



**CPA INTERMEDIATE LEVEL**  
**CIFA INTERMEDIATE LEVEL**  
**PUBLIC FINANCE AND TAXATION**

**WEDNESDAY: 23 April 2025. 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 2024.**

**Assume the following rates of tax applied throughout the year of income 2024:**

| Monthly taxable pay<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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:<br><br>Capital expenditure incurred on:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Rate of investment allowance                                                                                                                                                                                                                                                                                                                                           | Residual value<br>(25% per year<br>on equal<br>instalments) | Prescribed benefit rates of motor vehicles<br>provided by employer<br>(i) Saloons, Hatch Backs and Estates<br><br>Monthly rates<br>(Sh.)   | Annual rates<br>(Sh.)                                      |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|
| (a) <b>Buildings:</b><br><ul style="list-style-type: none"> <li>Hotel building</li> <li>Building used for manufacture</li> <li>Hospital buildings</li> <li>Petroleum or gas storage facilities</li> <li>Educational/hostels building</li> <li>Commercial building</li> </ul>                                                                                                                                                                                                                                                                               | 50% in the first year of use<br>50% in the first year of use<br>50% in the first year of use<br>50% in the first year of use<br>10% per year on straight line basis<br>10% per year on straight line basis                                                                                                                                                             | 25%<br>25%<br>25%<br>25%                                    | Up to 1200 cc 3,600<br>1201 - 1500 cc 4,200<br>1501 - 1750 cc 5,800<br>1751 - 2000 cc 7,200<br>2001 - 3000 cc 8,600<br>Over 3000 cc 14,400 | 43,200<br>50,400<br>69,600<br>86,400<br>103,200<br>172,800 |
| (b) <b>Machinery:</b><br><ul style="list-style-type: none"> <li>Machinery used for manufacture</li> <li>Hospital equipment</li> <li>Ships or aircraft</li> <li>Motor vehicles and heavy earth moving equipment</li> <li>Computer software, calculators, copiers and duplicating machines</li> <li>Furniture and fittings</li> <li>Telecommunication equipment</li> <li>Film equipment by a local producer</li> <li>Machinery used to undertake operations under prospecting rights and exploration under mining rights</li> <li>Other machinery</li> </ul> | 50% in the first year of use<br>50% in the first year of use<br>50% in the first year of use<br>25% per year on straight line basis<br>25% per year on straight line basis<br>10% per year on straight line basis<br>10% per year on straight line basis<br>25% per year on straight line basis<br>50% in the first year of use<br>10% per year on straight line basis | 25%<br>25%<br>25%<br>25%<br>25%<br>25%<br>25%<br>25%<br>25% | (ii) Pick-ups, Panel Vans (unconverted)<br>Up to - 1750 cc 3,600<br>Over - 1750 cc 4,200<br>(iii) Land Rovers/Cruisers 7,200               | 43,200<br>50,400<br>86,400                                 |
| (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:<br>Services    | Monthly rates<br>(Sh.) | Annual rates<br>(Sh.) |
|---------------------------------------------------------|------------------------|-----------------------|
| (i) Electricity (Communal or from a generator)          | 1,500                  | 18,000                |
| (ii) Water (Communal or from a borehole)                | 500                    | 6,000                 |
| <b>Agriculture employees: Reduced rates of benefits</b> |                        |                       |
| (i) Water                                               | 200                    | 2,400                 |
| (ii) Electricity                                        | 900                    | 10,800                |

### QUESTION ONE

- (a) Internal Auditor General Department is an independent function set up as stipulated in the Public Finance Management Act.

With reference to the above statement, explain **THREE** responsibilities of Internal Auditor General Department as provided in Section 73(3) of the Public Finance Management Act. (6 marks)

- (b) Outline **EIGHT** stages of the budget process for the national government in any financial year as provided under Section 35 of the Public Finance Management Act. (8 marks)
- (c) An accounting officer of a procuring entity may terminate or cancel a procurement process before entering into a contract.

Evaluate **SIX** circumstances under which this could arise as provided in the Public Procurement and Asset Disposal Act, 2015. (6 marks)

**(Total: 20 marks)**

### QUESTION TWO

- (a) Identify **FOUR** causes of rising public debt in most developing countries. (4 marks)
- (b) Explain **THREE** ways that county governments could adopt to improve their financial capacity during the budget process, when faced with challenges in revenue generation. (6 marks)
- (c) Bandika Enterprises Ltd. deals with both vatable and non-vatable supplies. The following transactions were obtained from the accounting records of the company for the month of March 2025:

|                            | Sh.       |
|----------------------------|-----------|
| Sales at standard rate     | 9,810,816 |
| Purchases at standard rate | 6,521,984 |
| Exports to Zambia          | 400,000   |
| Exempt sales               | 250,000   |
| Stationery                 | 23,200    |
| Audit fees                 | 174,000   |
| Catering expenses          | 69,600    |

#### Additional information:

1. The company issued credit notes worth Sh.53,360 for goods wrongly priced.
2. The company received debit notes worth Sh.41,760 for goods underpriced by suppliers.
3. A debtor of goods valued at Sh.20,880 was declared bankrupt and the amount owed written off as bad debts.
4. A customer of goods valued at Sh.9,280 returned the goods to the business and a credit note issued immediately.
5. 20% of purchases at standard rate could not be directly identified from sales at standard rate and exempt supplies.
6. All transactions are inclusive of VAT at the rate of 16% where applicable, unless otherwise stated.

#### Required:

Calculate the following for Bandika Ltd. for the month of March 2025:

- (i) Deductible input tax. (5 marks)
- (ii) Output tax. (3 marks)
- (iii) VAT payable by or refundable to Bandika Ltd. for the month of March 2025. (2 marks)

**(Total: 20 marks)**

### QUESTION THREE

- (a) The Public Private Partnership (PPP) Act requires entities to establish a project facilitation fund in respect of all PPP projects.

With reference to the above statement, summarise **FOUR** sources of funds paid into public private partnership project facilitation fund. (4 marks)

- (b) Curbing tax evasion requires a multifaceted approach such as combining enforcement, incentives and public awareness.

In light of the above statement, explain **FOUR** strategies the Revenue Authority may use to strengthen tax laws and enforcement in order to curb tax evasions in your country. (4 marks)

- (c) Jackson Mutiso is an employee of Kabazi Food Processing Company. He has provided the following details relating to his employment for the year of income 2024:

1. Basic salary of Sh.198,000 per month (PAYE deducted Sh.44,600 per month).
2. He is provided with an accommodation by the employer where he contributed Sh.8,000 towards house rent. The house was connected with a telephone line where the average bill per month amounted to Sh.7,200. The telephone bill is paid by the employer.
3. He is a member of a registered pension scheme, where he contributed Sh.30,000 per month towards the scheme, with the employer contributing similar amount.
4. He was provided with a motor car a Land Cruiser of 3500cc whose cost as at 1 January 2024 was Sh.2,400,000.
5. The house provided by the employer was fully furnished at a cost of Sh.380,000.
6. On 1 October 2024, he moved into his own private residence, which he had acquired on a 15% mortgage loan of Sh.6,000,000 on 1 April 2024.
7. On 1 April 2024, he obtained an insurance policy for his children's education at a monthly premium of Sh.8,000.
8. He was out of his work station for five (5) days in the month of September 2024 on official duties. The employer paid him a per diem of Sh.4,700 per night.
9. His other incomes included:
  - Dividends (net of withholding tax) from Kibao cooperative society of Sh.51,000.
  - Royalties from patent rights net of tax of Sh.95,000.
10. Assume the following in computation of taxable income and tax purposes:
  - The incomes accrued evenly during the year of income.
  - The employer effected the changes relating to pension contribution and mortgage interest introduced in the month of December 2024.
  - That the employer did not deduct Affordable Housing Levy and Social Health Insurance Fund (SHIF) contribution during the year.

