a political party	780	
Interest expense	4,200	
Instalment tax paid	600	
Dividends paid	1,005	
Repairs and maintenance	<u>2,250</u>	<u>(26,835)</u>
Net profit for the year		<u><u>5,165</u></u>

Additional information:

1. On 1 January 2021, Parkim Ltd. purchased an industrial building from Samba Ltd., a contractor for Sh.200 million. The following details were availed that comprised the total purchase price for the industrial building:

	Sh. "000"
Land	22,000
Demolition of old building site	10,000
Labour quarters	60,000
Factory building	90,000
Perimeter wall	5,000
Drainage and sewerage system	<u>13,000</u>
	<u>200,000</u>

2. The factory building above houses a warehouse costing Sh.7,000,000, administration block costing Sh.7,000,000 and a showroom at a cost of Sh.4,000,000.
3. Parkim Ltd. purchased and installed a processing machinery in the factory at a cost of Sh.40,000,000 on 2 January 2021 and started manufacturing leather products. The cost of processing machinery included workshop machine and a boiler at a cost of Sh.5,000,000 and Sh.6,000,000 respectively.

4. The following additional assets were acquired during the year ended 31 December 2021:
- On 5 January 2021, computers were acquired on hire purchase at Sh.620,000. Hire purchase interest included was Sh.140,000.
 - Acquired furniture and other machines at Sh.720,000 and Sh.968,000 respectively.
 - On 15 March 2021, Parkim Ltd. bought a pickup for Sh.2,250,000, a motorcycle for Sh.190,000, a water pump for Sh.48,000 and two delivery trucks for Sh.5,000,000 each.
 - Two saloon cars were purchased at Sh.3,600,000 each in April 2021. In October 2021, one saloon car was involved in an accident and the insurance company paid Sh.2,000,000 as compensation.
 - In November 2021, the pickup vehicle was traded in with a new delivery van valued at Sh.3,000,000. The pickup had a value of Sh.1,600,000 at the time of the trade in.
5. Interest expense include:
- | | Sh. |
|--|------------|
| Hire purchase interest for the computers | 140,000 |
| Interest on overdue loan | 200,000 |
| Provision for interest on a loan to be obtained to expand the business | 752,000 |
| Interest on unpaid tax | 448,000 |
6. Gross profit included anticipated foreign exchange gain of Sh.2,000,000 and a reduction in general bad debts of Sh.620,000.

Required:

- (i) Parkim Ltd.'s investment allowances for the year ended 31 December 2021. (8 marks)
- (ii) Ascertain the taxable profit or loss for the year. (6 marks)
- (iii) Explain the tax treatment of tax losses. (2 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain the following terms as used under the customs and excise duties:
- (i) Bonded warehouse. (2 marks)
- (ii) Duty drawback. (2 marks)
- (b) Outline four cases where a person is considered as the tax representative of another person as provided under the Tax Procedures Act, 2015 or any other tax law of your country. (4 marks)
- (c) Kamala, Susan and Kubasu are in partnership trading as Kasuku Traders sharing profit or losses equally. They have provided the following statement of profit or loss for the year ended 31 December 2021:

	Sh.	Sh.
Gross profit		7,020,000
VAT refund		102,500
Foreign exchange gain		485,000
Dividend income (net)		562,500
Profit on disposal of furniture		591,000
Rental income		<u>415,000</u>
		9,176,000

Less expenses:

Insurance premiums	480,000	
Legal fees	1,556,250	
Depreciation	575,000	
Repairs and maintenance	2,250,000	
VAT paid	233,750	
Sundry expenses	2,702,500	
Interest on capital:		
Kamala	407,500	
Susan	185,000	
Kubasu	146,000	
Motor vehicle expenses	528,500	
Custom duty	227,500	
Accountancy fees	575,000	
Bad and doubtful debts	155,000	
Rates and rent	410,000	
Salaries and wages	<u>1,700,000</u>	<u>(12,132,000)</u>
Net loss		<u>(2,956,000)</u>

Additional information:

1. Insurance premiums include Sh.282,500 paid to insure Susan's private car.
2. Legal fees include:

	Sh.
Parking fines	150,000
Settling a dispute with a customer	102,500
Appeal against a tax assessment	62,500
Court expenses for breach of a contract	400,000
Preparation of tender documents	235,000
3. Sundry expenses include:

	Sh.
Interest charged on hire purchase	425,000
Cash embezzled by the cashier	565,000
Registration of a trade mark	281,250
4. Repairs and maintenance comprised the following:

	Sh.
Repair of furniture	22,500
Installation of surveillance cameras	812,500
Cost of office furniture	525,000
5. The partners took goods for personal use which had a cost price Sh.225,000. The gross profit margin was 20%, as recorded in partnership books of account.
6. The investment allowances were agreed with the revenue authority at Sh.1,475,000 during the year ended 31 December 2021.
7. Salaries and wages included salaries to partners as follows:

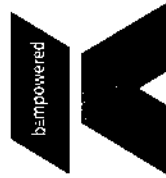
	Sh.
Kamala	600,000
Susan	450,000
Kubasu	225,000

Required:

- (i) The adjusted partnership profit or loss for the year ended 31 December 2021. (10 marks)
- (ii) Distribution schedule of the profit or loss computed in (c) (i) above. (2 marks)

(Total: 20 marks)

.....



kasneb

CPA INTERMEDIATE LEVEL

CIFA INTERMEDIATE LEVEL

PUBLIC FINANCE AND TAXATION

WEDNESDAY: 6 April 2022. Afternoon paper.

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. Do NOT write anything on this paper.

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

Year of income 2021.

Assume that the following rates of tax applied throughout the year of income 2021:

Monthly taxable pay (Sh.)	Annual taxable pay (Sh.)	Rate of tax % in each Sh.
1 - 24,000	1 - 288,000	10%
24,001 - 32,333	288,001 - 388,000	25%
Excess over - 32,333	Excess over - 388,000	30%

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

Investment allowance: Capital expenditure incurred on:	Rate of investment allowance	Residual value (per year on reducing balance)	Prescribed benefit rates of motor vehicles provided by employer (i) Saloons, Hatch Backs and Estates																					
			<table border="1"> <thead> <tr> <th></th> <th>Monthly rates (Sh.)</th> <th>Annual rates (Sh.)</th> </tr> </thead> <tbody> <tr> <td>Up to 1200 cc</td> <td>3,600</td> <td>43,200</td> </tr> <tr> <td>1201 - 1500 cc</td> <td>4,200</td> <td>50,400</td> </tr> <tr> <td>1501 - 1750 cc</td> <td>5,800</td> <td>69,600</td> </tr> <tr> <td>1751 - 2000 cc</td> <td>7,200</td> <td>86,400</td> </tr> <tr> <td>2001 - 3000 cc</td> <td>8,600</td> <td>103,200</td> </tr> <tr> <td>Over - 3000 cc</td> <td>14,400</td> <td>172,800</td> </tr> </tbody> </table>		Monthly rates (Sh.)	Annual rates (Sh.)	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
	Monthly rates (Sh.)	Annual rates (Sh.)																						
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																						
(a) Buildings: <ul style="list-style-type: none"> Hotel building Building used for manufacture Hospital buildings Petroleum or gas storage facilities Educational/hostels building Commercial building 	50% in the first year of use 50% in the first year of use 50% in the first year of use 50% in the first year of use 10% per year on reducing balance 10% per year on reducing balance	25% 25% 25% 25% 10% 10%	(ii) Pick-ups, Panel Vans (unconverted) Up to - 1750 cc 3,600 43,200 Over - 1750 cc 4,200 50,400																					
(b) Machinery: <ul style="list-style-type: none"> Machinery used for manufacture Hospital equipment Ships or aircraft Motor vehicles and heavy earth moving equipment Computer software, calculators, copiers and duplicating machines Furniture and fittings Telecommunication equipment Film equipment by a local producer Machinery used to undertake operations under prospecting rights and exploration under mining rights Other machinery 	50% in the first year of use 50% in the first year of use 50% in the first year of use 25% per year on reducing balance 25% per year on reducing balance 10% per year on reducing balance 10% per year on reducing balance 25% per year on reducing balance 50% in the first year of use 10% per year on reducing balance	25% 25% 25% 25% 25%																						
(c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation	10% per year on reducing balance		(iii) Land Rovers/Cruisers 7,200 86,400																					
(d) Farm works	50% in the first year of use	25%																						

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) Explain the term “consolidated fund” as used in public finance management. (2 marks)
- (b) Outline six criteria that a person should satisfy to be eligible to bid for a contract in procurement or an asset being disposed, as per the Public Procurement and Asset Disposal Act, 2015. (6 marks)
- (c) The internal audit function plays a vital role in public governance. In relation to public finance management, evaluate four roles of the internal audit department or similar agency in your country. (4 marks)
- (d) Citing four benefits, justify the need for Public Private Partnership (PPPs) arrangement in most developing countries. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) With reference to public finance management, distinguish between “planning” and “budgeting”. (4 marks)
- (b) Summarise five functions of the public debt management office. (5 marks)
- (c) The following transactions were extracted from the books of Intercity Ltd. for the month of January 2022. The company is registered for value added tax (VAT) purposes:

1.	Sales to the local market	Sh. 3,400,000
	Sales to foreign market	5,000,000
	Exempt sales	2,350,000
2.	Purchases and expenses incurred during the month were as follows:	Sh.
	Cash purchases	1,300,000
	Credit purchases	2,250,000
	Salaries and wages	1,800,000
	Legal services	650,000
	Stationery	720,000
	Warehouse rent	400,000
	Security services	680,000
	Purchase of computers	120,000
3.	The above transactions are stated exclusive of VAT at the rate of 16%.	

Required:

- (i) Determine deductible input VAT. (8 marks)
- (ii) Output VAT. (2 marks)
- (iii) VAT payable or refundable. (1 mark)

(Total: 20 marks)

QUESTION THREE

- (a) Explain the following terms as used in taxation:
- (i) Import declaration fee. (2 marks)
- (ii) Catering levy. (2 marks)
- (b) Outline four items that should be specified in writing in the notification to the taxpayer, when the Commissioner has made an amended assessment. (4 marks)
- (c) John Wesonga is employed by Fadhili Ltd. as a Finance Manager. During the year of income 2021, he provided the following details relating to his income:
- Basic salary per month of Sh.182,500. Monthly PAYE deducted by the employer was Sh.47,200.
 - He lives in a house provided by the employer and Sh.35,000 per month is paid by the employer to the landlord for the house. The employer furnished the house at a cost of Sh.180,000. The employer deducted 5% of his basic monthly salary during the year to cater for the house rent.
 - He contributed Sh.15,000 per month to a registered pension scheme while the employer contributed Sh.10,000 for him per month towards the scheme.
 - He was reimbursed Sh.250,000 for medical expenses incurred during the year. The medical scheme only covers employees earning more than Sh.100,000 per month.

5. He was given Sh.45,000 as per diem for attending a 5-day seminar at Mombasa. This amount was to cater for his accommodation and meals.
6. He has an education insurance policy for his children where he pays Sh.15,000 as premiums per month.
7. He is entitled to an annual bonus of 5% of his annual basic salary. This bonus was paid in December 2021.
8. Benefits provided to him by the employer during the year were as follows:

	Sh.
Commuter allowance	180,000
Meals	35,000
Residence telephone bills	60,000
Entertainment allowance	120,000

Required:

- (i) Taxable income of John Wesonga for the year ended 31 December 2021. (10 marks)
 - (ii) Tax payable (if any) on the income computed in a (c) (i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Propose four ways through which the government might prevent loss of revenue from imports. (4 marks)
- (b) Outline four instances where the Commission may suspend a license issued under the Excise Duty Act, 2015. (4 marks)
- (c) Kalebu, Wekesa and Babu are in partnership trading as Kaweba Traders and sharing profit and loss equally.

The partners have presented the following statement of profit and loss for the year ended 31 December 2021:

	Sh.	Sh.
Sales		17,940,000
Opening stock	1,245,000	
Purchases	9,887,000	
Closing stock	<u>(2,162,000)</u>	<u>(8,970,000)</u>
Gross profit		8,970,000
Profit on sale of furniture		1,359,300
Insurance compensation for stolen car		713,000
Discount received		382,100
Farming income		192,050
Dividend income (net)		<u>517,500</u>
		<u>12,133,950</u>
Less Expenses:		
Mortgage interest	552,000	
Furniture at cost	138,000	
Depreciation	529,000	
General expenses	3,243,000	
Salaries and wages	4,357,000	
Custom duty	209,300	
Conveyance fee	195,500	
Legal expenses	1,867,500	
Repair and maintenance	2,070,000	
Value Added Tax (VAT) paid	94,300	
Interest on capital	959,100	
Bank charges	138,000	
Rent and rates	377,200	
Auditing and accountancy fees	529,000	
Motor vehicle expenses	486,220	
Insurance premiums	<u>441,600</u>	<u>(16,186,720)</u>
Net loss		<u>(4,052,770)</u>

Additional information:

1. Mortgage interest related to a partners residential house.
2. Insurance premiums include Sh.259,900 paid to insure Wekesa's private car.
3. The investment allowances were agreed with the revenue authority at Sh.1,357,000 during the year ended 31 December 2021.
4. The partners took goods for personal use which have recorded as sales which had a cost price of Sh.207,000. The gross profit margin was 20%.
5. Salaries and wages included:

	Sh.
Kalebu	1,035,000
Wekesa	1,380,000
Babu	1,150,000
6. Interest on capital comprised:

	Sh.
Kalebu	374,900
Wekesa	170,200
Babu	414,000
7. Legal fees included:

	Sh.
Preparation of tender document	287,500
Parking fines paid to county government	138,000
Court charges for breach of contract	368,000
Appeal against tax assessment	75,000
Defending a partner in a local committee	216,200
8. General expenses included:

	Sh.
Embezzlement by cashier	678,000
Registration of trademark	337,500
Office partition	510,000
Directors' christmas party	575,000
9. Repairs and maintenance comprised of:

	Sh.
New office tables	280,000
Laptops and computers	430,000
Fixing broken chairs and tables	116,000

Required:

- (i) Adjusted partnership statement of profit and loss for the year ended 31 December 2021. (10 marks)
 - (ii) The allocation of profit or loss computed in (c) (i) above to each partner. (2 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Identify five factors that determines the taxable capacity in your country. (5 marks)
- (b) Propose five reasons for the failure to achieve tax revenue targets by the Revenue Authority in your country. (5 marks)
- (c) Elite Manufacturing Ltd. commenced operations on 1 January 2021 after incurring the following expenditures:

	Sh.
Factory building	6,600,000
Processing Machinery (cost, insurance and freight)	3,800,000
Delivery van	1,908,000
Tractor	1,448,000
Photocopier	450,000
Generator	720,000
Go-down	1,500,000
Workshop machinery	840,000
Computers	660,000
Saloon car	3,840,000
Fax machine	280,000

Additional information:

1. Processing machinery was imported from China and the company received an import duty waiver of 25% on the value of the machinery for duty from Government. The VAT rate was 16%.
2. Factory building include the cost of clinic Sh.420,000, showroom Sh.580,000 and a retail shop Sh.600,000.
3. A perimeter wall was constructed at a cost of Sh.540,000 and put into use on 1 September 2021.
4. The company sunk a borehole at a cost of Sh.300,000 which was utilised from 1 October 2021. A water pump costing Sh.45,000 was purchased and utilised from the same date.
5. On 1 November 2021, the following assets were acquired:

	Sh.
Conveyor belts	680,000
Surveillance cameras	120,000
Water tank	150,000
6. A sport pavilion and a staff canteen were constructed at a cost of Sh.780,000 and Sh.1,280,000 respectively and used with effect from 1 December 2021.
7. The Saloon car was disposed of at Sh.1,920,000 in December 2021.

Required:

Investment allowances due to the company for the year ended 31 December 2021.

(10 marks)

(Total: 20 marks)

.....

www.someakenya.com



CPA INTERMEDIATE LEVEL

CIFA INTERMEDIATE LEVEL

PUBLIC FINANCE AND TAXATION

FRIDAY: 17 December 2021.

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 2020.

Assume that the following rates of tax applied throughout the year of income 2020:

Monthly taxable pay (Sh.)	Annual taxable pay (Sh.)	Rate of tax % in each Sh.
1 - 24,000	1 - 288,000	10%
24,001 - 40,667	288,001 - 488,000	15%
40,668 - 57,334	488,001 - 688,000	20%
Excess over - 57,334	Excess over - 688,000	25%

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

Investment allowance:	Rate of investment allowance	Residual value (per year on reducing balance)	Prescribed benefit rates of motor vehicles provided by employer (i) Saloons, Hatch Backs and Estates
Capital expenditure incurred on:			Monthly rates (Sh.) Annual rates (Sh.)
(a) Buildings:			
• Hotel building	50% in the first year of use	25%	Up to - 1200 cc 3,600 43,200
• Building used for manufacture	50% in the first year of use	25%	1201 - 1500 cc 4,200 50,400
• Hospital buildings	50% in the first year of use	25%	1501 - 1750 cc 5,800 69,600
• Petroleum or gas storage facilities	50% in the first year of use	25%	1751 - 2000 cc 7,200 86,400
• Educational/hostels building	10% per year on reducing balance		2001 - 3000 cc 8,600 103,200
• Commercial building	10% per year on reducing balance		Over - 3000 cc 14,400 172,800
(b) Machinery:			(ii) Pick-ups, Panel Vans (unconverted)
• Machinery used for manufacture	50% in the first year of use	25%	Up to - 1750 cc 3,600 43,200
• Hospital equipment	50% in the first year of use	25%	Over - 1750 cc 4,200 50,400
• Ships or aircraft	50% in the first year of use	25%	
• Motor vehicles and heavy earth moving equipment	25% per year on reducing balance		
• Computer software, calculators, copiers and duplicating machines	25% per year on reducing balance		
• Furniture and fittings	10% per year on reducing balance		
• Telecommunication equipment	10% per year on reducing balance		
• Film equipment by a local producer	25% per year on reducing balance		
• Machinery used to undertake operations under prospecting rights and exploration under mining rights	50% in the first year of use	25%	
• Other machinery	10% per year on reducing balance		
(c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation	10% per year on reducing balance		(iii) Land Rovers/Cruisers 7,200 86,400
(d) Farm works	50% in the first year of use	25%	

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 term "pre-qualification procedure" as provided under the Public Procurement and Asset Disposal (PPAD) Act, 2015. (2 marks)
- (b) Outline six requirements that an accounting officer should set out when preparing an invitation to tender, as provided under the PPAD Act, 2015. (6 marks)
- (c) Discuss four roles played by the Council of Governors or its equivalent in county financial management. (8 marks)
- (d) The Public Private Partnership Act provides for the establishment of a fund referred to as public private project facilitation fund.