**Required:**

- (i) Compute the total taxable income for Jackson Mutiso for the year ended 31 December 2024. (10 marks)

- (ii) Determine tax payable (if any) from the income computed in (c) (i) above. (2 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Identify **TWO** instruments that are subject to stamp duty as per the Stamp Duty Act (Cap 480). (2 marks)

- (b) Analyse **FOUR** circumstances under which excise duty paid could be refunded to the taxpayer. (4 marks)

- (c) The following information relates to SmartFarm Ltd., a company involved in farming activity. The company registered and started operations on 1 January 2024:

The company's statement of profit or loss for the year ended 31 December 2024:

| Income                  | Sh. | Sh.              |
|-------------------------|-----|------------------|
| Sale of poultry         |     | 3,200,000        |
| Sale of livestock       |     | 4,400,000        |
| Sale of milk            |     | 3,450,000        |
| Sale of manure          |     | 560,000          |
| Sale of sugarcane       |     | 1,456,200        |
| Discount received       |     | 180,000          |
| Dividend received (net) |     | 530,000          |
| Insurance claim         |     | <u>3,120,800</u> |
|                         |     | 16,897,000       |

| <b>Expenses:</b>                  | <b>Sh.</b>    | <b>Sh.</b>              |
|-----------------------------------|---------------|-------------------------|
| Cost of seeds                     | 670,000       |                         |
| Cost of cane tubers               | 3,860,000     |                         |
| Salaries and wages                | 1,250,000     |                         |
| Depreciation for the year         | 120,000       |                         |
| Cost of billboards                | 250,000       |                         |
| Machine repairs                   | 620,000       |                         |
| Mulching costs                    | 50,000        |                         |
| Animal vaccines                   | 28,000        |                         |
| Installment tax paid for the year | 200,000       |                         |
| Directors emoluments              | 1,500,000     |                         |
| Legal fees                        | 960,000       |                         |
| Pesticides                        | <u>12,900</u> | <u>(9,520,000)</u>      |
| Net profit                        |               | <u><u>7,376,100</u></u> |

**Additional information:**

- Dividend received from:
 

|                           |                       |
|---------------------------|-----------------------|
| Ukulima Co-operative Ltd. | <b>Sh.</b><br>340,000 |
| Waridi Ltd.               | <u>190,000</u>        |
|                           | <u>530,000</u>        |
- Legal fees comprised the following:
 

|                                |                |
|--------------------------------|----------------|
| Parking fines                  | 120,000        |
| Debt collection from customers | 360,000        |
| Stamp duty on land             | <u>480,000</u> |
|                                | <u>960,000</u> |
- Insurance claim relate to compensation from insurance company for the loss of crops through floods during the year.
- Machine repairs include Sh.184,000 spent on purchasing of farm machines during the year.
- The company had the following assets at the commencement of the farming activity:
 

|                          |                   |
|--------------------------|-------------------|
| <b>Asset</b>             | <b>Cost (Sh.)</b> |
| Solar panels             | 140,000           |
| Computers                | 420,000           |
| Chicken shed             | 188,000           |
| Furniture                | 250,000           |
| Dog kennels              | 230,000           |
| 2 tractors               | 8,900,000         |
| 2 saloon cars            | 6,800,000         |
| Irrigation networks      | 410,000           |
| 3 pick-up motor vehicles | 6,600,000         |
| Farmhouse                | 3,240,000         |
- A cattle dip and silo were constructed at a cost of Sh.860,000 and Sh.620,000 respectively and put into use from 1 October 2024.
- The following assets were acquired on 1 July 2024.
 

|              |            |
|--------------|------------|
|              | <b>Sh.</b> |
| Delivery van | 2,200,000  |
| Loose tools  | 120,000    |
| Wheelbarrows | 360,000    |

**Required:**

- Compute the investment allowances due to SmartFarm Ltd. For the year ended 31 December 2024. (8 marks)
  - Prepare a statement of adjusted taxable profit or loss and tax payable, (if any) for SmartFarm Ltd. for the year ended 31 December 2024. (6 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

(a) Analyse **FOUR** reasons why an importer may store imported goods in a bonded warehouse. (4 marks)

(b) During a tax seminar, one of the facilitators noted that some of the objectives of imposing tax penalties may include:

- To enforce tax laws and regulations.
- To act as a source of revenue for the government.

In relation to the above statement, summarise **FOUR** circumstances under which the imposition of penalties might not achieve the intended objectives. (4 marks)

(c) Wambua and Baraza have been trading as Wambah Traders sharing profit and loss in the ratio of 2:3, respectively.

The following statement of profit or loss was obtained from the firm's accounting records for the year ended 31 December 2024:

|                                                 | Sh.           | Sh.                      |
|-------------------------------------------------|---------------|--------------------------|
| Gross profit                                    |               | 29,600,000               |
| Profit on disposal of furniture                 |               | 324,000                  |
| Foreign exchange gain                           |               | 180,000                  |
| Insurance compensation for stolen motor vehicle |               | 2,093,800                |
| Interest from fixed deposits - Foreign accounts |               | 150,000                  |
| Dividends from investment (gross)               |               | <u>200,000</u>           |
|                                                 |               | 32,547,800               |
| <b>Less expenses:</b>                           |               |                          |
| Salaries and wages                              | 9,340,000     |                          |
| Interest on capital:                            |               |                          |
| Wambua                                          | 180,000       |                          |
| Baraza                                          | 250,000       |                          |
| Legal expenses                                  | 1,720,000     |                          |
| Conveyancing fees                               | 128,200       |                          |
| Purchase of office equipment                    | 360,000       |                          |
| Stamp duty on lease agreement (100 years)       | 84,000        |                          |
| Depreciation                                    | 736,000       |                          |
| General allowance for bad debts                 | 145,800       |                          |
| Partner's medical expenses                      | 52,400        |                          |
| Donation to a non-charitable organisation       | <u>35,000</u> | <u>(13,031,400)</u>      |
| Net profit                                      |               | <u><u>19,516,400</u></u> |

**Additional information:**

1. The reported gross profit includes value added tax (VAT) at the rate of 16% on sales amounting to Sh.6,960,000.
2. Legal expenses included:
 

|                                            | Sh.     |
|--------------------------------------------|---------|
| • Drafting of tender documents             | 124,800 |
| • Legal cost of debt collection            | 832,000 |
| • Defending a partner in a fraud case      | 328,000 |
| • Negotiating bank loan                    | 230,000 |
| • Defending the firm against trade dispute | 205,200 |
3. Salaries and wages include salaries to Wambua and Baraza of Sh.400,000 and Sh.600,000 respectively.
4. Wambua made drawings of Sh.248,000 with interest on drawings of Sh.15,000 being included in the interest from fixed deposits.
5. General allowance for bad debts included bad debts written off of Sh.34,600.
6. Commission paid to Baraza of Sh.80,000 was completely omitted from the books of the firm.

**Required:**

(i) Prepare a statement of adjusted taxable profit or loss for the year ended 31 December 2024. (8 marks)

(ii) A schedule of allocation of taxable income for each partner for the year ended 31 December 2024. (4 marks)

**(Total: 20 marks)**

.....



**CPA INTERMEDIATE LEVEL**  
**CIFA INTERMEDIATE LEVEL**  
**PUBLIC FINANCE AND TAXATION**

**TUESDAY: 3 December 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<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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:                                                                                 | Rate of investment allowance        | Residual value<br>(25% per year<br>on equal<br>instalments) | Prescribed benefit rates of motor vehicles<br>provided by employer<br>(i) Saloons, Hatch Backs and Estates |
|-------------------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| Capital expenditure incurred on:                                                                      |                                     |                                                             | Monthly rates<br>(Sh.)      Annual rates<br>(Sh.)                                                          |
| (a) <b>Buildings:</b>                                                                                 |                                     |                                                             |                                                                                                            |
| • 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 14,400 172,800                                                                              |
| (b) <b>Machinery:</b>                                                                                 |                                     |                                                             |                                                                                                            |
| • Machinery used for manufacture                                                                      | 50% in the first year of use        | 25%                                                         | (ii) Pick-ups, Panel Vans (unconverted)                                                                    |
| • Hospital equipment                                                                                  | 50% in the first year of use        | 25%                                                         | Up to - 1750 cc 3,600 43,200                                                                               |
| • Ships or aircraft                                                                                   | 50% in the first year of use        | 25%                                                         | Over - 1750 cc 4,200 50,400                                                                                |
| • 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 |                                                             | (iii) Land Rovers/Cruisers 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                                                                  | 25% per year on straight line basis | 25%                                                         |                                                                                                            |
| • Machinery used to undertake operations under prospecting rights and exploration under mining rights | 50% in the first year of use        |                                                             |                                                                                                            |
| • 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 |                                                             |                                                                                                            |
| (d) Farm works                                                                                        | 50% in the first year of use        | 25%                                                         |                                                                                                            |

**Commissioner's prescribed benefit rates:**

**Services**

|                                                | Monthly rates<br>(Sh.) | Annual rates<br>(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) Equalisation fund. (2 marks)
  - (ii) Appropriation Act. (2 marks)
- (b) Discuss **FOUR** roles of the Controller of Budget in public finance management. (8 marks)
- (c) Blue Ports Authority, an agency under the Ministry of Transport is considering a public private partnership (PPP) as a means of upgrading its current scanning equipment at the ports of entry into the country.

The authority has proposed the following terms and conditions for the PPP:

1. The project will be fully financed by the private sector.
2. Container scanning fee will reduce from the current USD 100 per container to USD 95 per container.
3. The private sector will be exempted against the risks associated with the project.
4. Local materials and skills will be used in the construction and management of the project.

With reference to the above terms and conditions for the PPP, explain the feasibility or otherwise of the proposed project using four guiding principles of PPP. (8 marks)

**(Total: 20 marks)**

### QUESTION TWO

- (a) In a public finance management seminar, one of the facilitators noted that “The Public Debt Management Office is tasked with the responsibility of conducting an analysis of debt sustainability in the public sector”.

With reference to the above statement, outline **THREE** benefits of conducting annual debt sustainability analysis. (3 marks)

- (b) Evaluate **FIVE** challenges hindering the effectiveness of e-procurement systems adopted by most developing countries. (5 marks)
- (c) Delight Ltd., a company registered for the value added tax (VAT) purposes provided the following details for the month of October 2024:

- October 1: Purchased raw materials from Dubai for Sh.2,981,200 inclusive of import duty at the rate of 25% and VAT at the rate of 16%. The raw materials were transported to business for further processing. The processed goods were later sold on 8 October 2024 at Sh.4,785,000 inclusive of VAT.
- October 3: Purchased goods from suppliers for Sh.3,840,000 net of VAT out of which 20% were from unregistered suppliers.
- October 8: Paid for audit and accounting services amounting to Sh.290,000.
- October 12: Sold goods to a client in Rwanda for Sh.720,000.
- October 15: Sold goods on credit to Mamba Traders based in Mombasa for Sh.835,200. Mamba Traders paid Sh.320,000 during the month and the balance to be paid in the following two months.
- October 20: Delight Ltd. issued credit notes to the client in Rwanda for defective goods worth Sh.60,000.
- October 24: Purchased computers for resale at a hire purchase price of Sh.420,000 exclusive of VAT. Hire purchase interest was Sh.92,000.
- October 25: The Directors of the company took goods worth Sh.160,000 from business for their personal use and donated goods worth Sh.240,000 to Neemah Children’s Home. It is the policy of the company not to charge VAT on drawings and donations.
- October 26: A customer who was declared bankrupt in May 2024 paid the debt of goods amounting to Sh.100,000 he owed Delight Ltd. Delight Ltd. had claimed a bad debt relief in respect of the debt.
- October 29: Purchased goods for cash amounting to Sh.1,240,000.
- October 30: Paid for the following expenses:

|                                          | Sh.    |
|------------------------------------------|--------|
| • Bottled water for directors            | 30,000 |
| • Rent for the business premises         | 48,000 |
| • Private parking for directors vehicles | 30,000 |

**Note:** All transactions are inclusive of VAT at the rate of 16% where applicable unless otherwise stated.

#### Required:

Compute the value added tax (VAT) payable by or refundable to Delight Ltd. for the month of October 2024. (12 marks)

**(Total: 20 marks)**



### QUESTION THREE

- (a) Explain **FOUR** benefits that may accrue to a country which is a member of East African Community from harmonising tariff classifications and customs procedures among East Africa Community members. (8 marks)
- (b) Ezekiel Ledama is a resident individual and an investment analyst employed by Salab Insurance Group Ltd. as a senior investment analyst.

The following details were availed to you in respect of his income for the year ended 31 December 2023:

1. He received a monthly basic salary from Salab Insurance Group Ltd. of Sh.244,800 net of PAYE. The total PAYE deducted during the year amounted to Sh.607,200.
2. He received a monthly bonus of 20% of his basic salary during the year.
3. He attended a five day training for investment analysts organised by the professional body. The employer paid Sh.70,000 for his training and also paid a daily subsistence allowance of Sh.14,000 to cater for his expenses while in the training.
4. He has a life insurance policy where the annual premiums amount to Sh.180,000. He pays 30% of the premiums whereas the balance is paid by the employer on his behalf.
5. On 1 September 2023, he was provided with a leased saloon vehicle of 2600cc by the employer. The vehicle was acquired in January 2023 at Sh.2,800,000. The employer paid Sh.36,000 per month as lease charges for the vehicle.
6. Salab Insurance Group Ltd. has a medical cover for all senior management. He was entitled to a maximum cover of Sh.2,500,000 per annum although he utilised Sh.280,000 on medical bills during the year.
7. He paid subscription fees to his professional body amounting to Sh.18,000 during the year.
8. He has invested Sh.2,500,000 with Salab Insurance Group Ltd. money market fund. He received interest at the rate of 12% per annum in the year 2023.
9. His other incomes during the year include:
  - Consultancy fees of Sh.57,000 net of tax received from a local examination body for developing short courses curriculum on investment analysts.
  - Compensation received from previous employer upon termination of his contract of Sh.1,680,000. His contract of 5 years was terminated on 31 December 2022 after three years. The payment was made as per the terms of the contract.
  - Gross farming income of Sh.220,000 out of which farm produce worth Sh.50,000 was for family consumption.
  - Part-time practice income (gross) as an investment consultant and advisor amounting to Sh.600,000 during the year.

#### Required:

- (i) Compute the taxable income for Ezekiel Ledama for the year ended 31 December 2023. (10 marks)
- (ii) Determine the net tax payable (if any) on the income computed in (b) (i) above. (2 marks)
- (Total: 20 marks)**

### QUESTION FOUR

- (a) Identify **FOUR** circumstances under which the revenue authority could cancel a personal identification number (PIN). (4 marks)
- (b) Summarise **FOUR** reasons why the government in your country levies taxes. (4 marks)
- (c) Adamil Mwemah, a retired engineer, set up a manufacturing factory in industrial area on 1 January 2023 to fabricate mechanical and automotive parts at a cost of Sh.44,900,000. Operations commenced on 1 January 2023 except for the commercial building which was put into use from 1 September 2023.

The cost of manufacturing comprised of:

|                                        | Sh.               |
|----------------------------------------|-------------------|
| Factory building                       | 18,000,000        |
| Office within factory building         | 800,000           |
| Second hand imported machinery         | 4,400,000         |
| Land                                   | 8,000,000         |
| Engineers fee for machine installation | 1,400,000         |
| Parking bay                            | 900,000           |
| Conveyor belt                          | 1,400,000         |
| Commercial building                    | <u>10,000,000</u> |
|                                        | <u>44,900,000</u> |



**Additional information:**

- Commercial building cost included cost of showroom and retail shop amounting to Sh.2,800,000 and Sh.3,200,000 respectively.
- The factory building cost included a warehouse at Sh.2,200,000.
- A building that had been constructed at a cost of Sh.12,000,000 was leased from Juhudi Manufacturers Ltd. for 5 years. Annual lease rentals were agreed at Sh.2,200,000. Adamil Mwemah imported a processing machinery from China at a cost of Sh.5,200,000 and installed it in the building and started operations on 1 January 2023.
- To improve the performance of the factory operations, Adamil Mwemah on 1 July 2023 computerised all its operations at a total cost of Sh.15,000,000 out of which 30% related to software cost.
- The following assets were also purchased on 1 July 2023:

|                         | Sh.       |
|-------------------------|-----------|
| Furniture and fittings  | 620,000   |
| Second hand BMW vehicle | 4,300,000 |
| 4 Tonnes lorry          | 1,800,000 |
| Backhoe loader          | 3,680,000 |
| Mobile crane            | 1,900,000 |

- Factory staff labour quarters were constructed during the year at a cost of Sh.2,250,000 and put to use from 1 October 2023.