In relation to the above provision, outline four sources of revenue for the fund.

(4 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Outline two objectives of the Public Finance Management Act. (2 marks)
- (b) In a tax seminar, one of the facilitators noted that "most developing countries are currently experiencing escalating debt levels".

With reference to the above statement, propose four measures that could be adopted to reduce the escalating public debt. (8 marks)

- (c) The following transactions were extracted from the books of Sabaki Enterprises Ltd. for the month ended 31 August 2021. The company is registered for value added tax (VAT) and deals in electronic appliances.

2 August: Purchased 16 digital television sets from Dubai Ltd. for Sh.58,000 each.

2 August: Sold 4 video cameras to the Ministry of Tourism for Sh.72,500 each.

4 August: Paid audit fees to Hekima and Associates CPA of Sh.34,800.

5 August: Sold 8 digital television sets to Mambo Restaurant in Uganda for Sh.130,500 each.

9 August: Purchased 10 slide projectors for Sh.104,400 each from Infor Tech Limited.

10 August: Purchased office stationery for Sh.17,400 and paid by cheque.

12 August: Sold 4 flashbulbs that had cost Sh.420,000 for Sh.116,000 each.

16 August: Mambo Restaurant returned 2 television sets and was issued with a debit note of the equivalent amount.

19 August: Paid electricity bills amounting to Sh.40,600.

21 August: Sold 8 television sets to local customers for Sh.104,400 each.

24 August: Sold slide projectors for Sh.232,000 to Umoja Communications Ltd.

27 August: Paid Sh.58,000 for repairing the director's motor vehicle.

28 August: Purchased electronic appliances from local suppliers for Sh.1,160,000.

30 August: Paid water bills of Sh.21,600 in cash for water supplied by the county water services board during the month.

The above transactions are stated inclusive of VAT at the rate of 16% where applicable.

Required:

The VAT payable by or refundable to Sabaki Enterprises Ltd. for the month of August 2021.

(10 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Explain the following tax assessments as provided under the Tax Procedures Act, 2015:
- (i) Default assessment. (2 marks)
 - (ii) Advance assessment. (2 marks)
 - (iii) Amendment of assessment. (2 marks)
- (b) Alex Makali is an employee of Pengo Ltd. During the year of income 2020, he provided the following information to you to assist in filing of individual income tax returns:
1. Basic salary of Sh.144,600 per month net of PAYE tax of Sh.19,600.
 2. He was provided with a land cruiser whose accumulated depreciation as at 1 January 2020 was Sh.130,000 while the net book value was Sh.1,600,000.
 3. He was provided with a fully furnished house. The cost of the furniture was Sh.250,000. The house had a fixed telephone. The average telephone bill paid by the employer per month was Sh.6,000.
 4. On 1 September 2020, he moved into his own house which he had acquired through a 15% mortgage loan of Sh.4,000,000 on 1 May 2020.
 5. He is a member of a home ownership saving plan where he had contributed Sh.4,800 per month towards the scheme up to 30 April 2020.
 6. On 1 July 2020, he obtained a loan of Sh.2,400,000 from his employer at an interest rate of 7% per annum. During this period the Revenue Authority prescribed interest rate was 12% per annum.
 7. He was out of his workstation in the month of August for 10 days on official duty. The company paid him an out-of-pocket allowance of Sh.4,800 per day.
 8. His salary was increased with effect from 1 September 2020 by Sh.8,000 and back dated to 1 May 2020.
 9. The employer paid school fees for Alex Makali's children amounting to Sh.148,000. This expense was not taxed on the employer.
 10. He is a member of a registered retirement pension scheme where he contributed Sh.30,000 per month towards the scheme. The employer contributed a similar amount.
 11. His other incomes included:
 - Dividends from Wali Cooperative net of tax of Sh.85,000.
 - Rent income Sh.280,000 net of purchase of furniture Sh.40,000 and cost of advertising vacant houses for Sh.24,000.
 12. He secured a life insurance cover for his family of Sh.8,000 per month with effect from 1 October, 2020.

Required:

- (i) Total taxable income of Alex Makali for the year ended 31 December 2020. (12 marks)
- (ii) Tax liability (if any) from the income computed in (b) (i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Summarise four roles of the Senate Budget Committee in public finance matters as provided under the Public Finance Management Act, 2012. (4 marks)
- (b) Citing three reasons, justify the need for introduction of integrated customs management system (iCMS) or similar system in your country. (6 marks)
- (c) Kencoff Company Ltd. is a coffee manufacturing company that was incorporated on 1 January 2020. The company commenced its operations on 2 May 2020 after incurring the following expenditure.

	Sh.
Factory land and building	82,000,000
Conveyor belts	6,200,000
Furniture and fittings	350,000
Farm labour quarters	4,800,000
Coffee milling machinery	4,200,000
Irrigation system	1,480,000
Borehole	2,360,000
Construction of gabions	1,120,000
Lorry (3.5 tonnes)	3,400,000
Fencing of the farm	780,000

	Sh.
Farmhouse	2,620,000
Tractor	3,600,000
Godown	1,860,000
Factory perimeter wall	948,000
Delivery van	2,600,000
Trailer for tractor	520,000
Computers	720,000
2 Saloon cars (each costing Sh.3,300,000)	6,600,000
Sports pavilion	1,840,000

Additional information:

- Included in the factory land and building is the cost of land valued at Sh.45,000,000.
- One of the saloon cars was disposed of during the year for Sh.2,200,000.
- The following assets were purchased on 1 August 2020:

	Sh.
Office curtains	320,000
Fax machine	180,000
Water pump	560,000
Packaging machine	1,720,000

Required:

Investment allowances due to Kencoff Company Ltd. for the year ended 31 December 2020.

(10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) (i) Explain the term "lottery" as used in taxation. (2 marks)
- (ii) Explain the tax charges (if any) and the due date in relation to lottery. (2 marks)
- (b) Propose four ways through which taxpayers could engage in tax avoidance. (4 marks)
- (c) Patah Plc started trading on 1 January 2020. The following is the statement of profit or loss for the year ended 31 December 2020:

	Sh."000"	Sh."000"
Sales (inclusive of VAT at 14%)		114,000
Cost of goods sold		<u>(75,690)</u>
Gross profit		38,310
Decrease in provision for bad debts		480
Dividends from a subsidiary company (Net)		1,500
Rental income		1,460
Foreign exchange gains realised		240
Capital gain on sale of building		<u>390</u>
		42,380
Less expenses:		
Salaries and wages	12,670	
Subscriptions to trade association	120	
Legal and professional fees	3,600	
Audit fees	720	
Donations to women welfare association	480	
Estate management fees for rented property	136	
Impairment of rental property	180	
Purchase of furniture	124	
Purchase of computers	150	
Purchase of saloon car	3,400	
Rent and rates	670	
Advertisement expenses	<u>1,380</u>	<u>(23,630)</u>
Net profit		<u><u>18,750</u></u>

Additional information:

1. Two thirds of the cost of goods sold comprised of purchases, which are overcast by 20%.
2. **Salaries and wages include:** **Sh."000"**
 - Redundancy payments to former employees 4,800
 - Directors bonuses 1,960
 - Christmas party for directors' families. 474
 - Directors allowances 360
3. **Legal and professional fees comprised:** **Sh."000"**
 - Processing of title deeds for company piece of land 720
 - Registering of trade marks 366
 - Renewal of 60-year lease 284
 - Negotiating a bank loan 460
 - Tax appeal against a tax assessment 188
 - Settling customer's dispute 320
 - Parking fines 360
 - Defending a director for breach of law 202
 - Instalment tax paid 700
 - 3,600
4. Audit fees include Sh.124,000 for penalties for late filing of tax returns with the Revenue Authority.
5. Advertisement expenses comprise: bill board for Sh.380,000, Neon sign Sh.240,000 and Sh.150,000 for hosting the company website.
6. Purchases figure includes the cost of a forklift amounting to Sh.720,000 which was also inflated by 20%.
7. Investment allowances were agreed with the Commissioner for Revenue Authority at Sh.2,840,000.
8. The corporate tax rate during the year was 25%.

Required:

- (i) A statement of adjusted taxable profit or loss for the year ended 31 December 2020. (10 marks)
 - (ii) Tax liability and amount payable (if any) on or before 30 April 2021. (2 marks)
- (Total: 20 marks)**
-



CPA INTERMEDIATE LEVEL
CIFA INTERMEDIATE LEVEL
PILOT PAPER
PUBLIC FINANCE AND TAXATION

December 2021.

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 2020.

Assume that the following rates of tax applied throughout the year of income 2020:

Monthly taxable pay (Sh.)		Annual taxable pay (Sh.)		Rate of tax % in each Sh.
1	- 24,000	1	- 288,000	10%
24,001	- 40,667	288,001	- 488,000	15%
40,668	- 57,334	488,001	- 688,000	20%
Excess over	- 57,334	Excess over	- 688,000	25%

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

Investment allowance: Capital expenditure incurred on:	Rate of investment allowance	Residual value (per year on reducing balance)	Prescribed benefit rates of motor vehicles provided by employer		
			(i) Saloons, Hatch Backs and Estates		
			Monthly rates (Sh.)	Annual rates (Sh.)	
(a) Buildings:					
• Hotel building	50% in the first year of use	25%	Up to 1200 cc	3,600	43,200
• Building used for manufacture	50% in the first year of use	25%	1201 - 1500 cc	4,200	50,400
• Hospital buildings	50% in the first year of use	25%	1501 - 1750 cc	5,800	69,600
• Petroleum or gas storage facilities	50% in the first year of use	25%	1751 - 2000 cc	7,200	86,400
• Educational/hostels building	10% per year on reducing balance		2001 - 3000 cc	8,600	103,200
• Commercial building	10% per year on reducing balance		Over - 3000 cc	14,400	172,800
(b) Machinery:			(ii) Pick-ups, Panel Vans (unconverted)		
• Machinery used for manufacture	50% in the first year of use	25%	Up to - 1750 cc	3,600	43,200
• Hospital equipment	50% in the first year of use	25%	Over - 1750 cc	4,200	50,400
• Ships or aircraft	50% in the first year of use	25%			
• Motor vehicles and heavy earth moving equipment	25% per year on reducing balance				
• Computer software, calculators, copiers and duplicating machines	25% per year on reducing balance				
• Furniture and fittings	10% per year on reducing balance				
• Telecommunication equipment	10% per year on reducing balance				
• Film equipment by a local producer	25% per year on reducing balance				
• Machinery used to undertake operations under prospecting rights and exploration under mining rights	50% in the first year of use	25%			
• Other machinery	10% per year on reducing balance				
(c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation	10% per year on reducing balance		(iii) Land Rovers/Cruisers 7,200 86,400		
(d) Farm works	50% in the first year of use	25%			

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) Discuss three roles played by the National Assembly budget committee or equivalent institution in your country in relation to public finance management. (6 marks)
- (b) The national and county governments engage in a number of projects. For the purpose of monitoring these projects the governments have developed an electronic project monitoring information system (e-ProMIS) to capture information on projects implemented by the ministries, state corporations and counties.

Required:

Discuss four specific objectives that the National and County governments might realise from the e-ProMIS (8 marks)

- (c) Discuss three reasons why Public Sector Finance is important in your country (3 marks)
- (d) Discuss three roles of the National Treasury in public procurement and assets disposal. (3 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Highlight the steps followed by your county government in developing its annual budget. (9 marks)
- (b) The County Treasury is required to submit to the county assembly a statement setting out the debt management strategy of the county government over the medium term with regard to its actual liability and potential liability in respect of loans and its plans for dealing with those liabilities.

Required:

Identify the information to be included in the statement of debt management strategy (5 marks)

- (c) Discuss three roles of taxation in achieving budgetary objectives (3 marks)
- (d) During a devolution seminar in your country, one of the key speakers noted that county governments should be allocated national government share of revenue based on the ability of a county to enhance its revenue raising measures.

Required:

Identify three sources of revenue to the county governments. (3 marks)

(Total: 20 marks)

QUESTION THREE

Mr. Japheth Murunga is employed as a finance manager by Top Notch Ltd. He reported the following details on his income and that of his wife for the year ended 31 December 2020:

1. He was entitled to a basic salary of Sh.2,500,000 per annum (PAYE Sh.250,000 per annum).
2. The employer provided him with a motor vehicle (2600 cc) which was leased from Unique Car Hire Services at Sh.32,000 per month. The cost of the vehicle was Sh.2800,000 in 2018
3. His annual mortgage repayment of Sh.576,000 (including interest of Sh.120,000) was paid by the employer. The loan was obtained from Absa Bank in 2019 for the purpose of constructing own residential house.
4. He was entitled to a bonus of Sh.120,000 per annum, The bonus for 2020 was however not paid until February 2021.
5. The following deductions were made from his salary during the year:

	Sh.
Life insurance premiums	96,000
Subscription to Railway Golf Club	56,000
Subscription to accountants professional body	90,000
Contributions to registered pension scheme	300,000

6. During the year he received a dividend from Top Notch Ltd. of Sh.120, 000 (gross) since he holds 2% of the company's share capital. The employer paid the Withholding tax on his behalf.
7. His wife Truphena Murunga works for a Taxation consultancy firm where she received a basic salary of Sh.80,000 per month. She is housed by the firm together with her family in a house where she contributes 3% of her basic pay as rent. She received the following additional benefits for the year ended 31 December 2020:
 - Subsistence allowance of Sh.6,000 per day. In total she worked out of the office station for 21 days in the year.
 - Medical allowance of Sh.10, 000 per month. The firm has a medical scheme for all senior managers.

- She enrolled for a seminar on women empowerment in Kenya at Sh.120,000. 30% of this cost was met by the employer.
- She received 10,000 shares from the company at a price of Sh.50 per share. The par value share is Sh.72 while the market price at the time was Sh.79 per share.

Her other income comprised:

Interest income:	Sh.
Housing development bonds	200,000
Treasury bonds	120,000
Century Ltd.	85,000 (net)
Dividend income: Mapato Sacco Ltd.	95,000 (net)
Uwezo Co-operative Society	150,000 (gross)
Rental income from residential property	290,000 per month

Reported farming income was Sh.48,000 after deducting own consumption of Sh.20,000 which was equivalent to 18% of total farm produce.

8. Mr. Japheth and his wife have agreed that each files his or her returns to the revenue authority.

Required:

- (a) Taxable income of Mr. Japheth and his wife. (16 marks)
- (b) Tax due on the income(s) computed in (a) above. (4 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Ernest a citizen of USA has been assigned to work for his company's branch located in Kenya for the next ten years. He has approached you to assist him in understanding the Kenyan tax system especially on the basis of taxing an income in Kenya.

Required:

Explain to Ernest the Cardinal rules of taxing an income in Kenya. (5 marks)

- (b) Jessica and Mbatha established a partnership business sharing profits and losses in the ratio of 3:2 respectively. The following is the income statement of the partnership for the year ended 31 December 2020:

	Sh.	Sh.
Sales		8,678,000
General bad debts reduction		112,000
Unrealized foreign exchange gain		270,000
Capital gain on sale of shares		528,000
Recovery from insurance on stock stolen		480,000
Discount received		184,000
Dividends from Safari Cooperative Society		<u>51,000</u>
Total income		10,303,000
Less Expenses:		
Purchases	4,263,000	
Purchase of computers software	324,000	
Partners salaries	1296,000	
Legal expenses	1224,000	
Repairs expenses	1023,400	
Rent and rates	366,900	
Interest on loan	249,300	
General expenses	964,000	
Motor vehicles expenses	840,000	
Insurance	280,800	
Preliminary expenses	473,000	
Directors fees	1080,000	
Audit and accountancy fees	142,000	
Debenture interest	1800,000	
Travelling expenses	<u>96,000</u>	<u>(14,422,400)</u>
Net loss		<u>(4,119,400)</u>

Additional information:

- Purchases and sales were inclusive of value added tax at a rate of 16%.
- Closing stock was valued at Sh. 1, 840,000 while opening stock was at 10% of sales net of value added tax. Both stocks were undervalued by 10%.
- Legal expenses comprised:**

	Sh.
Legal fee on defense against alleged breach of trade contract	180,000
Legal fee on tax objection and appeals	164,800
Conveyance fees of business premises	72,400
Stamp duty	136,600
Negotiating a business loan	120,800
Recovery of bad debts	145,000
Signing a 100-year lease agreement	128,400
Purchase of partner's private residence - Jessica	150,000
Legal fee on renewal of patents	<u>126,000</u>
	<u>1224,000</u>
- Repairs expenses comprised:**

	Sh.
Purchase of furniture	460,000
Installation of neon sign	260,000
Designing an office block	140,000
Cost of partitioning office block	141,000
Repainting of office block	<u>22,400</u>
	<u>1,023,400</u>
- General expenses included, impairment of patent rights Sh.144, 000, provision for general bad debts Sh.148, 000 and drawings of goods by partners Sh.568, 000.
- Interest on loan includes interest on partners' capital of Sh.120, 000 which was shared according to profit and loss sharing ratio.

Required:

Compute the total taxable income for each partner for the year ended 31 December 2020.

(15 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Johari Ltd. a manufacturer of leather products commenced operation on 1 January 2020. The following information relates to the assets that the company purchased or constructed before commencement of operations.