**Required:**

Compute the investment allowances due to Adamil Mwemah for the year ended 31 December 2023. (12 marks)  
(Total: 20 marks)

**QUESTION FIVE**

- Distinguish between “Export levy” and “Railway Development Levy (RDL)” as used in taxation. (4 marks)
- Analyse **TWO** circumstances under which a person may be considered to be a tax representative of another person for tax purposes as outlined in the Tax Procedures Act. (4 marks)
- The following information has been extracted from the books of accounts of Yuniserv Ltd., a supplier of office equipment for the year ended 31 December 2023:

|                                        | Sh.        |
|----------------------------------------|------------|
| Trading profit before tax              | 76,000,000 |
| Investment income                      | 16,990,000 |
| Rental income from commercial property | 6,920,000  |
| Leasing of photocopying machine        | 1,000,000  |

**Additional information:**

- The following expenses were deducted in arriving at the trading profit before tax:

|                                                 | Sh.       |
|-------------------------------------------------|-----------|
| Salaries and wages                              | 1,400,000 |
| Contribution to retirement fund                 | 2,000,000 |
| Depreciation                                    | 4,000,000 |
| Bank interest                                   | 1,800,000 |
| Estimated debts (5% of total debts at year end) | 400,000   |
| Legal and professional fees                     | 1,080,000 |
| Repairs and maintenance                         | 400,000   |
| Miscellaneous expenses                          | 1,500,000 |
| Donations                                       | 1,000,000 |
| Instalment tax paid                             | 2,200,000 |

- Salaries and wages comprised of directors emoluments Sh.3,000,000, salary to directors domestic servants Sh.1,400,000 and salary to other staff Sh.5,000,000.
- Bank interest include that of an overdraft taken by a senior manager of Sh.400,000 and mortgage interest for a director’s house Sh.600,000.
- Legal and professional fees comprised of:

|                                     | Sh.              |
|-------------------------------------|------------------|
| Recovery of trade debts             | 200,000          |
| Renewal of lease - 100 years        | 30,000           |
| Tax penalties and interest          | 500,000          |
| Tax consultancy fees on tax appeals | 300,000          |
| Directors loan collection           | 50,000           |
|                                     | <u>1,080,000</u> |

5. Miscellaneous expenses include staff end of year party Sh.170,000 and parking fines Sh.30,000.
6. Donations were towards political campaign kitty.
7. Wear and tear allowance was agreed at Sh.2,800,000 for the year 2023 with the revenue authority.
8. Investment income comprised of:

|                                            |                          |
|--------------------------------------------|--------------------------|
| Interest income:                           | <b>Sh.</b>               |
| • Fedha Bank (K) Ltd.                      | 2,760,000 (Gross)        |
| • Fixed deposit in Lubandah Bank in Uganda | 4,930,000 (Gross)        |
| • Sanlam money market fund                 | 3,400,000 (net)          |
| Dividend income: Dell Co. Ltd.             | 4,000,000 (net)          |
| Mtandao Cooperative Society                | <u>1,900,000 (net)</u>   |
|                                            | <u><u>16,990,000</u></u> |

9. Rental income was arrived at after deducting the following expenses:

|                                                     |            |
|-----------------------------------------------------|------------|
|                                                     | <b>Sh.</b> |
| Mortgage interest                                   | 400,000    |
| Water meters installation                           | 860,000    |
| Staff salaries                                      | 720,000    |
| Replacement of iron sheets roofs with roofing tiles | 2,400,000  |

**Required:**

- (i) Compute the adjusted taxable profit or loss for the year ended 31 December 2023. (10 marks)
- (ii) Determine the corporate tax payable (if any) by Yuniserv Ltd. for the year ended 31 December 2023. (2 marks)

**(Total: 20 marks)**

.....



**CPA INTERMEDIATE LEVEL**  
**CIFA INTERMEDIATE LEVEL**  
**PUBLIC FINANCE AND TAXATION**

**TUESDAY: 20 August 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<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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:                                                                                 | Rate of investment allowance        | Residual value<br>(25% per year<br>on equal<br>instalments) | Prescribed benefit rates of motor vehicles<br>provided by employer<br>(i) Saloons, Hatch Backs and Estates |                           |                          |
|-------------------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|---------------------------|--------------------------|
| Capital expenditure incurred on:                                                                      |                                     |                                                             |                                                                                                            | Monthly<br>rates<br>(Sh.) | Annual<br>rates<br>(Sh.) |
| (a) <b>Buildings:</b>                                                                                 |                                     |                                                             | 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) <b>Machinery:</b>                                                                                 |                                     |                                                             | (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                                                                                 | 7,200                     | 86,400                   |
| • 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 | 25%                                                         |                                                                                                            |                           |                          |
| • Machinery used to undertake operations under prospecting rights and exploration under mining rights | 50% in the first year of use        |                                                             |                                                                                                            |                           |                          |
| • 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 |                                                             |                                                                                                            |                           |                          |
| (d) Farm works                                                                                        | 50% in the first year of use        | 25%                                                         |                                                                                                            |                           |                          |

**Commissioner's prescribed benefit rates:**

**Services**

|                                                | Monthly rates<br>(Sh.) | Annual rates<br>(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) Consolidated Fund Services. (2 marks)
  - (ii) Division of Revenue Bill. (2 marks)
- (b) Outline **FIVE** purposes for which the national government should borrow money according to the Provisions of Section 192 of the Public Financial Management Regulations 2015. (5 marks)
- (c) Section 194 of Public Finance Management Act 2012, specifies the functions to be undertaken by the Public Sector Accounting Standards Board (PSASB).  
With reference to above statement, describe **SIX** functions of PSASB. (6 marks)
- (d) In relation to the Public Procurement and Assets Disposal Regulations 2020, outline **FIVE** methods that an accounting officer of a procuring entity may use to dispose assets. (5 marks)
- (Total: 20 marks)**

### QUESTION TWO

- (a) Revenue raised nationally should be shared equitably among the national government and county governments.  
Summarise **SIX** criteria that should be taken into account in determining the equitable shares as provided under Article 203 of the Constitution. (6 marks)
- (b) Masomo Public University (MPU) intends to get into a Public Private Partnership (PPP) to assist in the construction of new hostels. Currently the University's challenge is how to maintain the control of hostels facility after the construction under PPP.

#### Required:

Explain **TWO** PPP investment models suitable for addressing the needs of MPU. (4 marks)

- (c) Suntec Traders is a business registered for value added tax (VAT) purposes. The following transactions were recorded in the month of May 2024:

|                                                   | <b>Sh.</b> |
|---------------------------------------------------|------------|
| May 4: Purchases of goods (local)                 | 4,640,000  |
| May 6: Purchase of a computer                     | 162,400    |
| May 8: Return outwards                            | 139,200    |
| May 10: Legal fees                                | 62,640     |
| May 12: Imports Cost, Insurance and Freight (CIF) | 300,000    |
| May 14: Advance salaries and wages                | 580,000    |
| May 16: Sales (local)                             | 5,916,000  |
| May 18: Export sales                              | 600,000    |
| May 20: Exempt sales                              | 1,840,000  |
| May 24: Printing and stationery                   | 27,840     |
| May 28: Electricity                               | 53,940     |

#### Additional information:

1. During the month, import duty was at 20% on Cost, Insurance and Freight (CIF) basis.
2. A debtor of goods valued at Sh.121,800 was declared bankrupt on 20 May 2024.
3. Input tax relating to goods sold as exempt sales could not be directly identified and it was found appropriate to restrict deductible import tax.
4. Transactions are inclusive of VAT at the rate of 16% where applicable.