	(Sh.)
Asset	Cost
Factory building (including godown Sh.700,000)	3,800,000
Parking bay	480,000
Drainage systems	240,000
Delivery van	420,000
Processing machine	1,680,000
Security wall	720,000
Office block (including staff canteen Sh.380,000)	980,000

Additional information:

- Processing machine was imported and includes customs duty and VAT of Sh.120,000 and Sh.100,000 respectively which was waived by the government.
- On 1 September 2020, the company sunk a borehole at a cost of Sh.1,600,000 and installed a water pump for sh.200,000.
- Spots pavilion was constructed at a cost of Sh.1,200,000 and put to use from 1 May 2020.

Required:

Compute the investment allowances due to Johari Ltd for the year ended 31 December 2020.

(5 marks)

- (b) Bitech Ltd. is registered for VAT. In May 2021, the company imported goods costing sh. 2,600,000 excluding freight charges of Sh.180,000.

The company then incurred Sh.400,000 to transport the goods from the port to its warehouse.

The conversion costs were 25% of the relevant costs incurred up to the point of processing.

The goods were subsequently sold at a profit margin of 33 1/3%.

Required:

The VAT payable on the above transaction. Use a VAT rate of 16% and customs duty rate of 25%.

(5 marks)

- (c) Analyse three circumstances where the revenue authority might cancel a taxpayer's personal identification number. (3 marks)
- (d) Write brief notes on the following terms as used in taxation:
- (i) Tax agents. (2 marks)
 - (ii) Excisable Goods Management System. (2 marks)
 - (iii) Warehousing of goods. (2 marks)
 - (iv) Railway development levy. (1 mark)
- (Total: 20 marks)**
-



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: 1 September 2021.

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 2020.

Assume that the following rates of tax applied throughout the year of income 2020:

Monthly taxable pay (Sh.)	Annual taxable pay (Sh.)	Rate of tax % in each Sh.
1 - 24,000	1 - 288,000	10%
24,001 - 40,667	288,001 - 488,000	15%
40,668 - 57,334	488,001 - 688,000	20%
Excess over - 57,334	Excess over - 688,000	25%

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

Investment allowance:	Rate of investment allowance	Residual value (per year on reducing balance)	Prescribed benefit rates of motor vehicles provided by employer (i) Saloons, Hatch Backs and Estates
Capital expenditure incurred on:			Monthly rates (Sh.) Annual rates (Sh.)
(a) Buildings:			Up to 1200 cc 3,600 43,200
• Hotel building	50% in the first year of use	25%	1201 - 1500 cc 4,200 50,400
• Building used for manufacture	50% in the first year of use	25%	1501 - 1750 cc 5,800 69,600
• Hospital buildings	50% in the first year of use	25%	1751 - 2000 cc 7,200 86,400
• Petroleum or gas storage facilities	50% in the first year of use	25%	2001 - 3000 cc 8,600 103,200
• Educational/hostels building	10% per year on reducing balance		Over - 3000 cc 14,400 172,800
• Commercial building	10% per year on reducing balance		
(b) Machinery:			(ii) Pick-ups, Panel Vans (unconverted)
• Machinery used for manufacture	50% in the first year of use	25%	Up to - 1750 cc 3,600 43,200
• Hospital equipment	50% in the first year of use	25%	Over - 1750 cc 4,200 50,400
• Ships or aircraft	50% in the first year of use	25%	
• Motor vehicles and heavy earth moving equipment	25% per year on reducing balance		
• Computer software, calculators, copiers and duplicating machines	25% per year on reducing balance		
• Furniture and fittings	10% per year on reducing balance		
• Telecommunication equipment	10% per year on reducing balance		
• Film equipment by a local producer	25% per year on reducing balance		
• Machinery used to undertake operations under prospecting rights and exploration under mining rights	50% in the first year of use	25%	
• Other machinery	10% per year on reducing balance		
(c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation	10% per year on reducing balance		(iii) Land Rovers/Cruisers 7,200 86,400
(d) Farm works	50% in the first year of use	25%	

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) Public funds established by the Constitution are usually managed by the National and County governments.

Required:

- (i) Identify three types of funds managed by the national government. (3 marks)
 - (ii) Identify two types of funds managed by the county government. (2 marks)
- (b) Outline four functions of a County Treasury as provided in the Public Finance Management Act. (8 marks)
- (c) Citing seven reasons, justify why an accounting officer of a procuring entity might, at any time, prior to notification of tender award, terminate or cancel procurement or asset disposal proceedings without entering into contract as provided under the Public Procurement and Asset Disposal Act. (7 marks)

(Total: 20 marks)

QUESTION TWO

(a) Explain the following attributes that must be considered when preparing a national budget:

- (i) Periodicity. (2 marks)
 - (ii) Predictability. (2 marks)
 - (iii) Comprehensiveness. (2 marks)
- (b) Identify four types of reports that the Controller of Budget is required to prepare in relation to Public Finance Management. (4 marks)
- (c) S and M Associates is a firm of Surveyors registered for value added tax (VAT) purposes.

In the month of March 2021 the firm made the following transactions:

Revenues:		Sh.
Revenue from VAT registered customers.		1,790,750
Revenue from consultancy services in Rwanda		2,686,125
Revenue from Ministry of Lands contract		1,486,250
Revenue from customers not registered for VAT		<u>2,586,800</u>
		8,549,925
Expenditure:		
Legal services	435,000	
Salaries and wages	1,740,000	
Medical services	556,800	
Motor vehicle fuel	125,280	
Purchase of design materials	870,000	
Motor vehicle insurance	69,600	
Stationery	29,000	
Audit fees	501,120	
Office rent	228,375	
Advertising	<u>194,300</u>	
		<u>(4,749,475)</u>
		<u>3,800,450</u>

Additional information:

1. VAT withheld by withholding VAT agents was Sh.120,000 during the month.
2. Motor vehicle insurance relates to the motor vehicle's annual premiums for comprehensive insurance.
3. Transactions are inclusive of VAT at the rate of 16% where applicable.

Required:

Prepare a VAT account for the month of March 2021 showing the VAT payable or refundable. (10 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Explain three activities that constitute tax evasion in your country. (6 marks)
- (b) Maxwel Bewa was employed as an accountant by Okoa Micro-finance Ltd. on a three-year contract commencing on 1 April 2020.

He has provided the following information relating to his employment income for the year ended 31 December 2020.

1. Basic salary of Sh.175,000 per month (PAYE Sh.48,000 per month)
2. He enjoyed free medical treatment under a senior employees medical scheme operated by the company, which was assessed at Sh.250,000 during the year.
3. He received goods worth Sh.140,000 from the company for personal use.
4. He was provided with a company car which had cost Sh.1,750,000. The car had a cc rating of 2,000 and it was under a maintenance plan where the company paid all operating costs of Sh.220,000 during the year.
5. He was provided with a furnished house in Alpha Estate where rent for similar houses was Sh.45,000 per month. The house had been furnished at a cost of Sh.850,000.
6. He was sponsored for a seminar on Accountancy by the employer at Sh.180,000, 10% of this cost was for private entertainment.
7. He contributes 5% of his basic pay to a registered pension scheme while the employer contributes an equal amount for him.
8. He employed a night watchman on 1 August 2020 at a monthly salary of Sh.25,000. The employer pays half of the monthly salary.
9. The employer paid Sh.320,000 as school fees for his children studying abroad on commencement of his employment contract. This amount was recovered from Bewa's income during the year.
10. He was nominated for an award of the employee of the year on 31 December 2020. This award carried a cash gift of Sh.250,000 and a bonus of Sh.180,000.
11. Life insurance premium paid for him by the employer for the period 1 April 2020 to 31 December 2020 was Sh.80,000.
12. As part of the terms of his employment, he was paid a holiday allowance of Sh.120,000 for his holiday to a foreign destination and back home.

Required:

- (i) Total taxable income of Maxwel Bewa for the year ended 31 December 2020. (12 marks)
- (ii) Tax liability (if any) from the income computed in (b) (i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) The Finance Act, 2020 introduced a tax known as minimum tax which shall be payable regardless of whether a taxpayer will have taxable profits or not.

With reference to the above statement, identify four types of income that are not subject to minimum tax. (4 marks)

- (b) Explain two ways in which the Revenue Authority in your country might prevent loss of tax revenue from imports. (4 marks)

- (c) Lulu Ltd. commenced manufacturing operations on 1 May 2020 after having incurred the following capital expenditure:

	Sh.
Factory building (note 1)	20,600,000
Processing machinery	4,800,000
Factory parking bay	1,640,000
Sewerage system	560,000
Industrial effluent treatment plant	2,400,000

Additional information:

1. Factory building included the following:	Sh.
• Cost of land	4,400,000
• Godown	800,000
• Showroom	520,000
• Offices	600,000
• Retail shop	400,000

2. On 1 July 2020, the following capital expenditures were incurred:

	Sh.
Photocopier	60,000
Computers	150,000
Motorbike	96,000
Saloon car	3,400,000
Forklift	720,000
Furniture	240,000
Pick-up	920,000
Scanners	56,000
Tractor	1,700,000
Carpets	36,000

3. The company imported a portable weighting machine on 1 September 2020 at a cost of Sh.480,000 inclusive of duty of Sh.20,000. The duty was waived by the government.

Required:

Investment allowances due to the company for the year ended 31 December 2020.

(12 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Discuss four ways in which taxation could be applied to achieve fiscal policy objectives of a developing economy. (8 marks)

- (b) Mazao Ranch Ltd. practices mixed farming and milk processing.

The following is the company's statement of profit or loss for the year ended 31 December 2020:

Revenue:	Sh.	Sh.
Sale of milk		2,400,000
Sale of livestock		1,800,000
Sale of manure		540,000
Proceeds from sale of an old tractor		820,000
Discount received		<u>180,000</u>
		5,740,000
Expenses:		
General expenses	430,000	
Construction of water tank	240,000	
Vaccines for livestock	640,000	
Loan repayment	350,000	
Depreciation	180,000	
Electricity and water	135,000	
Conveyance fees	156,000	
Construction of chicken sheds	480,000	
Animal feeds	200,000	
Salaries and wages	1,240,000	
Bad debts provision	150,000	
Repairs and maintenance	762,000	
Professional fees	<u>620,000</u>	<u>(5,583,000)</u>
Net profit		<u>157,000</u>

Additional information:

1. Farm works acquired on 1 July 2020 comprised the following:

	Sh.
Granary	420,000
Labour quarters	1,200,000
Cowshed	160,000

2. General expenses include:

	Sh.
Subscriptions to Farmers Association	96,000
Acquisition of a 50 year lease	180,000
Staff Christmas party	25,000
Parking fines	129,000

3. Repairs and maintenance comprise: **Sh.**
Provision for fencing expenditure 145,000
Repairs to machinery 240,000
Other repairs 377,000
4. Professional fees include Sh.500,000 paid with regard to pursuing a dispute with the Revenue Authority's VAT department.
5. Assume the corporate tax rate during the year was 25%.

Required:

- (i) Adjusted taxable profit or loss of Mazao Ranch Ltd. for the year ended 31 December 2020. (10 marks)
- (ii) Tax payable (if any) on the profit or loss in (b) (i) above. (2 marks)
- (Total: 20 marks)**
-



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: 19 May 2021.

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 2020.

Assume that the following rates of tax applied throughout the year of income 2020:

Monthly taxable pay (Sh.)	Annual taxable pay (Sh.)	Rate of tax % in each Sh.
1 - 24,000	1 - 288,000	10%
24,001 - 40,667	288,001 - 488,000	15%
40,668 - 57,334	488,001 - 688,000	20%
Excess over - 57,334	Excess over - 688,000	25%

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

Investment allowance: Capital expenditure incurred on:	Rate of investment allowance	Residual value (per year on reducing balance)	Prescribed benefit rates of motor vehicles provided by employer (i) Saloons, Hatch Backs and Estates																					
			<table border="1"> <thead> <tr> <th></th> <th>Monthly rates (Sh.)</th> <th>Annual rates (Sh.)</th> </tr> </thead> <tbody> <tr> <td>Up to 1200 cc</td> <td>3,600</td> <td>43,200</td> </tr> <tr> <td>1201 - 1500 cc</td> <td>4,200</td> <td>50,400</td> </tr> <tr> <td>1501 - 1750 cc</td> <td>5,800</td> <td>69,600</td> </tr> <tr> <td>1751 - 2000 cc</td> <td>7,200</td> <td>86,400</td> </tr> <tr> <td>2001 - 3000 cc</td> <td>8,600</td> <td>103,200</td> </tr> <tr> <td>Over 3000 cc</td> <td>14,400</td> <td>172,800</td> </tr> </tbody> </table>		Monthly rates (Sh.)	Annual rates (Sh.)	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
	Monthly rates (Sh.)	Annual rates (Sh.)																						
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																						
(a) Buildings: <ul style="list-style-type: none"> Hotel building Building used for manufacture Hospital buildings Petroleum or gas storage facilities Educational/hostels building Commercial building 	50% in the first year of use 50% in the first year of use 50% in the first year of use 50% in the first year of use 10% per year on reducing balance 10% per year on reducing balance	25% 25% 25% 25% 10% 10%	(ii) Pick-ups, Panel Vans (unconverted) <table border="1"> <tbody> <tr> <td>Up to 1750 cc</td> <td>3,600</td> <td>43,200</td> </tr> <tr> <td>Over 1750 cc</td> <td>4,200</td> <td>50,400</td> </tr> </tbody> </table>	Up to 1750 cc	3,600	43,200	Over 1750 cc	4,200	50,400															
Up to 1750 cc	3,600	43,200																						
Over 1750 cc	4,200	50,400																						
(b) Machinery: <ul style="list-style-type: none"> Machinery used for manufacture Hospital equipment Ships or aircraft Motor vehicles and heavy earth moving equipment Computer software, calculators, copiers and duplicating machines Furniture and fittings Telecommunication equipment Film equipment by a local producer Machinery used to undertake operations under prospecting rights and exploration under mining rights Other machinery 	50% in the first year of use 50% in the first year of use 50% in the first year of use 25% per year on reducing balance 25% per year on reducing balance 10% per year on reducing balance 10% per year on reducing balance 25% per year on reducing balance 50% in the first year of use 10% per year on reducing balance	25% 25% 25% 25% 25% 25%	(iii) Land Rovers/Cruisers 7,200 86,400																					
(c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation	10% per year on reducing balance																							
(d) Farm works	50% in the first year of use	25%																						

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) Summarise four functions of the National Assembly budget committee as per the Public Finance Management Act, 2012. (4 marks)
- (b) In managing the national government public finances, the National Treasury or such state organ in your country enforces certain fiscal responsibility principles in accordance with the Constitution and the Public Finance Management Act.
In relation to the above statement, explain four fiscal responsibility principles. (8 marks)
- (c) Citing their information needs, identify four users of the Consolidated Fund reports. (4 marks)
- (d) Highlight four responsibilities of a County Treasury with respect to county public funds. (4 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Outline six functions of a disposal committee as provided under the Public Procurement and Asset Disposal Act 2015. (6 marks)
- (b) In a tax seminar, one of the facilitators noted that "Most revenue authorities in developing countries are embarking on tax base expansion programme to raise more revenue through identification of new taxpayers".
With reference to the above statement, highlight four sources of information in regard to identification of new taxpayers. (4 marks)
- (c) The following summary of transactions were obtained from the books of Zawadi Ltd., a company registered for value added tax (VAT) for the month of October 2020:

	Sh.
Sales at standard rate	1,480,000
Exports to a foreign country	364,000
Audit fees	78,300
Electricity bills	36,400
Imported raw materials	320,000
Purchases at standard rate	624,500
Exempt supplies	700,000
Catering services	94,000
Entertainment services	120,000
Telephone bills	28,000
Car parking services	50,000
Bottled drinking water for staff	64,000
Zero rated supplies (exports)	240,000
Repairs of motor vehicles	76,200

Additional information:

- Sales at standard rate include goods valued at Sh.280,000 purchased at standard rate and sold at the same state.
 - Imported raw materials was exclusive of freight charges of Sh.80,000 and insurance premium of Sh.40,000. Import duty rate was at 20%.
 - A debtor was issued with a credit note for goods valued at Sh.48,000 and this had not been passed through the relevant daybook.
 - The company issued debit notes valued at Sh.164,000 in respect to under invoicing of some customers.
 - Repairs of motor vehicles include Sh.20,000 for fuels and oils supplied to the company.
- Transactions are exclusive of VAT at the rate of 14% where applicable.

Required:

The VAT payable by or refundable to Zawadi Ltd. for the month of October 2020.

(10 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Propose four measures that the revenue collection agency in your country could employ to reduce instances of tax evasion. (4 marks)
- (b) Explain four grounds under which the commissioner might suspend or cancel a licence to manufacture excisable goods. (4 marks)

c) Benson Kapila is the manager for Daity Ltd., a company incorporated in Kenya. He has approached you to assist him in filing income tax returns for the year of income 2020. He has provided the following details relating to his income during the year:

1. Basic salary per month (Net of PAYE of Sh.18,600 per month) Sh.61,400.
2. He was provided with a house by the employer which was furnished at a cost of Sh.200,000.
3. He is a member of a registered retirement pension scheme. His monthly contribution was Sh.30,000. The employer contributed Sh.32,000 per month.
4. He was provided with a company car of 2000 cc whose cost as at 1 January 2019 was Sh.800,000.
5. He was given per diem of Sh.10,000 for five days he was out of work station on official duties in the month of June 2020.
6. He is a pensioner and received a monthly pension of Sh.35,000.
7. He is a member of home ownership savings plan (HOSP) where he contributed Sh.16,000 per month up to 30 September 2020.
8. On 1 October 2020, he moved to his own house which he acquired through a 12% mortgage loan of Sh.3,600,000.
9. He has an education insurance policy for his children where he pays premiums of Sh.7,000 per month.
10. He enjoyed free company products during the year whose value was estimated at Sh.56,000.
11. The company gave him a 5% loan of Sh.2,000,000 on 1 December 2020 to assist in off-setting the mortgage loan. The market interest rate was at 12% per annum.
12. The company paid him monthly telephone allowance of Sh.5,000.
13. His other incomes included:
 - Farming loss of Sh.140,000.
 - Rental income (commercial building) Sh.96,000.
 - Dividends (net of tax) of Sh.47,600 from Hazita Cooperative Society.
 - Professional fees Sh.78,000.