#### Required:

- (i) Output tax. (3 marks)
- (ii) Deductible input tax (5 marks)
- (iii) VAT payable or refundable. (2 marks)

**(Total: 20 marks)**

### QUESTION THREE

- (a) Outline **FIVE** items that should be specified in writing to a taxpayer, when the commissioner has made a default assessment. (5 marks)
- (b) Talisa Abara is a citizen of South Africa (SA) and was employed by Bright Insurance Ltd. as a senior financial advisor in the year 2020. In January 2023, she was posted to work and to be paid by the company's branch in Kenya on a five-year contract. She earned the following incomes from her employment and other sources for the year of income 2023:
1. Basic salary of Sh.300,000 per month net of pay as you earn (PAYE) of Sh.50,000 per month.
  2. The employer paid for her passage of Sh.200,000 during the year. She used 30% of the amount to visit local tourist sites.
  3. In March 2023, she bought 15,000 shares of the company at a price of Sh.30 per share although the market price was Sh.35 per share. At the end of the year she received a dividend of Sh.6,000.
  4. She was provided with accommodation by the employer. The employer leased the house at a monthly rental charge of Sh.120,000. The house was fully furnished at a cost of Sh.400,000. She had a house servant whom the employer pays a salary of Sh.20,000 per month.
  5. In the month of October 2023, she worked in the company's headquarters in South Africa where she was tasked with a responsibility of training employees in a newly installed finance software. She received her salary for the month from the Kenya branch.
  6. She was provided with a leased vehicle of 2000cc by the employer. The vehicle was leased from Betalite Motors at a monthly charge of Sh.60,000. Betalite Motors had bought the vehicle in January 2022 for Sh.3,200,000, but the value of the vehicle in January 2023 was Sh.2,400,000.
  7. The employer paid for her life insurance cover amounting to Sh.240,000 during the year.
  8. During the year, she fell sick and was admitted at a local private hospital. She paid a bill of Sh.180,000 which was reimbursed by the employer. The company has a policy that covers all senior managers and it provides for a maximum reimbursement of Sh.1,000,000 in a year.
  9. Due to the nature of her work, the employer entered into an agreement with Laserbite hotel to be delivering her meals to the office from 1 April 2023. The cost of the meals was Sh.15,000 per month.
  10. Her salary was adjusted upwards by Sh.30,000 per month on 1 November 2023 and backdated to 1 September 2023.
  11. The employer contributed 15% of her basic salary to a registered pension scheme and she also contributed 7.5% to the same scheme.
  12. She invested in the real estate and financial sector during the year where she earned the following incomes:
- |                                                 | Sh.       |
|-------------------------------------------------|-----------|
| • Gross rental income from commercial property  | 1,200,000 |
| • Dividend from Samco Cooperative Society (net) | 85,000    |
| • Interest income from Union Bank Ltd. (net)    | 255,000   |
| • Consultancy fee for training (net)            | 114,000   |

#### Required:

- (i) Compute the total taxable income for Talisa Abara for the year ended 31 December 2023. (12 marks)
- (ii) Determine the tax payable (if any) on the income computed in (b) (i) above. (3 marks)
- (Total: 20 marks)**

### QUESTION FOUR

- (a) Explain the following terms as used in taxation:
- (i) Duty drawback. (2 marks)
  - (ii) Sufferance wharf. (2 marks)
  - (iii) Import declaration fee. (2 marks)

- (b) Wakah and Barakah started a partnership business in the year 2022, sharing profits and losses in the ratio of 5:3 respectively.

The following is the statement of profit or loss of the partnership for the year ended 31 December 2023:

|                                      | Sh.           | Sh.                       |
|--------------------------------------|---------------|---------------------------|
| Sales                                |               | 5,780,000                 |
| General bad debts recovery           |               | 75,000                    |
| Anticipated foreign exchange gain    |               | 180,000                   |
| Capital gain on sale of land         |               | 352,000                   |
| Insurance recovery on stolen vehicle |               | 320,000                   |
| Release of liability                 |               | 122,000                   |
| Interest from Ulinzi Sacco Ltd.      |               | <u>34,000</u>             |
| Total income                         |               | 6,863,000                 |
| <b>Less expenses:</b>                |               |                           |
| Purchases                            | 3,706,000     |                           |
| Purchase of computers                | 216,000       |                           |
| Repairs expenses                     | 682,000       |                           |
| Legal and professional fees          | 816,000       |                           |
| Rent and rates                       | 244,000       |                           |
| Interest expenses                    | 166,000       |                           |
| General expenses                     | 642,000       |                           |
| Motor vehicle expenses               | 560,000       |                           |
| Insurance                            | 187,000       |                           |
| Welfare expenses                     | 1,035,000     |                           |
| Audit and accounting fees            | 95,000        |                           |
| Computer software and programs       | 1,200,000     |                           |
| Travelling expenses                  | <u>64,000</u> | <u>(9,613,000)</u>        |
| Net loss for the year                |               | <u><u>(2,750,000)</u></u> |

**Additional information:**

1. **Legal and professional fees comprised:**

|                                                                | Sh.            |
|----------------------------------------------------------------|----------------|
| Legal fees on defense against alleged breach of trade contract | 180,000        |
| Legal fee on tax appeals                                       | 64,800         |
| Land conveyance fees                                           | 72,400         |
| Stamp duty                                                     | 36,600         |
| Negotiating a business loan                                    | 25,400         |
| Recovery of bad debts                                          | 45,000         |
| Signing a 100 year lease agreement                             | 128,400        |
| Purchase of partners private vehicle                           | 137,400        |
| Legal fee on renewal of patents                                | <u>126,000</u> |
|                                                                | <u>816,000</u> |

2. **Repairs expenses comprised:**

|                                               | Sh.            |
|-----------------------------------------------|----------------|
| Purchase of furniture                         | 260,000        |
| Designing and partitioning a new office block | 341,000        |
| Repainting of old office block                | <u>81,000</u>  |
|                                               | <u>682,000</u> |

3. **General expenses included:**

|                                 | Sh.     |
|---------------------------------|---------|
| Impairment of patent rights     | 120,000 |
| Provision for general bad debts | 208,000 |
| Drawings of goods by partners   | 314,000 |

4. Purchases and sales were inclusive of value added tax (VAT) at the rate of 16%.
5. Closing inventory was valued at Sh.1,200,000 while opening inventory was valued at 10% of sales net of value added tax. Both opening and closing stocks were undervalued by 10%
6. Interest expenses include interest on partners' capital of Sh.120,000 which was shared according to profit and loss sharing ratio. The partners agreed that they would not receive salaries until the business starts making profits.

**Required:**

- (i) Compute the adjusted taxable profit of the partnership for the year ended 31 December 2023. (12 marks)
- (ii) Allocation of the profit or loss in (b) (i) above to the partners. (2 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Argue **FOUR** cases against indirect taxes imposed in your country (4 marks)
- (b) Assume that you have been requested to make a presentation in a tax seminar on measures that should be put in place to curb the problem of tax evasion in your country.

**Required:**

Identify **FOUR** measures of curbing tax evasion that you would include in your presentation. (4 marks)

- (c) Smartboots Manufacturing Ltd. commenced manufacturing of leather shoes on 2 January 2022 after incurring the following expenditure:

|                      | <b>Sh.</b> |
|----------------------|------------|
| Factory building     | 14,640,000 |
| Processing machinery | 4,712,000  |
| Computers            | 384,000    |
| Conveyor belts       | 1,240,000  |
| Staff canteen        | 2,440,000  |
| Delivery vans (two)  | 4,160,000  |
| Sewerage system      | 1,280,000  |
| Generator            | 400,000    |
| Godown               | 2,600,000  |
| Heating plant        | 1,400,000  |
| Lorry                | 2,948,000  |
| Sports pavilion      | 1,800,000  |
| Loose tools          | 144,000    |

**Additional information:**

1. The company purchased the following assets on 1 January 2023:

|                   | <b>Sh.</b> |
|-------------------|------------|
| Furniture         | 224,000    |
| Saloon car        | 3,400,000  |
| Boilers           | 768,000    |
| Scanners          | 112,000    |
| Wheelbarrows      | 180,000    |
| Packaging machine | 1,200,000  |

2. A staff clinic was constructed at a cost of Sh.2,080,000 and utilised with effect from 1 October 2023.
3. A borehole was drilled at a cost of Sh.800,000 and utilised with effect from 1 July 2023.
4. One of the delivery vans was involved in an accident on 1 March 2023 and was written off. The insurance company paid Sh.1,400,000 as full compensation on 1 December 2023.
5. A perimeter wall was constructed at a cost of Sh.1,200,000 and put in to use from 1 July 2023.

**Required:**

Compute investment allowances due to Smartboots Manufacturing Ltd. for the years ended 31 December 2022 and 31 December 2023. (12 marks)

**(Total: 20 marks)**

.....