Required:

- (i) Total taxable income for Benson Kapila for the year ended 31 December 2020. (10 marks)
 - (ii) Tax payable (if any) from the income computed under (c) (i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

(a) Excel Communications Ltd. is the regional dealer and distributor of communications equipment. They have provided you with the following statement of profit or loss for the year ended 31 December 2020:

	Sh.	Sh.
Sales		15,300,000
Closing inventory		2,000,000
Disposal gain on asset sold		180,000
Discount received		300,000
Compensation from insurance		<u>105,000</u>
		17,885,000
Less: Expenses:		
Purchases	9,000,000	
Opening inventory	1,500,000	
Repairs and maintenance	528,750	
Rent and rates	93,750	
Bad debts	311,250	
Subscriptions and donations	37,500	
Permits and licences	150,000	
Depreciation	670,000	
Office and distribution expenses	360,000	
Travelling and transport	252,000	
Legal fees	327,000	
Accountancy fees	97,500	
Disposal loss on assets	180,000	
Discount allowed	200,000	
Salaries and wages	1,500,000	
Bank ledger fees	<u>67,500</u>	<u>(15,275,250)</u>
Net profit		<u><u>2,609,750</u></u>

Additional information:

- Insurance compensation is in relation to communications equipment stolen during the year while being shipped to a client.
- Office and distribution expenses comprise of the following:

	Sh.
Club membership fee subscriptions for employees	135,000
Private expenditure of directors	102,000
- 10% of the rent and rates relates to directors' private residences.
- Subscriptions and donations include:

	Sh.
To the communications equipment traders association	22,500
To the Kenya Red Cross-donations	5,500
To the street children feeding program	<u>9,500</u>
	<u>37,500</u>
- Legal fees include the following:

	Sh.
Renewal of lease – 100 years	45,000
Staff employment contracts	60,000
Counterfeit equipment suit in the High Court	87,000
Debt collection	50,000
- Capital deductions have been agreed at Sh.645,000 with the Commissioner of Domestic Taxes.
- Bad debts include an increase in general provision for bad debts of Sh.21,250.
- Salaries and wages include directors emoluments of Sh.500,000.
- Repairs and maintenance includes the cost of erecting a signboard outside the dealership shop of Sh.28,750.

Required:

- Excel Communications Ltd. taxable profit or loss for the year ended 31 December 2020. (9 marks)
 - The tax payable (if any) on the profit or loss computed in (a) (i) above. (1 mark)
- (b) Plasticom Ltd. is a company established in year 2020 to manufacture plastic products. Before commencing its operations on 1 May 2020, the company incurred a total of Sh.8,760,000 in construction of a factory building which included:

	Cost (Sh.)	Date of first use
Godown	320,000	1 July 2020
Showroom	240,000	1 September 2020
Administration offices	680,000	1 October 2020

Additional information:

- The following assets were constructed or purchased and utilised with effect from 1 July 2020:

	Cost (Sh.)
Water pump	540,000
Labour quarters	920,000
Processing machinery	2,600,000
Tractor	1,800,000
Scanners	320,000
Two saloon cars	7,000,000
Mobile forklift	1,500,000
Computers	250,000
Power transformer	820,000
Office cabinets	180,000
Boilers	960,000
Bridge (connecting the factory to main road)	1,200,000

- The following costs were incurred by the company on 1 September 2020:

	Cost (Sh.)
Sinking a borehole	720,000
Construction of a parking bay	630,000

- One of the computers traded in on 10 November 2020 for a new one costing Sh.68,000. The trade in value was Sh.40,000 and the balance was settled in cash.
- The company constructed a Sports Pavilion and additional staff quarters during the year at the cost of Sh.890,000 and Sh.1,200,000 respectively. These structures were utilised from 1 October 2020.

Required:

- Investment allowances due to Plasticom Ltd. for the year ended 31 December 2020. (10 marks)
(Total: 20 marks)

QUESTION FIVE

- (a) Explain four reasons for the declining trend in tax revenue in most developing countries. (4 marks)
- (b) Summarise four objectives of fiscal policies in your country. (4 marks)
- (c) Mark and Wanguh are in a trading partnership operating as Mawah Enterprises and sharing profits or losses in the ratio of 2:3 respectively.

The following statement of profit or loss was prepared by the business for the year ended 31 December 2020:

Mawah Enterprises
Statement of profit or loss for the year ended 31 December 2020

	Sh.	Sh.
Gross sales		2,736,000
Unrealised foreign exchange gain		16,000
Insurance recovery on stolen good		300,000
Overprovision for bad debts		34,000
Dividends from Haki Cooperative Society		42,500
Interest on drawings		<u>45,000</u>
		3,173,500
Less expenses:		
General expenses	324,000	
Legal expenses	678,600	
Salaries to partners	450,000	
Drawings by partners	100,000	
Commission to partners	180,000	
Interest on partners' capital	250,000	
Purchase of furniture	96,000	
Donations to poverty commission	64,000	
Construction of fire exit	<u>36,400</u>	<u>(2,179,000)</u>
Net profit		<u>994,500</u>

Additional information:

1. Gross sales include VAT at 14%. In addition, 10% of sales before VAT represents closing stock. The stock had been overstated by 20%.
2. The amounts due to partners are to be apportioned according to profit or loss sharing ratios.
3. General expenses comprise:

	Sh.
• Partition of business premises	64,000
• Debt collection expenses	36,000
• Purchase of office stationery	14,000
• Cash embezzled by partner's wife	48,000
• Bad debts written off	24,800
• Business premises rent	31,200
• Salaries to employees	<u>106,000</u>
	<u>324,000</u>
4. Legal expenses include:

	Sh.
• Acquisition of patent rights	24,800
• Drafting of sales agreement	34,200
• Negotiating sales contract	60,000
• Defending the business against trade dispute	42,600
• Mortgage interest for Mark	140,000
• Defending partners against wrong tax assessment	94,600
• Conveyance fees for business premises	125,800
• Tax consultancy fees	72,500
5. The purchases represent 40% of the gross sales figure Sh.2,736,000. The purchases had been understated by 25% and were omitted from the income statement.

Required:

- (i) Adjusted partnership statement of profit or loss for the year ended 31 December 2020. (8 marks)
- (ii) The allocation of profit or loss computed in (c) (i) above to each partner. (4 marks)

(Total: 20 marks)



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 November 2020.

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 2019.

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.)
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 (Ships over 125 tonnes)	100%	
Extraction expenditure:		
Written off over 5 years (20%)		
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) The Public Finance Management Act requires that, not later than 30th August in each year, the Cabinet Secretary shall issue to all national government entities a circular setting out guidelines on the budget process to be followed by them.
- With reference to the above provision, outline four contents of the circular. (4 marks)
- (b) Discuss four responsibilities of the National Treasury in the administration of the Consolidated Fund. (8 marks)
- (c) Explain four fiscal responsibility principles enforced by National Treasury in managing national government public finance. (8 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain the single source method of procurement in public sector entities, citing two circumstances under which the method could be applied. (4 marks)
- (b) One of the functions of the Public Procurement Oversight Authority (PPOA) is to assist in the implementation and operation of the procurement system. In light of this statement, explain three aspects this function entails. (6 marks)
- (c) Beltech Ltd., a registered trader for value added tax (VAT) made the following transactions in the month of January 2020:

	Sh.
Local supplies	7,386,400
Relief supplies	9,740,000
Exports	4,408,000
Computers purchased	580,000
Electricity (factory)	278,400
Office internet (fibre)	14,500
Office rent	250,560
Raw materials (imported)	6,960,000
Hotel bills for the finance manager	139,200
Purchases from VAT registered traders	1,113,600
Purchases from VAT unregistered persons	290,000
Telephone bills	17,400

Additional information:

- Office rent paid relates to the month of January, February and March 2020.
- The cost of raw materials (imported) is inclusive of insurance and freight charges of Sh.360,000 and import duty amounting to Sh.1,392,000.
- All transactions are inclusive of value added tax (VAT) at the rate of 16% where applicable.

Required:

Prepare the VAT account clearly showing the output tax, input tax and VAT payable (or refundable). (10 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Propose three administrative challenges that the revenue authority or similar body in your country might face in the taxation of a digital economy. (6 marks)
- (b) Shirley Kaniny has been in employment as a domestic servant. Her employer works for an international organisation in the city. He had her registered and issued with a personal identification number (PIN) by the revenue authority.

Details of her earnings for the year ended 31 December 2019 were as follows:

- She is paid a basic salary of Sh.42,000 net of PAYE Sh.14,000 per month.
- Owing to the hands-on nature of her job, she is provided with accommodation in the employer's house. The house is a fully furnished five-bedroom bungalow with its own compound and a swimming pool. Similar houses have a rental value of Sh.200,000 per month.
- The house above was furnished at a cost of Sh.6,000,000.
- She is paid a house allowance of Sh.15,000 per month even though she is provided with accommodation.
- Shirley Kaniny contributes Sh.9,000 per month towards a home ownership savings plan (HOSP) with her employer contributing Sh.10,000 per month on her behalf to the same plan.

6. She contributes Sh.8,000 per month towards a life assurance policy, with the employer making similar contribution for her towards the life assurance policy.
7. During the year, she was paid a bonus of Sh.280,000 on account of her diligence.
8. The employer grants her one day of rest every calendar week and pays her Sh.1,000 that off-day except for the four weeks of February when she proceeds on annual leave with full pay.
9. The employer agreed to sponsor her to further her education at a business college for six months. He paid the Sh.180,000 tuition fee on her enrolment.
10. She is provided with a car by the employer to use for her private business and a designated driver. This is a 1500cc saloon car that had cost Sh.1,500,000 when it was purchased in year 2016. The driver is paid Sh.24,000 per month.
11. She received dividend amounting to Sh.24,000 net from Lucky SACCO.
 - Assume a 52 weeks year.

Required:

- (i) Taxable income of Shirley Kaniny for the year ended 31 December 2019. (12 marks)
- (ii) Tax payable (if any) from the income computed in (b) (i) above. (2 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Explain the treatment of the following in taxation:

- (i) Tax losses. (2 marks)
- (ii) Capital losses. (2 marks)

(b) Explain two distinguishing features between "tax evasion" and "tax avoidance". (4 marks)

(c) Mafutah PLC commenced a manufacturing operation on 1 October, 2019 having incurred the following capital expenditure:

	Sh.
Factory buildings (Note 1)	12,800,000
Processing machinery	4,200,000
Billboard	84,000
Borehole	1,240,000
Staff canteen	350,000
Sports pavilion	470,000
Computers	140,000
Computer software	60,000
Lorry (3 tonnes)	860,000
Saloon car	2,400,000
Warehouse	680,000
Weighing machines	28,000
Fax machine	13,000
Motor bike	68,000
Trailer	120,000
Workshop machinery	464,000

Additional information:

1. Factory buildings include; an office Sh.280,000, showroom Sh.420,000 Godown Sh.800,000 and a retail shop Sh.300,000.
2. Processing machinery was imported and includes import duty and value added tax of Sh.400,000 and Sh.160,000 respectively which were waived by the government.
3. The borehole was sunk using money borrowed from a bank amounting to Sh.1,000,000 which includes interest in bank loan of Sh.180,000.
4. The saloon car was disposed of for Sh.2,100,000 on 23 December 2019.
5. The company constructed a canopy at the entrance of the factory building at a cost of Sh.570,000 which was completed and utilised from 1 November 2019.
6. Purchased a water pump at a cost of Sh.90,000 and a generator Sh.120,000.

Required:

Capital allowances due to Mafutah PLC for the year ended 31 December 2019. (12 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Highlight two categories of goods liable for forfeiture under Customs and Excise Duty Act. (2 marks)
- (b) Suggest four measures that a government should put in place to prevent dumping in a country. (4 marks)
- (c) Albert and Philip are in a partnership trading as Alpha Enterprises. They share profits and losses in the ratio of 3:2 for Albert and Philip respectively after charging 10% as interest on this capital contributions.

The partners provided the following income statement for the year ended 31 December 2019:

	Sh. "000"	Sh. "000"
Income		
Gross profits		7,500
Interest and drawings		150
Discount received		112
Rental income		700
Profit on sale of old lorry		<u>390</u>
		8,852
Expenses		
Impairment loss	340	
Insurance and interest	490	
Rent and rates	810	
Depreciation	263	
Commission to Philip	440	
Purchase of saloon car	3,500	
Legal fees	670	
VAT paid	1,200	
Repairs to rental property	210	
Salaries and wages	760	
Medical expenses	<u>978</u>	(10,961)
Net loss		<u>(2,109)</u>

Additional information:

- The partners' capital contributions were Sh.3,000,000 and Sh.1,800,000 for Albert and Philip respectively.
- Salaries and wages include Sh.220,000 and Sh.180,000 paid to Albert and Philip respectively during the year.
- Legal fees is made up of the following:

	Sh.
Renewal of 15 year lease contract	200,000
Securing a bank overdraft	95,000
Defending Philip for breach of contract	180,000
Parking fines	50,000
Handling tax disputes	80,000
Collection of outstanding customers debts	<u>65,000</u>
	<u>670,000</u>

- Partners' interest on capital was included in the insurance and interest expenses.
- Half of the medical expenses relates to the medical bills paid for Albert during the year. The partnership has no medical scheme.
- 40% of rent and rates relates to amount paid to county government as rates in relation to the partner's own residential houses.
- The interest on drawings relates to the partners drawings during the year and should be apportioned according to their profit and loss sharing ratio.

Required:

- Adjusted taxable profit or loss of the partnership for the year ended 31 December 2019. (10 marks)
- Allocation schedule of profit or loss calculated in (c) (i) above. (4 marks)

(Total: 20 marks)



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

THURSDAY: 28 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		Annual rates	
	(Sh.)	(Sh.)	(Sh.)	(Sh.)
Capital allowance:	(i) Saloons, Hatch Backs and Estates			
Wear and tear allowance:	Up to 1200 cc 3,600 43,200			
Class I 37.5%	1201	1500 cc	4,200	50,400
Class II 30%	1501	1750 cc	5,800	69,600
Class III 25%	1751	2000 cc	7,200	86,400
Class IV 12.5%	2001	3000 cc	8,600	103,200
Software 20%	Over	3000 cc	14,400	172,800
Industrial building allowance:	(ii) Pick-ups, Panel Vans (unconverted)			
Up to 2009 2.5%	Up to 1750 cc 3,600 43,200			
From 1 January 2010 10%	Over 1750 cc 4,200 50,400			
Hotels 10%	(iii) Land Rovers/Cruisers 7,200 86,400			
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	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) Summarise five roles of the County Assembly in public finance management. (5 marks)
- (b) Propose five sources of revenue for county governments. (5 marks)
- (c) Outline the stages to be followed in the budget process for the National Government in any financial year. (10 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Identify three ad hoc committees that a county procuring entity could establish to ensure that procurement and asset disposal is done in accordance with the County Governments Procurement Regulations. (3 marks)
- (b) Discuss five roles of the National Treasury in relation to procurement and asset disposal as outlined in the Public Procurement and Asset Disposal Act. (5 marks)
- (c) The following are summaries of the details of the sales day book, purchases day book and the cash book of Kamata Ltd. for the month of December 2018:

Sales Day Book

Date	Details	Folio	Amount (Sh.)
December 4	Mwangaza Ltd.	1002	650,000
7	J. Kamau	1003	520,000
14	Hazina Enterprises (export)	1004	350,000
20	Ministry of Sports	1005	170,000
	Total		1,690,000

Purchases Day Book

Date	Details	Folio	Amount (Sh.)
December 1	Jawabu Enterprise	2004	300,000
6	Sonytec Ltd. (imports)	2006	420,000
12	N. Kaluma	2007	200,000
27	B. Salama	2008	180,000
	Total		1,100,000

DR**Cash Book****CR**

Date	Details	Cash	Bank	Date	Details	Cash	Bank
December		Sh.	Sh.	December		Sh.	Sh.
5	Sales	960,000	450,000	2	Salaries and wages		1,800,000
15	Receipt from debtors	800,000	4,200,000	4	Catering expenses	120,000	
				5	Purchases	580,000	640,000
				7	Furniture		160,000
				9	Electricity	32,000	
				14	Photocopying	24,000	
				22	Refund to customers		176,000
				30	Balance c/d	1,004,000	1,874,000
		1,760,000	4,650,000			1,760,000	4,650,000

Additional information:

1. J. Kamau was declared bankrupt on 18 December 2018 after having paid Sh.400,000 for the goods purchased on 7 December 2018.
2. Ten per cent of the purchase from Jawabu Enterprises were returned by the company due to poor quality.
3. Credit notes amounting to Sh.280,000 were issued to customers during the month.
4. Refund to the customers in the cashbook relates to the excess amounts paid on cash sales.
5. A purchase invoice of Sh.220,000 from Dubai Traders was omitted from the purchases daybook.
6. All the above transactions are exclusive of VAT at the standard rate of 16%.

Required:

Prepare a VAT account for the month of December 2018 showing the VAT payable or refundable, if any. (12 marks)
(Total: 20 marks)

QUESTION THREE

- (a) In a tax seminar one of the facilitators noted that, "The Tax Procedures Act 2015, specifies on information that the Commissioner should include in the default assessment to a taxpayer".