**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<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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:                                                                                 | Rate of investment allowance        | Residual value<br>(25% per year<br>on equal<br>instalments) | Prescribed benefit rates of motor vehicles<br>provided by employer<br>(i) Saloons, Hatch Backs and Estates |                           |                          |
|-------------------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|---------------------------|--------------------------|
| Capital expenditure incurred on:                                                                      |                                     |                                                             |                                                                                                            | Monthly<br>rates<br>(Sh.) | Annual<br>rates<br>(Sh.) |
| (a) <b>Buildings:</b>                                                                                 |                                     |                                                             | 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                                                                                             | 4,400                     | 172,800                  |
| • Commercial building                                                                                 | 10% per year on straight line basis |                                                             |                                                                                                            |                           |                          |
| (b) <b>Machinery:</b>                                                                                 |                                     |                                                             | (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                                                                                 | 7,200                     | 86,400                   |
| • 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 | 25%                                                         |                                                                                                            |                           |                          |
| • Machinery used to undertake operations under prospecting rights and exploration under mining rights | 50% in the first year of use        |                                                             |                                                                                                            |                           |                          |
| • 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 |                                                             |                                                                                                            |                           |                          |
| (d) Farm works                                                                                        | 50% in the first year of use        | 25%                                                         |                                                                                                            |                           |                          |

**Commissioner's prescribed benefit rates:**

**Services**

|                                                | Monthly rates<br>(Sh.) | Annual rates<br>(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 |     | 374,200           |
|                                                    |     | <u>10,378,200</u> |

**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> | <u>(7,508,000)</u> |
| Net profit              |                | <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:

|                                   | <b>Sh.</b> |
|-----------------------------------|------------|
| 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)**

.....



**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<br>(Sh.) |          | Annual taxable pay<br>(Sh.) |           | Rate of tax<br>% 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<br>(25% per year<br>on equal<br>instalments) | Prescribed benefit rates of motor vehicles<br>provided by employer |                          |
|-------------------------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------|--------------------------------------------------------------------|--------------------------|
| Capital expenditure incurred on:                                                                            |                                     |                                                             | (i) Saloons, Hatch Backs and Estates                               |                          |
|                                                                                                             |                                     |                                                             | Monthly<br>rates<br>(Sh.)                                          | Annual<br>rates<br>(Sh.) |
| (a) <b>Buildings:</b>                                                                                       |                                     |                                                             | Up to 1200 cc                                                      | 3,600                    |
| • Hotel building                                                                                            | 50% in the first year of use        | 25%                                                         | 1201 - 1500 cc                                                     | 4,200                    |
| • Building used for manufacture                                                                             | 50% in the first year of use        | 25%                                                         | 1501 - 1750 cc                                                     | 5,800                    |
| • Hospital buildings                                                                                        | 50% in the first year of use        | 25%                                                         | 1751 - 2000 cc                                                     | 7,200                    |
| • Petroleum or gas storage facilities                                                                       | 50% in the first year of use        | 25%                                                         | 2001 - 3000 cc                                                     | 8,600                    |
| • Educational/hostels building                                                                              | 10% per year on straight line basis |                                                             | Over - 3000 cc                                                     | 14,400                   |
| • Commercial building                                                                                       | 10% per year on straight line basis |                                                             |                                                                    | 172,800                  |
| (b) <b>Machinery:</b>                                                                                       |                                     |                                                             | (ii) Pick-ups, Panel Vans<br>(unconverted)                         |                          |
| • Machinery used for manufacture                                                                            | 50% in the first year of use        | 25%                                                         | Up to - 1750 cc                                                    | 3,600                    |
| • Hospital equipment                                                                                        | 50% in the first year of use        | 25%                                                         | Over - 1750 cc                                                     | 4,200                    |
| • Ships or aircraft                                                                                         | 50% in the first year of use        | 25%                                                         |                                                                    | 50,400                   |
| • Motor vehicles and heavy earth<br>moving equipment                                                        | 25% per year on straight line basis |                                                             |                                                                    |                          |
| • Computer software, calculators,<br>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<br>operations under prospecting rights<br>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<br>fibre optic cable by telecommunication<br>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:       | Monthly rates<br>(Sh.) | Annual rates<br>(Sh.) |
|------------------------------------------------|------------------------|-----------------------|
| <b>Services</b>                                |                        |                       |
| (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:                                                                             |
|                                                    | <b>Sh.</b>                                                                                                                                                |
| 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:

| <b>Bright Decor Ltd.</b>                                               |                 |                 |
|------------------------------------------------------------------------|-----------------|-----------------|
| <b>Statement of profit or loss for the year ended 31 December 2022</b> |                 |                 |
|                                                                        | <b>Sh.“000”</b> | <b>Sh.“000”</b> |
| Sales                                                                  |                 | 95,000          |
| <b>Cost of sales:</b>                                                  |                 |                 |
| Opening inventory                                                      | 6,000           |                 |
| Purchases                                                              | 40,000          |                 |
| Closing inventory                                                      | <u>(10,000)</u> | <u>(36,000)</u> |
| Gross profit                                                           |                 | 59,000          |
| <b>Other incomes:</b>                                                  |                 |                 |
| 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>    |
|                                                                        |                 | 65,400          |
| <b>Less expenses:</b>                                                  |                 |                 |
| 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:**

|                                                     | <b>Sh.“000”</b> |
|-----------------------------------------------------|-----------------|
| 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/<br>construction | Cost of acquisition/<br>construction<br>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       |     | 35,000            |
|                                       |     | <u>95,458,000</u> |

**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> | (83,712,200)      |
| Net profit                               |                | <u>11,745,800</u> |

**Additional information:**

- Insurance comprises:**

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

**Required:**

- Compute adjusted taxable profit or loss of the partnership for the year ended 31 December 2022. (10 marks)
- 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<br>(Sh.) |          | Annual taxable pay<br>(Sh.) |           | Rate of tax<br>% 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<br>(25% per year<br>on equal<br>instalments) | Prescribed benefit rates of motor vehicles<br>provided by employer |                                   |
|-------------------------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------|--------------------------------------------------------------------|-----------------------------------|
| <b>Capital expenditure incurred on:</b>                                                                     |                                     |                                                             | (i) Saloons, Hatch Backs and Estates                               |                                   |
|                                                                                                             |                                     |                                                             | <b>Monthly<br/>rates<br/>(Sh.)</b>                                 | <b>Annual<br/>rates<br/>(Sh.)</b> |
| (a) <b>Buildings:</b>                                                                                       |                                     |                                                             | Up to 1200 cc                                                      | 3,600                             |
| • Hotel building                                                                                            | 50% in the first year of use        | 25%                                                         | 1201 - 1500 cc                                                     | 4,200                             |
| • Building used for manufacture                                                                             | 50% in the first year of use        | 25%                                                         | 1501 - 1750 cc                                                     | 5,800                             |
| • Hospital buildings                                                                                        | 50% in the first year of use        | 25%                                                         | 1751 - 2000 cc                                                     | 7,200                             |
| • Petroleum or gas storage facilities                                                                       | 50% in the first year of use        | 25%                                                         | 2001 - 3000 cc                                                     | 8,600                             |
| • Educational/hostels building                                                                              | 10% per year on straight line basis |                                                             | Over - 3000 cc                                                     | 14,400                            |
| • Commercial building                                                                                       | 10% per year on straight line basis |                                                             |                                                                    | 172,800                           |
| (b) <b>Machinery:</b>                                                                                       |                                     |                                                             | (ii) Pick-ups, Panel Vans<br>(unconverted)                         |                                   |
| • Machinery used for manufacture                                                                            | 50% in the first year of use        | 25%                                                         | Up to - 1750 cc                                                    | 3,600                             |
| • Hospital equipment                                                                                        | 50% in the first year of use        | 25%                                                         | Over - 1750 cc                                                     | 4,200                             |
| • Ships or aircraft                                                                                         | 50% in the first year of use        | 25%                                                         |                                                                    | 50,400                            |
| • Motor vehicles and heavy earth<br>moving equipment                                                        | 25% per year on straight line basis |                                                             |                                                                    |                                   |
| • Computer software, calculators,<br>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<br>operations under prospecting rights<br>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<br>fibre optic cable by telecommunication<br>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:<br>Services | Monthly rates<br>(Sh.) | Annual rates<br>(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       | 268,200          |
|                               | <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               |
| <b>Expenses:</b>              |                |                         |
| 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.380,000 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:

| <b>Sky Rift Growers Ltd.</b>                                           |                |                         |
|------------------------------------------------------------------------|----------------|-------------------------|
| <b>Statement of profit or loss for the year ended 31 December 2022</b> |                |                         |
|                                                                        | <b>Sh.</b>     | <b>Sh.</b>              |
| Sales                                                                  |                | 28,000,000              |
| Dividend income                                                        |                | 270,000                 |
| Interest income (net)                                                  |                | 264,000                 |
| Surplus from pension scheme                                            |                | <u>120,000</u>          |
|                                                                        |                | 28,654,000              |
| <b>Expenses</b>                                                        |                |                         |
| 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><u>1,180,600</u></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:**

|                    |            |
|--------------------|------------|
|                    | <b>Sh.</b> |
| 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:**

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

9. **Farmworks cost comprises:**

|                                                     | <b>Sh.</b>        |
|-----------------------------------------------------|-------------------|
| 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)**

.....