With reference to the above statement, outline five categories of such information. (5 marks)

- (b) Suleiman Kombo is employed as the Managing Director of Utamu Distributors Ltd., a tax exempt company. During the year ended 31 December 2018, he presented the following information:

1. His basic salary was Sh.120,000 per month (PAYE Sh. 48,000 per month).
2. He was provided with lunch by the employer from 1 August 2018 of Sh.4,800 per month.
3. He was provided with a fully furnished house fitted with water and electricity. The employer paid a monthly rent of Sh.45,000. He was deducted 10% of his basic monthly salary for rent. The cost of furniture was Sh.300,000 while the monthly electricity and water bills was Sh.3,500 and Sh.2,800 respectively.
4. The company paid for him life insurance premiums of Sh.6,000 per month for each member of his household from 1 September 2018. He had included himself, his wife and their son in the insurance policy.
5. He contributed 10% of his monthly pay towards a registered pension scheme while the employer contributed 15% of his basic pay towards the same scheme.
6. He enjoyed free medical treatment under a medical scheme operated by the company for all employees. His medical expenses were assessed at Sh.150,000 during the year.
7. During the year the company paid a total of Sh.35,000 as school fees for his son studying in a County School. This amount was not included in the company's income statement during the year.
8. On 1 August 2018, the company provided him with the following:
 - A Land Rover which was acquired at a cost of Sh.1,800,000 with an engine capacity of 3,000cc.
 - A gardener and a night watchman whose monthly salaries was Sh.12,500 and Sh.15,000 respectively.
9. He invested in real estate and earned a net rental income of Sh.72,000 after deducting the following expenditure:

	Sh.
Caretaker's wages	120,000
Fencing	40,000
Loan repayment	320,000
Insurance rent and rates	48,000
Partitions	60,000
Capital allowances	22,000
Gross rental withholding tax paid	68,200

10. He received net dividends of Sh.42,500 from Maziwa Co-operative Society during the year.

Required:

- (i) Total taxable income for Suleiman Kombo for the year ended 31 December 2018. (10 marks)
- (ii) Tax payable (if any) from the income computed in (b) (i) above. (3 marks)
- (iii) Comment on any information not used in your computations under (b) (i) above. (2 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Dalbir Singh is a retired engineer. He set up a factory complex in industrial area on 30 September 2017 to fabricate mechanical and auto spare parts at a cost of Sh.48 million.

However, operations commenced on 1 January 2018.

The cost comprised the following:

	Sh.
Factory building	18,750,000
Office (within the factory building)	6,250,000
Reinforcement of concrete floor to affix machinery	1,650,000
Land	8,000,000
Architect's fee	2,430,000
Packing bay	990,000
Electrical wiring	1,480,000
Conveyer belt	1,200,000
Lifts and escalators	4,000,000
Special shafts for lifts	<u>3,250,000</u>
	<u>48,000,000</u>

Dalbir Singh provided the following additional information:

1. Additional structures and works constructed and utilised from 1 January 2018 were as follows:

	Sh.
- Residential house	960,000
- Workplace nursery	1,200,000
- Drawing and design room	720,000

2. To improve performance in the factory, an Oracle database that provides cloud service was installed at a cost of Sh.450,000. The computers in the drawing and design room had a Computer Aided Design (CAD) application installed at a cost of Sh.270,000.

3. A building that had been constructed at a cost of Sh.12,000,000 was leased from Jalaam Manufacturers Ltd. for five years. The annual lease rentals were agreed at Sh.2,800,000. Dalbir imported processing machinery from China at a cost of Sh.5,200,000 and installed it in the building.

4. Two warehouses were constructed at a cost of Sh.2,250,000 and utilised from 1 September 2018.

5. The following assets were purchased or constructed during the year:

	Sh.
Furniture and fittings (including of Sh.220,000 for the workplace nursery)	620,000
Library display fixtures (stocked with mechanical engineering volumes)	480,000
Computers and electronic adding machines	840,000
Motor vehicle (a second-hand BMW)	2,300,000
Lorry (four tonnes)	1,800,000
Tuktuk for the messenger	180,000
Backhoe loader	3,680,000
Additional processing machinery	9,000,000
Mobile crane	1,900,000

Required:

Capital allowances due to Dalbir Singh for the year ended 31 December 2018.

(10 marks)

- (b) The following information has been extracted from the records of LathermanCo. Ltd. who are regional suppliers of electronic equipment and appliances, for the year ended 31 December 2018:

	Sh.
Operating profit before tax and other income	3,800,000
Investment income	849,500
Leasing of electronic equipment	50,000
Rental income	346,000

Additional information is provided as follows:

1. Investment income comprises of the following:

	Sh.
Interest income: Post Bank (K) Ltd.	138,000
Fixed deposit accounts with Luanda Bank	246,500 (Net)
Savings accounts	170,000 (Net)
Dividend income: B and M Co. Ltd.	200,000 (Gross)
Kampuni Sacco Society Ltd.	<u>95,000 (Net)</u>
	<u>849,500</u>

2. Rental income is arrived at after deducting the following expenses among others:

	Sh.
Mortgage interest on property	10,000
Purchase of water meters	28,000
Caretaker's salary	36,000
Replacing iron sheet roofing with the tile roofing	120,000
Withholding tax on rental income	60,000

3. The following expenses were considered before arriving at the operating profit before tax and other income:

	Sh.
Salaries and wages	840,000
Retirement fund contribution (with Sh.80,000 to registered funds)	150,000
Depreciation	400,000
Bank interest	180,000
Provision for bad debts	10,000
Legal and professional fees	108,000
Repairs and maintenance	40,000
Sundry expenses	150,000
Donations	150,000
Compensation	92,000
Instalment tax paid for the previous year	900,000
Construction of the watchmen's booth at the gate	240,000

4. Salaries and wages comprised: Directors allowances Sh.300,000, director's watchmen salary Sh.40,000 and salaries to other staff Sh.500,000.

5. Bank interest includes that of an overdraft taken by a senior manager of Sh.40,000, on the managing director's residential house mortgage Sh.60,000 and the rest on bank loan.

6. Provision for bad debts is made up as follows:

	Sh.		Sh.
Bad debts written off: Customers	10,000	Balance brought forward: 3% of accounts receivable	8,000
Staff	14,000	Balance brought forward: Specific bad debts	30,000
Balance carried down:			
2% of accounts receivable	9,000	Bad debts recovered	5,000
Specific bad debts	<u>20,000</u>	Income statement	<u>10,000</u>
	<u>53,000</u>		<u>53,000</u>

7. Legal and professional fees comprise:

	Sh.
Collection of trade debts	20,000
Renewal of lease (99 years)	3,000
Accounting fee	35,000
Auditing fee	15,000
Tax appeal	30,000
Staff loan collection	<u>5,000</u>
	<u>108,000</u>

Auditing fee relates to an enquiry by the Revenue Authority which revealed discrepancies that led to higher tax liability and penalties.

8. Sundry expenses constitute staff Christmas party Sh.17,000, tax penalty for late filing Sh.3,000, school fees Sh.40,000 and other allowable expenses of Sh.90,000. School fees was for a director's son and the company agreed not to debit it in the income statement.

9. Donations were to the County Governor's political campaign kitty.

10. Compensation was to a staff member who had not been issued with safety equipment and uniform as he carried out work at a client's premise leading to him being badly injured.

Required:

The adjusted taxable income of Latherman Co. Ltd. for the year ended 31 December 2018.

(10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Explain each of the following terms as used under custom taxes:
- (i) Clean report of findings. (2 marks)
 - (ii) Import declaration form. (2 marks)
- (b) Summarise four factors which could influence the extent of tax shifting. (4 marks)
- (c) Teddy, Racheal and Michael are partners trading under the name Teram Enterprises. They share profits and losses in the ratio of 4:3:3. The partners have presented the following income statement for the year ended 31 December 2018:

	Sh.		Sh.
Salaries and wages	280,000	Gross profit	2,300,000
Rent, rates and taxes	150,000	Miscellaneous income	150,000
Office expenses	204,000	Discounts	80,000
Printing and stationery	64,000	Farming income	132,000
Instalment tax paid	45,000	Profit on sale of shares	100,000
Advertising	73,000	Interest on deposits	120,000
Interest on capital:			
Teddy	60,000		
Racheal	70,000		
Michael	80,000		
Legal fees	82,000		
Commission to partners:			
Teddy	45,000		
Michael	35,000		
Depreciation	92,000		
Bad debts	68,000		
General expenses	99,000		
Donation to famine relief	100,000		
General reserve	120,000		
Local taxes on property	12,000		
Electricity	46,000		
Showroom expenses	117,000		
Net profit	<u>1,040,000</u>		
	<u>2,882,000</u>		<u>2,882,000</u>

Additional information:

1. It has been the firm's practice to value the stocks at the cost price, however, the closing stock amounting to Sh.180,000 was valued based on net realisable value which is 10% less of its cost price.
2. Salaries and wages include salaries amounting to Sh.40,000 paid to Racheal.
3. Advertising includes Sh.10,000 spent on advertising campaign to introduce a new product in the market.
4. Legal fees include a sum of Sh.12,000 paid as parking fine and penalty to the county government.
5. Capital allowances have been agreed with the Commissioner of Income Tax at Sh.90,000.
6. Teddy's other income includes Sh.120,000 consultancy fee. He has brought forward partnership business loss of Sh.135,000 from the assessment of the year of income 2017.
7. Racheal has income of Sh.200,000 from bet winnings. She has brought forward partnership business loss of Sh.135,000 from assessment of the year of income 2017.

Required:

- (i) Taxable profit or loss of the partnership for the year ended 31 December 2018. (8 marks)
- (ii) Allocation schedule of profit or loss calculated in (c) (i) above. (2 marks)
- (iii) Total taxable income of each of the partners for the year of income 2018. (2 marks)

(Total: 20 marks)

.....



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: 22 May 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 Annual rates
(Sh.) (Sh.)**

Capital allowance:

Wear and tear allowance:

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

(i) Saloons, Hatch Backs and Estates

Up to	cc	Monthly rates (Sh.)	Annual rates (Sh.)
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 100%

(Ships over 125 tonnes)

(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

Extraction expenditure:

Written off over 5 years (20%)

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

**CA23, CS23, CF23 & CP23 Page 1
Out of 6**

QUESTION ONE

- (a) Budgetary rules exercise effective control over government entities in public spending and accountability.

With reference to the above statement, identify four ways used by the national government to demand budgetary accountability by the government entities. (4 marks)

- (b) Outline four purposes of Public Finance Management Equalization Fund Regulations, 2015. (4 marks)
- (c) Citing three reasons, justify the importance of information contained in the circulars guiding the budget processes for county governments. (6 marks)
- (d) Describe three functions performed by the Internal Auditor-General Department of the National Treasury in conducting internal auditing of government entities. (6 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Outline four contents of information that the National Treasury should include in the financial statements in respect to the Contingencies Fund submitted to the Auditor-General. (4 marks)
- (b) Summarise six benefits of applying e-procurement in the public sector. (6 marks)
- (c) The following transactions were extracted from the ledger balances of Sitima Traders, a registered business for value added tax (VAT) purposes for the month of September 2018:

	Sh.
Purchases at standard rate	487,200
Audit fees	41,760
Exports to Malawi	400,000
Sales at standard rate	1,136,800
Purchases of printing materials	29,000
Fuel for delivery van	78,880
Exempt supplies	280,000
Catering for firm employees	81,200
Entertainment expenses	24,360
Telephone expenses	58,000
Payment of water bill	21,000

Additional information:

- The firm received debit notes valued at Sh.23,200 in respect to erroneous invoices issued by suppliers.
- The firm issued credit notes of Sh.20,880 to credit customers because of price adjustments.
- Goods imported valued at a cost of Sh.500,000 were not recorded; Freight charges was Sh.40,000 and insurance Sh.20,000. Import duty was charged at 25%.
- A debtor of goods valued at Sh.32,480 was declared bankrupt, and the debt written off.
- The firm did not keep proper records for sales and purchases, therefore it was not possible to identify the state of goods sold as exempt.
- All transactions are inclusive of VAT at a rate of 16% where applicable.

Required:

The value added tax (VAT) payable by (or refundable to) Sitima Traders for the month of September 2018. (10 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Outline four categories of goods which are subject to customs control under the Customs and Excise Act. (4 marks)
- (b) Loki Marete purchased an old building for Sh.2,400,000. The legal cost incurred on transfer was Sh.180,000 and the cost of valuation was Sh.160,000. Other costs included replacement of roof of the building at a cost of Sh.360,000 and cost of sewerage system Sh.78,000. The commissioner accepted accumulated industrial building deduction at Sh.282,000. The building was later sold for Sh.5,840,000 after advertising several times in the newspaper at a cost of Sh.246,000.

Required:

The capital gain tax payable by Loki Marete in respect to disposal of the building.

(4 marks)

(c) Halima Ali is a resident individual employed as a finance manager at Motech International Ltd.

She provided the following information relating to her income for the year ended 31 December 2018:

1. Her employment contract indicated the following:

	Sh.
Basic monthly salary	250,000
Monthly hardship allowance	45,000
Monthly responsibility allowance	50,000
Monthly commuter allowance	25,000
2. During the year, she received Sh.90,000 as a bonus for the previous years' reported profits.
3. She made a donation of Sh.50,000 to the National Kidney Fund during the year.
4. She was provided with a fully furnished apartment by the employer. The employer paid a monthly rent of Sh.80,000 and the cost of furniture was Sh.320,000.
5. The employer paid her monthly medical insurance premiums of Sh.5,000 during the year.
6. PAYE deducted from her monthly salary was Sh.68,000.
7. The company provided her with a 2,500cc saloon car on 1 October 2018 for official and private use. The car had been purchased for Sh.1,800,000.
8. She contributed Sh.15,000 per month towards a registered pension scheme.
9. She obtained a mortgage loan for the purpose of constructing her residential house from the National Savings Bank. The loan amount was Sh.4,000,000 with a monthly repayment of Sh.232,000. During the year, the total interest paid on the loan was Sh.144,000.
10. The company has a medical scheme for its managers. She was reimbursed Sh.380,000 during the year in respect of medical bills.
11. During the year, she was voted as the best employee and the company rewarded her with a cash of Sh.60,000.
12. The company paid her son's college fees amounting to Sh.120,000 during the year. This amount was treated as an allowable expense in the company's books of account.

Required:

- (i) Taxable income of Halima Ali for the year ended 31 December 2018. (10 marks)
 - (ii) Tax liability (if any) from the income computed in (c)(i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

(a) Pareto Ltd. has provided the following income statement for the year ended 31 December 2018:

	Sh.	Sh.
Income:		
Gross profit		6,290,000
Dividends (net)	675,000	
Foreign exchange gain	175,000	
Rent received (commercial building)	580,000	
Interest received from Fahari Bank Ltd. (net)	289,000	
Bad debts recovered	370,000	
Insurance claim	785,000	
Profit on sale of equipment	88,000	
Sale of debentures	<u>4,200,000</u>	<u>7,162,000</u>
		13,452,000
Less expenses:		
Salaries and wages	1,450,000	
Increase in provision for bad and doubtful debts	145,000	
Contribution to N.S.S.F.	78,000	
Advertising	710,000	
Stationery	400,000	
Depreciation	280,000	
Subscriptions	1,140,000	
Trading loss	390,000	
Interest	760,000	
Transport	150,000	
Legal costs	<u>365,000</u>	<u>(5,868,000)</u>
		<u>7,584,000</u>

Additional information:

	Sh.	Sh.
1. Dividends comprise:		
Dividends from Beta Ltd.	505,000	
Dividends from Bona Cooperative Society	170,000	
2. Foreign exchange gain comprise:		
Amount of realised foreign exchange gain	125,000	
Amount of unrealised foreign exchange gain	50,000	
3. Bad debts recovered related to:		
Bad debts on sale of furniture	130,000	
Bad debts on credit sale of goods	240,000	
4. Insurance claim related to:		
Insurance compensation on loss of profit	380,000	
Insurance claim on loss of motor vehicle	405,000	
5. Advertising comprise:		
Advertising through daily newspapers	280,000	
Advertising on passenger sheds at bus stops	430,000	
6. Subscriptions related to:		
Annual subscription fee to chamber of commerce and industry		530,000
Subscriptions to employees' sports club		610,000
7. Interest comprise:		
Interest on debentures		580,000
Interest on loan acquired to build commercial rental houses		110,000
Interest on money borrowed to pay tax and penalties		70,000
8. Legal costs comprise:		
Appeal to tax tribunal		155,000
Defending business property rights		120,000
Registration of lease agreement (100 years)		90,000
9. Capital allowances were agreed with the commissioner of revenue authority at Sh.960,000.		

Required:

Adjusted taxable income or loss for Pareto Ltd. for the year ended 31 December 2018.

(10 marks)

- (b) Sawa Industries Ltd. manufactures personal hygiene soaps and related products. The company started operations on 1 April 2018 after incurring the following expenditure:

	Sh.
Factory building	5,200,000
Processing machinery	2,400,000
Furniture and fittings	980,000
Godown	1,800,000
Water pump	360,000
Motor vehicle (saloon)	1,600,000
Computers	450,000
Drainage system	320,000
Staff canteen	960,000

Additional information:

- On 1 May 2018, the company imported a forklift for Sh.1,200,000 before VAT at the rate of 16% and import duty at 25%.
- A sports pavilion was constructed and utilised with effect from 1 October 2018. The total construction cost was Sh.650,000.
- A borehole was drilled at a cost of Sh.680,000 and utilised with effect from 1 November 2018.
- On 2 December 2018, the company acquired the following additional assets:

	Sh.
Photocopier	180,000
Pick-up	1,900,000
Cash registers	120,000
Conveyor belts	780,000
Fax machine	200,000
Office cabinets (wooden)	160,000
Boilers	920,000

5. The saloon car was disposed of for Sh.1,200,000 in October 2018 and replaced with a delivery van costing Sh.1,500,000.
6. Labour quarters were constructed at a cost of Sh.2,600,000 and the employees moved in the houses on 1 October 2018.

Required:

Capital allowances due to Sawa Industries Ltd. for the year ended 31 December 2018.

(10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) The Excisable Goods Management System Regulations require for affixing of excise stamps on every package of excisable goods.

Identify two purposes of these stamps.

(2 marks)

- (b) Discuss three measures that the government has undertaken to help reduce the number of tax appeals proceeding to court.

(6 marks)

- (c) Soi and Timothy are brothers engaged in commercial farming. They have been running Mazao Farm as a partnership sharing profits and losses equally.

The following is Mazao Farm's income statement for the year ended 31 December 2018:

	Sh.	Sh.
Income:		
Sale of fruits		1,050,000
Sale of livestock		1,550,000
Profit on sale of tractor		45,000
Sale of milk		480,000
Insurance claim		510,000
Discount received		80,000
Sale of manure		170,000
Interest received		90,000
Rental income		<u>200,000</u>
		<u>4,175,000</u>
Less expenses:		
Salaries	540,000	
Transport	70,000	
Drawings: Soi	350,000	
Timothy	460,000	
Fertilizers	510,000	
Construction of gabion	120,000	
Purchase of milking machine	200,000	
Subscriptions to agricultural research institute	155,000	
Interest	480,000	
Mulching	60,000	
Fuel	140,000	
Rates	30,000	
Presumptive tax	45,000	
Legal costs	80,000	
Wages	620,000	
Clearing land for planting fruits	210,000	
Depreciation	15,000	
Repairs and maintenance	<u>54,000</u>	<u>(4,139,000)</u>
		<u>36,000</u>

Additional information:

1. Sale of fruits and sale of milk include own consumption of Sh.30,000 and Sh.50,000 for Soi and Timothy respectively.
2. Interest received relates to interest earned from Kenya Post Office Savings Bank (Postbank).
3. Insurance claim is in connection with a partial destruction of the farm house.
4. Salaries relate to salaries paid to partners as follows:

	Sh.
Soi	240,000
Timothy	300,000

5. Rates relate to the rental income from commercial building.
6. Interest expense include interest on capital to partners as follows:

	Sh.
Soi	105,000
Timothy	125,000

7. Legal costs related to:

	Sh.
Tax appeal	35,000
Recovery of bad debts	22,000
Defending Soi for breach of contract	23,000

8. The following farm works were constructed and put to use on 1 July 2018:

	Sh.
Silo	40,000
Irrigation network	75,000
Cattle dip	150,000

9. Interest on drawings was charged at the rate of 10%.

Required:

- (i) Adjusted taxable profit or loss for the year ended 31 December 2018. (8 marks)
- (ii) A schedule showing the distribution of the partner's profit or loss computed in (c)(i) above. (4 marks)
- (Total: 20 marks)**
-

www.somekenya.com



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: 28 November 2018.

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 2017.

Monthly taxable pay (Sh.)		Annual taxable pay (Sh.)		Rate of tax % in each Sh.
I	- 11,180	I	- 134,164	10%
11,181	- 21,715	134,165	- 260,567	15%
21,716	- 32,249	260,568	- 386,970	20%
32,250	- 42,782	386,971	- 513,373	25%
Excess over	- 42,782	Excess over	- 513,373	30%

Personal relief Sh.1,280 per month (Sh.15,360 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	43,200
Class I 37.5%	1201 - 1500 cc	4,200	50,400
Class II 30%	1501 - 1750 cc	5,800	69,600
Class III 25%	1751 - 2000 cc	7,200	86,400
Class IV 12.5%	2001 - 3000 cc	8,600	103,200
Software 20%	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	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

**CA23, CS23, CF23 & CP23 Page 1
Out of 5**

QUESTION ONE

- (a) The Public Finance Management Act requires that all payments from the consolidated fund should be authorised and comply with certain general rules.

With reference to the above statement, outline two ways of authorising payments out of the consolidated fund. (4 marks)

- (b) According to the Public Procurement and Asset Disposal (PPAD) Act, open tendering should be the preferred procurement method for procurement of goods, works and services. The procuring entity may use an alternative procurement procedure only if that procedure is allowed and satisfies the conditions under the Act for use of that method.

(i) With reference to the above statement:

Explain three circumstances under which open tendering might not be appropriate. (6 marks)

(ii) Suggest four methods of procurement as provided under PPAD Act other than the open tendering process. (4 marks)

- (c) Discuss three roles played by the senate or equivalent institution in your country in relation to public finance management. (6 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain the meaning of "Appropriation Act" as provided under the Public Finance Management Act. (2 marks)

- (b) For the past few years, most of the counties revenue generation has stagnated or even declined although the economy's gross domestic product (GDP) has grown within the same period.

Propose four causes to which this underperformance in revenue collection by the counties or similar devolved units in your country could be attributed. (8 marks)

- (c) Bandika Ltd., a company dealing in a variety of value added tax (VAT) designated goods, was registered for VAT purposes on 1 March 2018.

The following transactions were recorded for the month of March 2018:

- March 10: Opening stock 9,200 units valued at Sh.85 per unit.
March 5: Imported 10,000 units at Sh.80 per unit being cost, insurance and freight (CIF).
March 8: Purchased 5,000 units from the local market at Sh.60 per unit.
March 9: Sold 6,000 units at Sh.90 per unit.
March 12: Purchased office furniture for Sh.40,000 for use in the business.
March 15: Paid Sh.10,000 for photocopy and printing of office documents.
March 16: Purchased oil filters and lubricants for use in the factory for Sh.75,000.
March 16: Paid an invoice for Sh.85,000 in respect of fuel for company vehicles, the fuel had been used in February 2018.
March 18: Supplied 30,000 units to a department in the National Treasury at a price of Sh.85 per unit.
March 20: Sold 2,500 units at Sh.90 per unit to a company in Uganda.
March 23: Purchased on credit 2,500 units locally at Sh.80 per unit before deducting a cash discount of 5%.
March 27: The directors' appropriated goods valued at Sh.320,000 which were not paid for.
March 28: Paid electricity expense of Sh.15,000 and telephone expense of Sh.6,000.

All transactions were inclusive of VAT at the rate of 16% where applicable, unless otherwise specified.

Assume the rate of import duty is 20%.

Required:

A value added tax (VAT) account for the month of March 2018 for Bandika Ltd. (10 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Fiscal policy influences both the pattern of economic activities and also the level and growth of aggregate demand, output and employment.

Required:

Summarise four ways through which taxation could be used as a tool of fiscal policy in your country. (8 marks)

CA23, CS23, CF23 & CP23 Page 2
Out of 5

- (b) Beckham Atondo retired as a marketing manager from Bright Insurance Company Limited on 30 September 2017 after serving the company for 20 years and received a lumpsum pension of Sh.1,580,000.

He has provided the following information on his employment and other income for the year ended 31 December 2017:

1. Basic salary and other allowances:

	Sh.
• Basic salary per month	160,000 (Monthly PAYE Sh.42,000)
• Monthly responsibility allowance	42,000
• Bonus paid in June 2017	250,000
• Monthly risk allowance	35,000
2. During his employment, the company paid his monthly electricity, water and telephone bills averaging to Sh.22,000, Sh.18,500 and Sh.16,000 respectively.
3. The company paid Sh.320,000 to cover for Atondo's family life insurance premiums during his employment period in the year ended 31 December 2017.
4. He contributed Sh.18,000 per month towards a registered Home Ownership Saving Plan (HOSP) during his employment period at Bright Insurance Company.
5. In October 2017, he invested half of his pension income in a taxi services business. His records from the taxi services business indicated a net profit of Sh.120,000.
The following expenses had been charged in the books during the three month period for year ended 31 December 2017 relating to the taxi business:

	Sh.
Repairs and maintenance	180,000
Depreciation	60,000
Fuels and lubricants	240,000
Parking fines	42,000
Driver's salaries	64,000
General provision for bad debts	26,000
Licences and registration	60,000
Replacement of car engine	260,000
Motor vehicle inspection	25,000

Required:

- (i) Taxable income of Beckham Atondo for the year ended 31 December 2017. (10 marks)
 - (ii) Tax payable (if any) from the income computed in (b)(i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Highlight two reasons why an importer is required to fill in an import declaration form. (2 marks)

- (b) Morris Kwachu applied for a licence to commence manufacturing business dealing in excisable goods. The Commissioner refused to issue him with a licence.

Advise him on four grounds under which the Commissioner might refuse to issue the applicant with a licence as provided under the Excise Duty Act. (4 marks)

- (c) Benard, Cosmas and Korrir are partners, operating a chain of retail shops. They share profits or losses in the ratio 2:2:1 respectively. During the year ended 31 December 2017, the partners reported a loss of Sh.2,542,000 after deducting the following:

	Sh.
Interest on capital:	
Benard	135,000
Cosmas	135,000
Korrir	215,000
Salaries to partners:	
Benard	400,000
Cosmas	320,000
Korrir	576,000
Motor vehicle repairs	526,000
General repairs and maintenance	120,000
Office and Sundry expenses	260,000
Goodwill impairment	340,000

	Sh.
Loss on disposal of motor vehicle	385,000
Postage and telephone	180,000
Water and electricity	146,000
Subscription to Wananchi Golf Club	105,000
Donations	240,000
Bad debts written off	346,000
Rent, rates and licences	180,000
Accountancy services	325,000
Depreciation	845,000
Purchase of pickup	1,500,000
Transport cost	340,000
Insurance of motor vehicles	520,000

Additional information:

- Office and sundry expenses included cost of office cabinet of Sh.90,000.
- Transport cost included Sh.10,000 per month relating to personal use.
- Provision for bad and doubtful debts account:

	Sh.		Sh.
Bad debts	246,000	General (brought forward)	350,000
Specific (carried forward)	192,000	Specific (brought forward)	152,000
General (carried forward)	<u>390,000</u>	Profit and loss account	<u>346,000</u>
	<u>828,000</u>		<u>828,000</u>

- Wear and tear allowances agreed with the Commissioner amounted to Sh.1,236,000.
- Included in general repairs and maintenance is Sh.80,000 paid for the year 2018.

Required:

- The adjusted partnership profit or loss for the year ended 31 December 2017. (10 marks)
 - Distribution schedule of the profit or loss calculated in (c)(i) above. (4 marks)
- (Total: 20 marks)**

QUESTION FIVE

- State four conditions that must be fulfilled for donations to be allowable deduction for tax purposes. (4 marks)
- Outline four circumstances upon which the Commissioner of Domestic Tax may accept a late notice of objection from a tax payer. (4 marks)
- Chemtech Ltd. was incorporated in March 2017 to manufacture edible oils. The company started its operations in June 2017 after constructing the following structures:

	Sh.
Factory building	2,600,000
Staff canteen	840,000
Drainage system	350,000
Stone perimeter wall	1,200,000
Labour quarters	1,800,000

The following assets were acquired by the company and put in use as from 1 July 2017:

	Sh.
Distribution van	2,300,000
Processing machinery	1,800,000
Furniture and fittings	860,000
Mercedes Benz Saloon (for the director)	3,400,000
Generator	420,000
Pick-up	1,200,000
Heating plant	830,000
Fax machines	180,000
Conveyor belts	650,000
Computers	320,000
Packaging machines	800,000
Two lorries (each 4 tonnes)	4,000,000
Photocopier machine	120,000
Forklift	960,000
Water pump	480,000
Laptop computers	260,000

Additional information:

1. A godown and a sports pavilion were constructed at a cost of Sh.890,000 and Sh.1,200,000 respectively and used with effect from 1 October 2017.
2. The Director's Mercedes Benz was involved in an accident on 11 December 2017 and the insurance company compensated the company Sh.3,000,000 as the write off value.
3. The company sunk a borehole at a cost of Sh.450,000 which was utilised from 1 November 2017.
4. A loading bay and an extension to the factory building were constructed and utilised with effect from 1 September 2017. The loading bay cost Sh.450,000 while the factory extension cost Sh.225,000.

Required:

Capital allowances due to Chemtech Ltd. for the year ended 31 December 2017.

(12 marks)

(Total: 20 marks)

www.somekenya.com



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: 23 May 2018.

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 2017.

Monthly taxable pay (Sh.)		Annual taxable pay (Sh.)		Rate of tax % in each Sh.
1	- 11,180	1	- 134,164	10%
11,181	- 21,715	134,165	- 260,567	15%
21,716	- 32,249	260,568	- 386,970	20%
32,250	- 42,782	386,971	- 513,373	25%
Excess over	- 42,782	Excess over	- 513,373	30%

Personal relief Sh.1,280 per month (Sh.15,360 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	43,200
Class I 37.5%	1201 - 1500 cc	4,200	50,400
Class II 30%	1501 - 1750 cc	5,800	69,600
Class III 25%	1751 - 2000 cc	7,200	86,400
Class IV 12.5%	2001 - 3000 cc	8,600	103,200
Software 20%	Over 3000 cc	14,400	172,800
Industrial building allowance:	(ii) Pick-ups, Panel Vans (unconverted)		
Up to 2009 2.5%	Up to 1750 cc	3,600	43,200
From 1 January 2010 10%	Over 1750 cc	4,200	50,400
Hotels 10%	(iii) Land Rovers/Cruisers	7,200	86,400
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	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

**CA23, CS23, CF23 & CP23 Page 1
Out of 5**

QUESTION ONE

- (a) When the Cabinet Secretary for the National Treasury or equivalent ministry presents the Division of Revenue Bill to Parliament, it should be accompanied by a memorandum explaining various matters.

With reference to the above statement, identify four such matters. (4 marks)

- (b) Outline six functions performed by the Controller of Budget in relation to public finance management. (6 marks)

- (c) Summarise the steps that each public entity should follow under the e-procurement process. (10 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Identify four factors that are considered by the Commission on Revenue Allocation (CRA) or equivalent body while selecting marginalised counties for purposes of allocating the equalisation funds. (4 marks)

- (b) Discuss three functions of the Council of Governors in county financial management. (6 marks)

- (c) Mwanahawa Hamisi is a trader dealing in fast moving consumer goods and electronics. She is duly registered for value added tax (VAT). Details of her business transactions for the month of October 2017 were as follows:

1. Sales during the month:

	Sh.
Standard rate	1,900,000
Zero rated	418,000
Exempt	342,000

2. Customers for the sales at standard rate are offered a 15% discount if they settle within the same month. From past experience, 40% of the customers take advantage of the discount facility.

3. Purchases of goods constituted Sh.1,200,000 made at the standard rate and Sh.500,000 exempt. All the purchases are made in cash.

4. The exempt sales were all from the batch of exempt purchases with some remaining in inventory at the end of the month.

5. During the month, she paid rent for the business premises for the month of October and the remaining portion of the year. The landlord charges Sh.80,000 per month.

6. The business accountant wrote off debts amounting to Sh.280,000 as irrecoverable and made an allowance for specific irrecoverable debts of Sh.11,600 as the portion for that month.

7. During the month, a supplier from whom the business had made purchases of goods worth Sh.292,000 and a customer to whom goods were sold at standard rate in July 2017 and still owed Sh.325,000 were declared bankrupt.

8. A pick-up vehicle was acquired at a cost of Sh.870,000 (inclusive of VAT) for business purposes.

9. At the end of every month, Mwanahawa prepays the electricity for the following month using prepaid meter tokens. This is done by establishing her standard usage for the following month. During the month, she paid Sh.42,500 whereas in the previous month she had paid Sh.38,500.

10. Other expenses paid during the month of October 2017 were as follows:

	Sh.
Telephone	13,200
Audit fee (Tax invoice including VAT)	111,070
Stationery	36,000

11. Mwanahawa made donations to registered charities consisting of Sh.100,000 in cash and Sh.280,000 in form of goods.

12. Closing inventory for the month was valued at Sh.340,000.

(All the above transactions are quoted exclusive of VAT at a rate of 16% where applicable unless otherwise stated).

Required:

The value added tax (VAT) payable by (or refundable to) Mwanahawa Hamisi for the month of October 2017.

(10 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Distinguish between "objection" and "appeal" as used in administration of income tax. (4 marks)

- (b) Outline four disadvantages of a multiple tax system. (4 marks)

- (c) Bonface Huka is a resident individual and a qualified pharmacist who has been employed by Sawa Hospital since his early retirement from the public service in 2016.

The following details were availed to you in respect of his earnings for the year ended 31 December 2017:

1. He received a monthly basic salary of Sh.184,000 from Sawa Hospital. Additional one month's basic salary was paid to him in December 2017 as a bonus. PAYE deducted during the year was Sh.897,600.
2. Pension received from the public service was Sh.540,000 as a lumpsum amount.
3. A commission of Sh.199,000 was paid to him for the promotion of drugs under identified brands during the year.
4. During the year, he was sent to Mombasa for a four day medical conference and was paid daily subsistence allowance of Sh.18,000 by the hospital.
5. He has a fixed deposit account of Sh.1,500,000 at the Broad Bank Ltd. from which he received an interest of Sh.105,000 during the year.
6. He has a life insurance policy where he contributes 40% of the premiums. while the employer contributes 60%. Annual premiums as per the insurance policy during the year was Sh.460,000.
7. He was provided with a saloon car of 2000 cc by the hospital for personal and official duties on 1 July 2017. The saloon car had an initial cost of Sh.2,800,000.
8. The hospital has a medical cover for all staff. He was entitled to a maximum cover of Sh.180,000 per annum while he utilised Sh.74,000 on medical bills during the year.
9. During the year, he was provided with a house. The market value of the house was Sh.120,000 per month and he contributed Sh.20,000 per month as nominal rent.
10. During the year, the hospital settled his bills as follows: telephone Sh.68,000. water Sh.18,200 and electricity Sh.24,600.
11. The hospital contributed 5% of his basic salary towards a registered pension scheme while he contributed an equal amount to the scheme.
12. The hospital paid subscription fees on his behalf to the Pharmacy and Poisons Board amounting to Sh.54,000 during the year.
13. He was reimbursed private entertainment expenses of Sh.120,000 by the hospital during the year.

Required:

- (i) Taxable income for Bonface Huka for the year ended 31 December 2017. (10 marks)
 - (ii) Tax payable (if any) on the income computed in (c)(i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) The following information was extracted from the books of Fanaka Ltd. for the year ended 31 December 2017:

	Sh.
Sales	4,800,000
Purchases	1,100,000
Bad debts recovered	540,000
Rent received (commercial premises)	280,000
Dividends received (Mkopo Ltd.)	100,000 (net)
Interest received (Hekima Bank Ltd.)	340,000 (net)
Discount allowed	54,000
Discount received	133,000
Salaries	960,000
Electricity	180,000
Advertising	395,000
Provision for bad debts	45,000
Subscriptions to a trade association	65,000
Audit fees	168,000
Legal fees	139,500
Car hire expenses	420,000
Purchase of machinery	1,600,000
Loss of stock	530,000
Installation of machinery	42,000
Foreign exchange gain (realised)	232,000
Donations to a political party	1,050,000
General expenses	52,000

Additional information:

1. Opening stock and closing stock were valued at Sh.912,000 and Sh.840,000 respectively.
2. Included in the sales figure was a sale of Sh.928,000 that was inclusive of VAT at the rate of 16%, while the other sales were recorded net of VAT.
3. Advertising includes an amount of Sh.195,000 spent in the erection of a bill board.
4. Loss of stock includes Sh.120,000 relating to insured stock.