**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<br>(Sh.) |          | Annual taxable pay<br>(Sh.) |           | Rate of tax<br>% 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<br>(25% per year<br>on equal<br>instalments) | Prescribed benefit rates of motor vehicles<br>provided by employer |                       |
|-------------------------------------------------------------------------------------------------------------|-------------------------------------|-------------------------------------------------------------|--------------------------------------------------------------------|-----------------------|
| Capital expenditure incurred on:                                                                            |                                     |                                                             | (i) Saloons, Hatch Backs and Estates                               |                       |
|                                                                                                             |                                     |                                                             | Monthly rates<br>(Sh.)                                             | Annual rates<br>(Sh.) |
| (a) <b>Buildings:</b>                                                                                       |                                     |                                                             | 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) <b>Machinery:</b>                                                                                       |                                     |                                                             | (ii) Pick-ups, Panel Vans<br>(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<br>moving equipment                                                        | 25% per year on straight line basis |                                                             |                                                                    |                       |
| • Computer software, calculators,<br>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<br>operations under prospecting rights<br>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<br>fibre optic cable by telecommunication<br>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:<br>Services    | Monthly rates<br>(Sh.) | Annual rates<br>(Sh.) |
|---------------------------------------------------------|------------------------|-----------------------|
| (i) Electricity (Communal or from a<br>generator)       | 1,500                  | 18,000                |
| (ii) Water (Communal or from a<br>borehole)             | 500                    | 6,000                 |
| <b>Agriculture employees: Reduced rates of benefits</b> |                        |                       |
| (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 Ebalala 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 Ebalala 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 Ebalala and his wife have a tradition of filing tax returns separately to the Revenue Authority.

**Required:**

- (i) Compute the separate taxable income for Oscar Ebalala 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                       |           | (296,000) |
| 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)           |           | 24,000    |
| Total income                        |           | 648,000   |
| <b>Less expenses</b>                |           |           |
| 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           | <u>4,840</u> |

2. Management and professional fees comprised:
- |                                 |              |
|---------------------------------|--------------|
| 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:
- |                                    |              |
|------------------------------------|--------------|
| 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:
- |                                                          |              |
|----------------------------------------------------------|--------------|
| 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:

|                                    | <b>Sh.</b> |
|------------------------------------|------------|
| 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<br>(Sh.) |          | Annual taxable pay<br>(Sh.) |           | Rate of tax<br>% 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<br>(per year on<br>reducing<br>balance) | Prescribed benefit rates of motor vehicles<br>provided by employer |                           |                          |         |
|-------------------------------------------------------------------------------------------------------------|----------------------------------|--------------------------------------------------------|--------------------------------------------------------------------|---------------------------|--------------------------|---------|
| Capital expenditure incurred on:                                                                            |                                  |                                                        | (i) Saloons, Hatch Backs and Estates                               |                           |                          |         |
|                                                                                                             |                                  |                                                        |                                                                    | Monthly<br>rates<br>(Sh.) | Annual<br>rates<br>(Sh.) |         |
| (a) <b>Buildings:</b>                                                                                       |                                  |                                                        | 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) <b>Machinery:</b>                                                                                       |                                  |                                                        | (ii) Pick-ups, Panel Vans<br>(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<br>moving equipment                                                        | 25% per year on reducing balance |                                                        |                                                                    |                           |                          |         |
| • Computer software, calculators,<br>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<br>operations under prospecting rights<br>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<br>fibre optic cable by telecommunication<br>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<br>(Sh.) | Annual rates<br>(Sh.) |
|---------------------------------------------------------|------------------------|-----------------------|
| (i) Electricity (Communal or from a generator)          | 1,500                  | 18,000                |
| (ii) Water (Communal or from a borehole)                | 500                    | 6,000                 |
| <b>Agriculture employees: Reduced rates of benefits</b> |                        |                       |
| (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.              |
|-------------------------------------------|------------------|
| <b>Income:</b>                            |                  |
| Sales to unregistered customers           | 2,337,480        |
| Sales to registered customers             | <u>5,939,483</u> |
|                                           | 8,276,963        |
| <b>Expenditure:</b>                       |                  |
| 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<br>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   |
| 4. In June 2021, one of the saloon cars was involved in an accident and the insurance company paid Sh.3,000,000 as compensation. |             |                   |
| 5. A borehole was drilled at a cost of Sh.1,400,000 and put in to use on 1 November 2021.                                        |             |                   |
| 6. The company made a gross profit of Sh.56,000,000 during the year ended 31 December 2021.                                      |             |                   |
| 7. 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          |
| <b>Other incomes:</b>           |                |                     |
| 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          |
| <b>Expenditure:</b>             |                |                     |
| 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 |

- 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.
- 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.
- 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.
- Miscellaneous expenses comprised of tools and implements of Sh.180,000 and computer software purchased at a cost of Sh.56,000.
- Advertising expense includes annual trade fair fee of Sh.40,000 and Sh.50,000 fee for renewing billboards advertising license.
- 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.
- 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.
- Medical expenses represent reimbursements to staff for medical bills paid. The medical scheme only covers senior employees.

**Required:**

- Prepare the adjusted taxable profit or loss of Hightec Ltd. for the year ended 31 December 2021. (10 marks)
- Determine the tax liability (if any) arising from the 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: 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<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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<br>(per year on<br>reducing<br>balance) | Prescribed benefit rates of motor vehicles<br>provided by employer |         |                           |                          |
|-------------------------------------------------------------------------------------------------------------|----------------------------------|--------------------------------------------------------|--------------------------------------------------------------------|---------|---------------------------|--------------------------|
| Capital expenditure incurred on:                                                                            |                                  |                                                        | (i) Saloons, Hatch Backs and Estates                               |         |                           |                          |
|                                                                                                             |                                  |                                                        |                                                                    |         | Monthly<br>rates<br>(Sh.) | Annual<br>rates<br>(Sh.) |
| (a) <b>Buildings:</b>                                                                                       |                                  |                                                        | 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) <b>Machinery:</b>                                                                                       |                                  |                                                        | (ii) Pick-ups, Panel Vans<br>(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<br>moving equipment                                                        | 25% per year on reducing balance |                                                        |                                                                    |         |                           |                          |
| • Computer software, calculators,<br>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<br>operations under prospecting rights<br>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<br>fibre optic cable by telecommunication<br>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**

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

**Agriculture employees: Reduced rates of benefits**

- (i) Water  
(ii) Electricity

**Monthly rates**

**(Sh.)**

- 1,500  
500

**Annual rates**

**(Sh.)**

- 18,000  
6,000

- 2,400  
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:**

|                                               |                  |
|-----------------------------------------------|------------------|
| Revenue from VAT registered customers.        | Sh.              |
| Revenue from consultancy services in Rwanda   | 1,790,750        |
| Revenue from Ministry of Lands contract       | 2,686,125        |
| Revenue from customers not registered for VAT | 1,486,250        |
|                                               | <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> | (4,749,475)      |
|                              |                | <u>3,800,450</u> |

**Additional information:**

- VAT withheld by withholding VAT agents was Sh.120,000 during the month.
- Motor vehicle insurance relates to the motor vehicle's annual premiums for comprehensive insurance.
- 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          |
| <b>Expenses:</b>                     |                |                    |
| 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)**

.....