5. Two thirds of the bad debts recovered relate to bad debts which were previously written off from the company's books.
6. Legal fees relate to the following:

	Sh.
Conveyance of land	42,000
Trade dispute	27,000
Breach of contract	36,500
Preparation of employment contracts	34,000

Required:

Adjusted taxable income for Fanaka Ltd. for the year ended 31 December 2017. (8 marks)

- (b) Zuret Products Ltd. which is engaged in the business of manufacturing and selling of canned fish commenced its operations on 1 January 2014 after incurring the following expenditure:

	Sh.
Land	4,800,000
Processing machinery	3,200,000
Factory buildings	2,800,000
Staff canteen	860,000
Generator	250,000
Labour quarters	3,600,000
Staff clinic	960,000

Details of property, plant and equipment schedule reflected the following as at 31 December 2017:

Assets	Written Down Value 1 January 2017	Additions during the year (at cost)	Depreciation for the year	Disposal proceeds during the year
	Sh.	Sh.	Sh.	Sh.
Computers	525,000	345,400	131,250	250,000
Water pump	-	280,000	56,000	-
Furniture	360,000	140,000	82,000	-
Conveyor belts	-	960,000	-	-
Delivery vans	2,500,000	1,420,000	180,000	620,000
Cash registers	620,000	-	58,000	-
Printers	120,000	60,000	42,000	-
Tractors	2,500,000	1,800,000	360,000	-
Motorcycles	380,000	-	68,000	-
Packaging machine	-	860,000	-	-
Non-processing machinery	960,000	-	62,000	-

Additional information:

- A perimeter wall was constructed at a cost of Sh.960,000 during the year ended 31 December 2017.
- A godown and a drainage system were constructed at a cost of Sh.2,860,000 and Sh.1,780,000 respectively and put into use on 1 October 2017.
- The company constructed a borehole at a cost of Sh.1,500,000 during the year which was put in use on 1 July 2017.

Required:

Capital allowances due to Zuret Products Ltd. for the year ended 31 December 2017. (12 marks)
(Total: 20 marks)

QUESTION FIVE

- (a) Highlight four circumstances under which duty paid on imported goods may be refunded by the commissioner. (4 marks)
- (b) Argue four cases against capital gains tax or equivalent tax in your country. (4 marks)
- (c) Chege and Telek have been partners trading as Chetel Traders. On 1 September 2017, they admitted Lopez in the business and changed the partnership name to Chetelop Traders. Prior to the admission of Lopez, the profit and loss sharing ratio was 2:3 between Chege and Telek respectively. However, with the admission of Lopez, they revised the profit and loss sharing ratio to 2:3:1 for Chege, Telek and Lopez respectively.

The partners have presented the following income statement for the year ended 31 December 2017:

Income	Sh.	Sh.
Gross profit		4,500,000
Foreign exchange gain		234,000

	Sh.	Sh.
Interest on bank deposit (net)		90,000
Insurance compensation for stolen vehicle		300,000
Profit on disposal of computers		<u>160,000</u>
		5,284,000

Expenditure

General expenses	2,625,000	
Salaries and wages	1,800,000	
Interest on capital: Chege	120,000	
Telek	105,000	
Lopez	22,500	
Legal expenses	365,625	
Loss on sale of assets	11,400	
Stamp duty on lease agreements	6,120	
Licenses and permits	10,800	
Subscriptions to trade association	42,000	
Conveyance fees	112,500	
Rent and rates	180,000	
Mortgage interest	180,000	
Repairs on computers	45,000	
Furniture purchased (cost)	63,000	
Bank charges	60,000	
Repair and maintenance	560,000	
Bad and doubtful debts	123,750	
Depreciation	<u>193,400</u>	<u>(6,626,095)</u>
Net profit (loss)		<u>(1,342,095)</u>

Additional information:

1. General expenses comprise:

	Sh.
Embezzlement by a cashier	900,000
Staff christmas party	600,000
Replacement of car engine	105,000
Partition of an office	450,000
Partners private insurance policy	570,000

2. Salaries and wages include Sh.525,000, Sh.600,000 and Sh.235,000 paid to Chege, Telek and Lopez respectively.

3. Mortgage interest relates to a partner's residential house.

4. Assume that the income accrued evenly throughout the year.

5. Legal expenses comprise:

	Sh.
Parking fines paid to county government	11,400
Legal fees for breach of contract	150,000
Drafting a tender document	13,500
Drafting a lease agreement (100 years)	6,750
Defending a partner in a tax case	9,000
Legal cost of debt collection	174,975

6. Repair and maintenance costs comprise:

	Sh.
Purchase of weighing scale	252,000
Installation of CCTV cameras	224,000
Fixing a leaking roof	84,000

7. Bad and doubtful debts comprise:

	Sh.
Specific bad debts	74,250
General provision	49,500

8. Capital allowance was agreed with the commissioner of revenue authority at Sh.260,800.

Required:

(i) Adjusted taxable profit or loss for the partnership for the year ended 31 December 2017. (8 marks)

(ii) Allocation of profit or loss to the partners. (4 marks)

(Total: 20 marks)



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: 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.)
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 (Ships over 125 tonnes)	100%	
Extraction expenditure:		
Written off over 5 years (20%)		
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

(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
-------	--------

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		Sh.	Payment date
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
	: Sale of private customised landrover at a profit	120,000
Capital gain		

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		(1,270,000)

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	<u>1,574</u>	<u>(12,547)</u>
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)

.....

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: 24 May 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.
I	- 10,164	I	- 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:			
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 buildings	50%		
From 1 January 2010-			
Commercial building:			
(Shop, office or show room)	25%		
Farm works allowance	100%		
Investment deduction allowance	100%		
Shipping investment deduction	40%		
Mining allowance:			
Year 1	- 40%		
Years 2 - 7	- 10%		
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 THREE

- (a) Explain the meaning of the term "time of supply" in relation to excisable services. (2 marks)
- (b) Summarise four categories of goods that are subject to customs control as provided in the East African Community Customs Management Act (EACCMA) or equivalent legislation. (4 marks)
- (c) Bakahari and Kamanda trade as Bakar Associates providing accounting and taxation services. They share profits and losses equally after charging an interest of 10% on capital contributions. The capital contributions were Sh.3,000,000 and Sh.2,500,000 for Bakahari and Kamanda respectively.

The firm's income statement for the year ended 31 December 2016 was as follows:

Income:	Sh.	Sh.
Accounting and advisory fees		2,400,000
Rental property income		380,000
Tax consultancy fee		1,800,000
Profit on sale of old computers		<u>260,000</u>
		4,840,000
Expenses:		
Administrative expenses	420,000	
Partner's private insurance policies	960,000	
Depreciation	140,000	
Salaries and wages	850,000	
Bad debts written off	260,000	
Legal and audit fees	120,000	
Computer software	60,000	
Rental expenses	90,000	
VAT paid	360,000	
Office stationery	150,000	
General expenses	280,000	
Office partitions	<u>82,000</u>	<u>(3,772,000)</u>
Net profit		<u>1,068,000</u>

Additional information:

- Rental expenses relate to the partnership's rental houses in the city suburb from which the firm earns income.
- Legal and audit fees include Sh.40,000 as fines paid to the county government for negligence of duty.
- Salaries and wages include partner's salaries as follows:

	Sh.
Bakahari	220,000
Kamanda	130,000

- Bad debts written off comprised:

	Sh.
General provision	82,000
Trade bad debts written off	118,000
Specific provision for bad debts	<u>60,000</u>
	<u>260,000</u>

- General expenses comprise:

	Sh.
Drafting tender documents	50,000
Purchase of computers	140,000
Stamp duty on lease agreements (rental premises)	18,000
Staff catering costs	<u>72,000</u>
	<u>280,000</u>

Required

- Adjusted taxable profit or loss for the partnership for the year ended 31 December 2016. (10 marks)
 - A schedule showing the distribution of the partner's profit or loss calculated in (c)(i) above. (4 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) During a tax seminar, a facilitator noted that "one of the current challenges facing the revenue authority is failure to collect the targeted revenue set out in the national budget".

Summarise four measures undertaken by the revenue authority to enhance revenue collection in your country.(4 marks)

- (b) Argue four cases against indirect taxes imposed in your country. (4 marks)

- (c) Philip Kitcher is employed as a sales manager by Salama Company Ltd. He has provided the following information relating to his income for the year ended 31 December 2016:

1. Basic salary Sh.250,000 per month (PAYE Sh.38,500 per month).
2. He is housed by the employer in a fully furnished house (cost of furniture Sh.280,000). The market rental value of the house is Sh.45,000 per month.
3. He was provided with a company car, 2200 cc which cost the company Sh.2,000,000 in 2014. It is estimated that 75% of the mileage covered by the car related to official duties.
4. The employer has a medical scheme for top managers. The employer paid a medical bill of Sh.520,000 for Philip's 10 year old daughter during the year.
5. He received 20,000 shares from the company at a price of Sh.30 per share. The par value per share is Sh.32 while the market price at the time was Sh.39 per share.
6. On 1 July 2016, he received a construction mortgage loan of Sh.3,000,000 at an interest rate of 10% per annum from Mjengo Housing Finance Company to construct a residential house. He constructed the residential house and moved in on 1 September 2016.
7. He received a bonus of 3% of his basic pay during the year for exemplary performance.
8. The company paid his son's school fees amounting to Sh.240,000 for the year. This amount was treated as an allowable expense in the employer's books of account.
9. He contributed Sh.32,000 towards a registered pension scheme.
10. On 1 May 2016, he started an auto spares shop. The shop made a net loss of Sh.200,000 during the year. This was after deducting the cost of fixtures Sh.80,000, salary to his son who operated the shop Sh.60,000 and operating expenses Sh.180,000.
11. He earned professional fees of Sh.95,000 (net) from his part-time practice.

Required:

- (i) Taxable income of Philip Kitcher for the year ended 31 December 2016. (10 marks)
- (ii) Tax liability (if any) from the income computed in (c) (i) above. (2 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) The imposition of penalties under various tax legislation is meant to achieve certain objectives.

In relation to the above statement:

- (i) Identify two objectives of imposing tax penalties. (2 marks)
- (ii) Assess two circumstances under which the imposition of penalties might not achieve the intended objectives. (2 marks)

- (b) Outline four circumstances under which value added tax (VAT) could be refunded. (4 marks)

- (c) Kiwanda Ltd. commenced manufacturing leather bags on 2 January 2015 after incurring the following expenditure:

	Sh.
Factory building	5,800,000
Processing machinery	2,140,000
Computers	480,000
Conveyor belts	300,000
Staff canteen	1,800,000
Delivery vans	5,200,000
Sewerage system	1,600,000
Warehouse	600,000
Heating plant	1,750,000
Sports pavilion	800,000
Loose tools	120,000

The company purchased the following assets on 1 May 2016:

	Sh.
Furniture	280,000
Toyota Land Cruiser (for the Director)	3,200,000
Packaging machine	1,500,000
Saloon car	1,800,000
Boilers	960,000
Yamaha motor cycles	220,000
Scanners	140,000
Wheel barrows	360,000

Additional information:

1. A staff clinic was constructed at the cost of Sh.2,600,000 and utilised with effect from 1 October 2016.
2. One of the delivery vans was involved in an accident on 3 February 2016 and was written off. The insurance company paid Sh.1,400,000 as full compensation on 10 December 2016.
3. A borehole was drilled at a cost of Sh.800,000 and utilised with effect from 1 July 2016.
4. The company constructed a factory extension at a cost of Sh.1,200,000. The extension was put in use on 1 March 2016 after a power generator costing Sh.380,000 was installed.

Required:

Capital allowances due to Kiwanda Ltd. for the year ended 31 December 2015 and 2016.

(12 marks)

(Total: 20 marks)

.....

www.someakenya.com

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: 23 November 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	43,200
Class I 37.5%	1201 1500 cc	4,200	50,400
Class II 30%	1501 1750 cc	5,800	69,600
Class III 25%	1751 2000 cc	7,200	86,400
Class IV 12.5%	2001 3000 cc	8,600	103,200
Software 20%	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%
--	------

(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
----------------------------	-------	--------

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

**CA23, CS23, CF23 & CP23 Page 1
Out of 5**

QUESTION ONE

(a) Explain the following terms as used in public finance management:

(i) Vote. (2 marks)

(ii) County government linked corporation. (2 marks)

(b) Discuss three responsibilities of the Senate Budget Committee with regard to public finance. (6 marks)

(c) The purpose of the Intergovernmental Budget and Economic Council is to provide a forum for consultation and cooperation between the national and county governments on various issues.

With reference to the above statement, summarise five issues for consultation between the national and county governments as envisaged in the Public Finance Management Act. (10 marks)

(Total: 20 marks)

QUESTION TWO

(a) The National Treasury is expected to prepare and submit financial statements each year to the Auditor General in respect of the Contingencies Fund.

With reference to the above statement, highlight four contents of the financial statements prepared for the Contingencies Fund. (4 marks)

(b) Propose three committees that should be established by a county procuring entity to ensure that procurement and asset disposal decisions are made in a systematic and structured manner. (6 marks)

(c) Mark Malechi is a registered trader for VAT purposes. He has provided you with the following details of his trading activities for the month of May 2016:

1. He sells goods on both cash and credit terms. The credit terms are 30 to 60 days, 61 to 90 days and 91 to 120 days. Any debt beyond 120 days is written off as bad.

2. His sales during the month of May 2016 were as follows:

	Sh.
Cash sales	900,000
Credit sales: 30 – 60 days	920,000
61 – 90 days	1,840,000
91 – 120 days	632,000

3. Debts of the firm are collected by an agent who charges Sh.160,000 per month. For debts aged over 120 days, Mark hires a lawyer to enforce collection. The legal fee for the month of May 2016 was Sh.300,000.

4. Goods worth Sh.280,000 were delivered to a customer in May 2016. The customer had paid for the goods in April 2016.

5. During the last several years, he had written off bad debts as follows:

Year ending 31 December:	Sh.
2015	316,000
2014	245,000
2013	198,000
2012	232,000

6. During the month an extension to the business premises was constructed for which the contractor charged Sh.3,000,000.

7. He made a donation to Watoto Children's Home that comprised of goods worth Sh.480,000 and cash Sh.100,000.

8. A bad debt written off in year 2011 of Sh.90,000 was recovered during the month of May 2016.

9. He imported a pick-up motor vehicle for use in the business during the month. The cost details of the motor vehicle were as follows:

	Sh.
Purchase cost	700,000
Customs duty	70,000
Excise duty	140,000
Logistics costs	200,000
Insurance cost	180,000

• 40% of logistics costs related to freight for the vehicle and the balance was a clearing agent's fee.

• 25% of insurance cost was for insurance in transit and the rest was for third party insurance cover.

10. Purchases of goods amounted to Sh.1,500,000 during the month.

11. A customer returned goods worth Sh.68,000 and was issued with a credit note during the month.
12. A credit customer with a debt of Sh.120,000 and a cash customer for goods worth Sh.390,000 were declared bankrupt during the month.
13. A trusted customer was invoiced in May 2016 for goods worth Sh.150,000 which he would collect and pay for in June 2016.
14. He exported goods to Tanzania amounting to Sh.1,300,000.
15. He paid the following expenses during the month; Sh.260,000 to an advertising company. Sh.180,000 for telephone and Sh.74,000 for electricity.

All the above transactions are quoted inclusive of VAT at the rate of 16% where applicable.

Required:

The VAT payable or refundable to Mark Malechi for the month of May 2016.

(10 marks)

(Total: 20 marks)

QUESTION THREE

(a) Explain the following theories of tax shifting:

- (i) Diffusion theory. (2 marks)
- (ii) Demand and supply theory. (2 marks)
- (iii) Concentration theory. (2 marks)

(b) Peterson Menza is employed by Heli Foundation, a charitable Non-governmental organisation (NGO) that has been issued with a tax exemption certificate by the commissioner of domestic taxes. He has provided the following information relating to his income for the year ended 31 December 2015:

1. Basic salary Sh.150,000 per month (PAYE Sh.36,000 per month).
2. He was provided with a fully furnished house by the employer. The market rental rate for similar houses is Sh.18,000 per month. The employer deducts 3% of his basic pay towards maintenance of the house. The furniture had cost Sh.200,000 in year 2012.
3. He was provided with a company car of 1900cc, which had been purchased in year 2013 at a cost of Sh.800,000. During the year, he used out-of-pocket cash to fuel the car on official use for which he was reimbursed Sh.120,000.
4. He contributed Sh.22,000 per month towards a registered provident fund, and a further Sh.10,000 per month towards an unregistered pension scheme. The employer contributed an equal amount to both schemes for him.
5. The employer reimbursed him Sh.200,000 for medical expenses he incurred during the year. There is a medical scheme that covers all employees.
6. He contributes Sh.5,000 per month to a registered home ownership savings plan (HOSP).
7. During the year 2015, he was paid an entertainment allowance of Sh.6,000 per day for 20 days that he was away on official duty.
8. He has a life insurance cover for self and family for which he paid premiums of Sh.440,000 per annum.
9. He has a farming business which generated a net surplus of Sh.240,000 during the year.
10. He holds Sh.4,000,000 in a fixed deposit account which earned him an interest of Sh.60,000 during the year.
11. He earned Sh.200,000 interest from housing development bonds.
12. He received dividend income of Sh.30,000 net from Bidii Cooperative Bank and Sh.67,200 gross from Busala Cooperative Society Ltd.

Required:

- (i) Taxable income for Peterson Menza for the year ended 31 December 2015. (10 marks)
 - (ii) Tax payable (if any) on the income computed in (b) (i) above. (2 marks)
 - (iii) Comment on any information not used in your computations under (b) (i) and (b) (ii) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

(a) With reference to Tax Procedure Act 2015, outline the penalties that arise from the following offences:

- (i) Failure to submit a tax return by the due date. (2 marks)
- (ii) Failure to keep, retain or maintain documents required for a reporting period without a reasonable cause. (2 marks)
- (iii) Tax avoidance or fraudulent claim for a refund. (2 marks)

- (b) Ziwani Ltd. is a company registered on 1 January 2015 whose main business is the growing of sugarcane and processing sugar for the local market.

The company's income statement for the year ended 31 December 2015 indicated the following:

	Sh.	Sh.
Sale of sugar		10,200,000
Sale of molasses		2,400,000
Profit on disposal of a tractor		560,000
Discount received		180,000
Dividends from Ukulima Co-operative Ltd.		<u>1,200,000</u>
		14,540,000
Expenses		
Cost of cane from growers	3,860,000	
Salaries and wages	1,250,000	
Depreciation charges	120,000	
Billboards for advertising	250,000	
Machines and motor vehicles repairs	620,000	
VAT on supplies	1,800,000	
Directors emoluments	1,500,000	
Legal fees	<u>960,000</u>	(10,360,000)
Net profit		<u>4,180,000</u>

Additional information:

1. Legal fees comprised the following:

	Sh.
Parking fines	120,000
Collection of debts from customers	150,000
Stamp duty on land	480,000
Settling a dispute with a customer	<u>210,000</u>
	<u>960,000</u>

2. Machines and motor vehicles repairs include Sh.280,000 spent on the purchase of conveyor belts during the year.
3. During the year the company acquired the following assets:

Asset	Cost Sh.	Date of purchase and use
Computers	820,000	2 March 2015
Water pump	480,000	1 January 2015
Furniture	250,000	2 January 2015
Sugar processing machine	6,200,000	3 January 2015
Tractors	8,900,000	2 February 2015
2 saloon cars	4,800,000	10 May 2015
Heating plant	2,300,000	2 January 2015
Pick-up motor vehicles	8,600,000	5 January 2015

4. The tractor disposed of during the year had cost Sh.2,200,000 at the beginning of the year.
5. The company constructed a factory building at a cost of Sh.8,600,000 which was utilised with effect from 5 January 2015. The factory building included the showroom and a retail shop constructed at the cost of Sh.1,200,000 and Sh.960,000 respectively.
6. A godown and staff quarters were constructed at a cost of Sh.2,860,000 and Sh.1,620,000 respectively and put into use from 1 October 2015.

Required:

- (i) Capital allowances due to Ziwani Ltd. for the year ended 31 December 2015. (8 marks)
- (ii) A statement of adjusted taxable profit or loss for Ziwani Ltd. for the year ended 31 December 2015. (6 marks)
(Total: 20 marks)

QUESTION FIVE

- (a) As a tax dispute resolution mechanism, a tax payer who is not satisfied with the commissioner's decision regarding his objection, has a right to appeal to the local committee.

In relation to the above statement, highlight four instances when a taxpayer can appeal to the local committee.

(4 marks)

- (b) Outline four recent measures introduced by the government of your country to prevent dumping of imported goods into your country. (4 marks)
- (c) Loise Lubandi is a sole trader, operating as Loy Traders. She did not maintain proper accounting records, but has provided the following information relating to her income and expenditure for the year ended 31 December 2015:

Summary of cash transactions for the year ended 31 December 2015:

Receipts	Sh.	Payments	Sh.
Balance brought down	861,600	Trade payables	1,005,200
Trade receivables	1,226,200	Cash purchase	1,620,800
Cash sales	1,620,000	Salary and wages	1,660,400
Commission received	124,000	Rates and insurances	320,800
Capital	1,000,000	Medical bills (self)	28,000
		Transport	56,400
		Bank charges	3,000
		General expenses	145,400
		Loan interest	120,000
		New motor vehicle	600,000
		Drawings	72,000

Summary of assets and liabilities as at 1 January 2015 and 31 December 2015:

	1 January 2015	31 December 2015
	Sh.	Sh.
Furniture - written down value (WDV):	120,000	?
Motor vehicle - (WDV)	960,000	?
Trade payable	985,000	1,180,000
Inventory	1,241,600	1,480,600
Trade receivables	781,000	821,400
Salary and wages due	184,000	150,000
Prepaid rates	50,000	72,000
Commission received in advance	80,000	136,000
Capital	727,600	-

Additional information:

- Discount allowed and discount received during the year amounted to Sh.50,600 and Sh.151,200 respectively.
- During the year she took goods for free from the business worth Sh.100,000 for her own use.
- Depreciation was ascertained as follows:
Motor vehicle 25% per annum on book value.
Furniture 12.5% per annum on book value.
- Bad debts written off during the year amounted to Sh.72,000.

Required:

- (i) The taxable income for Loise Lubandi for the year ended 31 December 2015. (10 marks)
- (ii) Tax payable (if any) by Loise Lubandi. (2 marks)
- (Total: 20 marks)**
-

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:		
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 (Ships over 125 tonnes)	100%	
	(i) Saloons, Hatch Backs and Estates	
	Up to 1200 cc	3,600
	1201 - 1500 cc	4,200
	1501 - 1750 cc	5,800
	1751 - 2000 cc	7,200
	2001 - 3000 cc	8,600
	Over 3000 cc	14,400
	(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

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

CA23, CS23, CF23 & CP23 Page 1
Out of 4

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>	
Net profit		<u>(6,929,000)</u> <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)**
-

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

TUESDAY: 24 November 2015.

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 2014.

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:		
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 buildings	50%	
From 1 January 2010-		
Commercial building:		
(Shop, office or show room)	25%	
Farm works allowance	100%	
Investment deduction allowance	100%	
Shipping investment deduction	40%	
Mining allowance:		
Year 1	40%	
Years 2 - 7	10%	

(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) Outline four benefits of an effective tax policy to an economy. (4 marks)
- (b) Discuss four roles played by the Controller of Budget in the budgeting process in your country. (8 marks)
- (c) One of the challenges facing developing countries is how to finance their budget deficits. This problem is further compounded by the fact that some alternatives of financing the deficit might negatively impact on the country's economy.

Required:

Citing one disadvantage in each case, explain four measures that a government could undertake to finance a budget deficit. (8 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Distinguish between "consolidated fund" and "contingencies fund". (4 marks)
- (b) Describe six roles of the Commission on Revenue Allocation. (6 marks)
- (c) In the context of the Public Procurement and Disposal Legislation:
- (i) Outline four recognised methods of disposing stores and equipment. (4 marks)
- (ii) Summarise three criteria that a person is required to satisfy in order to qualify for an award of procurement contract. (6 marks)

(Total: 20 marks)

QUESTION THREE

- (a) List four non taxable benefits that an employee might receive from the employer. (4 marks)
- (b) Suggest four areas that a tax officer should pay attention to in the audit of a pay as you earn (PAYE) system. (4 marks)
- (c) Jorum Bundi is employed as the manager in charge of human resource at Fanaka Limited. He has provided the following information relating to his income for the year ended 31 December 2014:
1. Basic salary of Sh.150,000 per month. (Monthly PAYE was Sh.30,000).
 2. He was given an annual clothing allowance of Sh.91,000 for purchase of office attire appropriate for his position. He also earned a management monthly allowance of Sh.2,500 for attending meetings from 1 April 2014 to the end of the year.
 3. The company provided him with a saloon car of 3,000cc. The car had cost the company Sh.2,500,000 in 2012. Depreciation policy on motor vehicles is at the rate of 10% per annum on cost.
 4. He was provided with a company house leased at Sh.25,000 per month. A nominal rent equivalent to 8% of his monthly basic salary was deducted by the company to cater for the rent.
 5. The education fees for his two daughters amounting to Sh.100,000 were paid by the company during the year. This amount was charged to the company's income statement.
 6. Jorum Bundi has a life insurance policy for self and family for which he pays total annual premiums of Sh.150,000.
 7. He is contemplating purchasing a residential house in the near future. During the year, he invested Sh.250,000 in a registered home ownership savings plan from which he earned an interest of Sh.10,000.
 8. He contributed Sh.25,000 per month towards a registered pension scheme.
 9. His private telephone charges averaging Sh.2,500 per month were paid by the company.
 10. He earned interest income of Sh.150,000 during the year from his investments in housing development bonds.
 11. In the month of November 2014, he received a bonus of Sh.75,000 from the employer for good performance.
 12. Jorum Bundi reported a gross income of Sh.900,000 for the year ended 31 December 2014 from his pig rearing farm. This was before deducting the following expenditure:

	Sh.
Purchase of pig feed	205,000
Wages to farm labourers	80,000
Purchase of a plastic water tank	11,000
Salary for farm manager	150,000
Farmhouse renovation costs	65,000

Required

- (i) Taxable income of Jorum Bundi for the year ended 31 December 2014. (10 marks)

(ii) Tax liability (if any) from the income computed in (c) (i) above.

(2 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Identify four areas designated as customs areas under the Customs and Excise Act.

(4 marks)

(b) Highlight four qualifying costs for tax purposes under mining business.

(4 marks)

(c) Pesa Ltd., commenced manufacturing on 1 January 2014 after incurring the following capital expenditure:

	Sh.
Factory buildings (note 1)	8,000,000
Processing machinery	2,400,000
Saloon car	2,800,000
Neon advertising sign	48,000
Computers	150,000
Delivery van	960,000
Furniture and fittings	200,000
Water tank	90,000
Water pump	40,000
Computer software	120,000
Lorry (3 tonnes)	2,750,000

Additional information:

1. Factory buildings include: a dwelling house of Sh.1,180,000 and a commercial building comprising an office of Sh.1,200,000, a shop of Sh.800,000 and a showroom of Sh.600,000.
2. Processing machinery excludes an interest on loan of Sh.240,000 paid for a loan of Sh.2,000,000 used to acquire the machinery, and installation costs amounting to Sh.60,000.
3. The saloon car was disposed of on 1 December 2014 for Sh.1,800,000.
4. A staff canteen constructed during the year at a cost of Sh.840,000 was put into use on 1 September 2014.
5. A section of workers quarters burned down by fire had been renovated at a cost of Sh.1,500,000. The remaining section which was not affected by the fire had been valued by an insurance company at Sh.1,000,000. The workers quarters were reoccupied on 1 October 2014.

Required:

Capital allowances due to Pesa Ltd. for the year ended 31 December 2014.

(12 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Propose four benefits that might arise from tax amnesty declared by the revenue authority.

(4 marks)

(b) Summarise six obligations of a registered person for value added tax (VAT) purposes.

(6 marks)

(c) The following transactions were extracted from the books of Info Link Communications Ltd., for the month ended 30 April 2015. The company is registered for VAT.

- 2 April: Purchased goods from Mambo Enterprises on credit worth Sh.1,800,000.
- 2 April: Purchased office furniture for Sh.720,000 from Excel Furniture Mart.
- 3 April: Sold goods worth Sh.860,000 to Ken Link Communications Ltd. on credit.
- 4 April: Purchased spare parts for motor vehicles worth Sh.230,000.
- 5 April: Returned office furniture worth Sh.180,000 to Excel Furniture Mart and was issued with a debit note of the same amount.
- 6 April: Goods worth Sh.120,000 were found to be defective and Ken Link Communications Ltd., returned them.
- 9 April: Purchased goods worth Sh.2,400,000 from Japan, exclusive of import duty of 15% and VAT at the rate of 16%.
- 10 April: Sold goods for cash worth Sh.3,200,000.
- 12 April: Exported goods worth Sh.4,200,000 to Annex Enterprises Ltd., in Rwanda.
- 16 April: Paid catering expenses worth Sh.160,000.
- 18 April: Imported goods worth Sh.1,600,000 from India exclusive of import duty of 25% and VAT at the rate of 16%.
- 20 April: Renovated the existing buildings at a cost of Sh.800,000.
- 22 April: Paid rent and rates amounting to Sh.490,000.
- 24 April: Exported goods worth Sh.2,400,000 to South Africa.
- 28 April: Sold goods worth Sh.980,000 to Vista Communications Ltd. in cash.
- 29 April: Hired a taxi to transport staff and paid Sh.9,000.

30 April: Paid the following expenses for the month of April 2015.

	Sh.
Water bill	30,000
Salaries and wages	2,800,000
Telephone bill	48,000
Electricity bill	180,000

The above transactions are stated inclusive of VAT at the rate of 16% where applicable and unless otherwise stated.

Required:

The VAT payable by or refundable to Info Link Communications Ltd., for the month of April 2015. (10 marks)
(Total: 20 marks)

.....

www.someakenya.com

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

PILOT PAPER

September 2015.

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 2014.

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:		
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 buildings	50%	
From 1 January 2010-		
Commercial building:		
(Shop, office or show room)	25%	
Farm works allowance	100%	
Investment deduction allowance	100%	
Shipping investment deduction	40%	
Mining allowance:		
Year 1	40%	
Years 2 - 7	10%	
(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

	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

CA23, CS23, CI23 & CP23 Pilot Paper Page 1 Out of 5

Rent and rates	240,000	
Salaries to partners: Carter	180,000	
Mortgage interest	240,000	
Repairs on computers	60,000	
Furniture purchased (cost)	84,000	
Bank charges	80,000	(7,845,260)
Reported loss		<u>(452,660)</u>

Additional information:

1. General expenses comprise:

	Sh.
Embezzlement by accountant	1,200,000
Staff Christmas party	800,000
Amount paid to retrenched staff	760,000
Replacement of car engine	140,000
Partition of an office	<u>600,000</u>
	<u>3,500,000</u>

2. Salaries and wages include Sh.700,000 and Sh.800,000 paid to Asafa and Bon respectively during the year.

3. Interest on capital was provided at 45% of the capital contributions.

4. Legal expenses include:

	Sh.
Parking fines paid to county government	15,200
Legal fees for breach of contract	200,000
Drafting of tender documents	18,000
Drafting of lease agreements (99 years)	9,000
Defending a partner in a tax case	12,000
Legal cost of debt collection	233,300

5. Mortgage interest relates to a partner's residential house.

6. Assume that the income accrued evenly throughout the year.

7. Ignore capital allowances.

Required:

(i) The adjusted partnership profit or loss for the year ended 31 December 2014. (9 marks)

(ii) Allocation of the profits or losses in (c) (i) above to the partners. (4 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Outline any five specified sources of income as detailed in Section 3 (2) of the Income Tax Act. (5 marks)

(b) Compare and contrast the provisions of the Income Tax Act as relates to "Wear and Tear" and "Farm Works Deduction".

Your analysis should be guided by the following key aspects:

(i) Acquisition of items previously used by another person for the same qualifying business.

(ii) New items acquired during the year of income. (4 marks)

(c) Hal Meat Processing Company (HMPC) was established on 1 January 2014 to process meat products for the local market. The company incurred the following costs in constructing relevant structures which were utilised from 1 January 2014:

	Sh.
Factory building	72,000,000
Labour quarters	24,000,000
Show room	950,000
Staff recreation facility	4,500,000
Retail shop	700,000
Perimeter wall	1,550,000
Administrative offices	1,600,000
Driveway	800,000

Sports pavilion	2,600,000
Drainage system	900,000
Loading bay	1,200,000
Weigh bridge	600,000

Additional information:

- A borehole was drilled at a cost of Sh.1,300,000 and utilised with effect from 1 November 2014.
- On 1 December 2014, the company constructed a factory extension at a cost of Sh.2,650,000 and put to use immediately.
- The following items were purchased on 1 December 2014:

	Sh:
Pick-up	2,400,000
Conveyor belt	600,000
Scanners	250,000
Mobile phones	260,000
Digital weighing machines	90,000
Computers	300,000
- The following assets were disposed of during the year:

	Disposal Date	Initial Cost (Sh.)	Disposal proceed (Sh.)
Computers	30 December 2014	100,000	60,000
Mobile phones	20 December 2014	60,000	20,000

Required:

Capital allowances due to Hal Meat Processing Company (HMPC) for the year ended 31 December 2014. (11 marks)
(Total: 20 marks)

QUESTION FIVE

- Explain any two cases in which a business can close the year with a negative balance in any class of wear and tear elaborating on how such a balance would be treated. (2 marks)
- Regressive taxes present an unmatched opportunity for any developing country to increase its revenue collection from taxes.

Explain the validity or otherwise of this assertion. (5 marks)

- The following is the trading, profit and loss account of Cobalt Ltd. for the year of income 2014. The company is engaged in furniture making both for the local market and the foreign market:

	Sh."000"		Sh."000"
Stock (1 January 2014)	450,000	Sales	3,490,000
Purchases	1,400,500	Stock (31 December 2014)	423,000
Bank charges	30,200	Interest from Post Bank	4,800
Wages to casual workers	588,000	Insurance recovery - van	88,000
Insurances	78,000	Profit on sale of shares	54,000
Salaries to permanent staff	144,000	Dividend (net)	32,000
NSSF contributions - workers	13,000	Income from sale of saw dust	250,000
NHIF contributions - workers	14,000		
Legal expenses	20,400		
Bad debts	50,600		
Commissions	30,200		
Repairs and maintenance	120,200		
General expenses	53,800		
Listing expenses - NSE	147,600		
Delivery van scrapped	22,400		
Depreciation	193,400		
Donations	8,800		
Rent and rates	83,000		
Electricity and water	28,100		

Travelling expenses	560,300	
Pension paid to retired staff	48,700	
Entertainment	17,100	
Purchase of office calculator	3,600	
Telephone expenses	11,900	
Net profit	<u>224,000</u>	
	<u>4,341,800</u>	<u>4,341,800</u>

Additional information:

- Sales of saw dust require a payment of 20% commission on the income to the hawkers who pick up the items from the company premises and deliver them to the market. Such commission has not yet been included in the company books.
- Legal expenses analysis:

	Sh. '000'
Preparing a lease for 50 years	1,200
Collection of business debts	2,200
Purchase of directors house	<u>17,000</u>
	<u>20,400</u>
- Entertainment expenses relate to customers and staff.
- The company was listed at the Nato Securities Exchange (NSE) at the beginning of the year, a process that led to 42% of the company's shares being offered to the public.
- The capital allowances were agreed at Sh.2,000,000 for the year.

Required:

- Adjusted taxable income for the year ended 31 December 2014. (10 marks)
 - Compute the tax payable (if any) on the income in (c) (i) above. (3 marks)
- (Total: 20 marks)**
-