**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<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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<br>(per year on<br>reducing<br>balance) | Prescribed benefit rates of motor vehicles<br>provided by employer |                           |                          |
|-------------------------------------------------------------------------------------------------------------|----------------------------------|--------------------------------------------------------|--------------------------------------------------------------------|---------------------------|--------------------------|
| Capital expenditure incurred on:                                                                            |                                  |                                                        | (i) Saloons, Hatch Backs and Estates                               |                           |                          |
|                                                                                                             |                                  |                                                        |                                                                    | Monthly<br>rates<br>(Sh.) | Annual<br>rates<br>(Sh.) |
| (a) <b>Buildings:</b>                                                                                       |                                  |                                                        | 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) <b>Machinery:</b>                                                                                       |                                  |                                                        | (ii) Pick-ups, Panel Vans<br>(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<br>moving equipment                                                        | 25% per year on reducing balance |                                                        |                                                                    |                           |                          |
| • Computer software, calculators,<br>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<br>operations under prospecting rights<br>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<br>fibre optic cable by telecommunication<br>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**

(i) Electricity (Communal or from a generator)

(ii) Water (Communal or from a borehole)

**Agriculture employees: Reduced rates of benefits**

(i) Water

(ii) Electricity

**Monthly rates**

**(Sh.)**

1,500

500

200

900

**Annual rates**

**(Sh.)**

18,000

6,000

2,400

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 country 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. Japtheth 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:

- He was entitled to a basic salary of Sh.2,500,000 per annum (PAYE Sh.250,000 per annum).
- 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
- 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.
- He was entitled to a bonus of Sh.120,000 per annum, The bonus for 2020 was however not paid until February 2021.
- 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 |

- 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.
- 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:                                                                                                                      | <b>Sh.</b>        |
| 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. Japtheth and his wife have agreed that each files his or her returns to the revenue authority.

**Required:**

- (a) Taxable income of Mr. Japtheth 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:

|                                           | <b>Sh.</b> | <b>Sh.</b>    |
|-------------------------------------------|------------|---------------|
| 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>1,224,000</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.

| Asset                                             | (Sh.)<br>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 ⅓%.

**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)**

.....



**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<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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<br>(per year on<br>reducing<br>balance) | Prescribed benefit rates of motor vehicles<br>provided by employer |                           |                          |
|-------------------------------------------------------------------------------------------------------------|----------------------------------|--------------------------------------------------------|--------------------------------------------------------------------|---------------------------|--------------------------|
| Capital expenditure incurred on:                                                                            |                                  |                                                        | (i) Saloons, Hatch Backs and Estates                               |                           |                          |
|                                                                                                             |                                  |                                                        |                                                                    | Monthly<br>rates<br>(Sh.) | Annual<br>rates<br>(Sh.) |
| (a) <b>Buildings:</b>                                                                                       |                                  |                                                        | 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) <b>Machinery:</b>                                                                                       |                                  |                                                        | (ii) Pick-ups, Panel Vans<br>(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<br>moving equipment                                                        | 25% per year on reducing balance |                                                        |                                                                    |                           |                          |
| • Computer software, calculators,<br>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<br>operations under prospecting rights<br>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<br>fibre optic cable by telecommunication<br>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**

(i) Electricity (Communal or from a generator)

(ii) Water (Communal or from a borehole)

**Agriculture employees: Reduced rates of benefits**

(i) Water

(ii) Electricity

**Monthly rates**

**(Sh.)**

1,500

500

200

900

**Annual rates**

**(Sh.)**

18,000

6,000

2,400

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 or equivalent 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. Japtheth 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 UNA 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 per share is Sh.72 while the market price at the time was Sh.79 per share.

Her other income comprised:

|                                                                                                                                       |                   |
|---------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Interest income:                                                                                                                      | <b>Sh.</b>        |
| Housing development bonds                                                                                                             | 200,000           |
| Treasury bonds                                                                                                                        | 120,000           |
| Investment fund                                                                                                                       | 85,000 (net)      |
| Dividend income: Mapato Sacco Ltd.                                                                                                    | 95,000 (net)      |
| Wezo 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 your country 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 your country. (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:

|                                           | <b>Sh.</b> | <b>Sh.</b>    |
|-------------------------------------------|------------|---------------|
| 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              | 1,296,000     |                     |
| Legal expenses                 | 1,224,000     |                     |
| Repairs expenses               | 1,023,400     |                     |
| 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                 | 1,080,000     |                     |
| Audit and accountancy fees     | 142,000       |                     |
| Debenture interest             | 1,800,000     |                     |
| 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>1,224,000</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 operations on 1 January 2020. The following information relates to the assets that the company purchased or constructed before commencement of operations.

| Asset                                             | (Sh.)<br>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 ⅓%.

**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)**

.....

**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<br>(Sh.) |          | Annual taxable pay<br>(Sh.) |           | Rate of tax<br>% 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<br>(per year on<br>reducing<br>balance) | Prescribed benefit rates of motor vehicles<br>provided by employer |                           |                          |         |
|-------------------------------------------------------------------------------------------------------------|----------------------------------|--------------------------------------------------------|--------------------------------------------------------------------|---------------------------|--------------------------|---------|
| Capital expenditure incurred on:                                                                            |                                  |                                                        | (i) Saloons, Hatch Backs and Estates                               |                           |                          |         |
|                                                                                                             |                                  |                                                        |                                                                    | Monthly<br>rates<br>(Sh.) | Annual<br>rates<br>(Sh.) |         |
| (a) <b>Buildings:</b>                                                                                       |                                  |                                                        | 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) <b>Machinery:</b>                                                                                       |                                  |                                                        | (ii) Pick-ups, Panel Vans<br>(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<br>moving equipment                                                        | 25% per year on reducing balance |                                                        |                                                                    |                           |                          |         |
| • Computer software, calculators,<br>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<br>operations under prospecting rights<br>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<br>fibre optic cable by telecommunication<br>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<br>(Sh.) | Annual rates<br>(Sh.) |
|---------------------------------------------------------|------------------------|-----------------------|
| (i) Electricity (Communal or from a generator)          | 1,500                  | 18,000                |
| (ii) Water (Communal or from a borehole)                | 500                    | 6,000                 |
| <b>Agriculture employees: Reduced rates of benefits</b> |                        |                       |
| (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:
- 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.<br>"000" | Sh.<br>"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:
 

|                                         | <b>Sh.</b> |
|-----------------------------------------|------------|
| 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:
 

|                                   | <b>Sh.</b> |
|-----------------------------------|------------|
| 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:
 

|                                      | <b>Sh.</b> |
|--------------------------------------|------------|
| 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:
 

|        | <b>Sh.</b> |
|--------|------------|
| Kamala | 600,000    |
| Susan  | 450,000    |
| Kubasu | 225,000    |

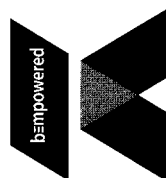
**Required:**

- (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<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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<br>(per year on<br>reducing<br>balance) | Prescribed benefit rates of motor vehicles<br>provided by employer |
|-------------------------------------------------------------------------------------------------------|----------------------------------|--------------------------------------------------------|--------------------------------------------------------------------|
| <b>Capital expenditure incurred on:</b>                                                               |                                  |                                                        | (i) Saloons, Hatch Backs and Estates                               |
|                                                                                                       |                                  |                                                        | <b>Monthly rates (Sh.)</b> <b>Annual rates (Sh.)</b>               |
| (a) <b>Buildings:</b>                                                                                 |                                  |                                                        |                                                                    |
| • 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) <b>Machinery:</b>                                                                                 |                                  |                                                        | (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<br>(Sh.) | Annual rates<br>(Sh.) |
|---------------------------------------------------------|------------------------|-----------------------|
| <b>Services</b>                                         |                        |                       |
| (i) Electricity (Communal or from a generator)          | 1,500                  | 18,000                |
| (ii) Water (Communal or from a borehole)                | 500                    | 6,000                 |
| <b>Agriculture employees: Reduced rates of benefits</b> |                        |                       |
| (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>   |
| <b>Less Expenses:</b>                 |                    |                     |
| 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:
 

|        | <b>Sh.</b> |
|--------|------------|
| Kalebu | 1,035,000  |
| Wekesa | 1,380,000  |
| Babu   | 1,150,000  |
6. Interest on capital comprised:
 

|        | <b>Sh.</b> |
|--------|------------|
| Kalebu | 374,900    |
| Wekesa | 170,200    |
| Babu   | 414,000    |
7. Legal fees included:
 

|                                          | <b>Sh.</b> |
|------------------------------------------|------------|
| 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:
 

|                            | <b>Sh.</b> |
|----------------------------|------------|
| 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:
 

|                                 | <b>Sh.</b> |
|---------------------------------|------------|
| 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:

|                                                    | <b>Sh.</b> |
|----------------------------------------------------|------------|
| 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:

|                      | <b>Sh.</b> |
|----------------------|------------|
| 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)**

.....



kasneb

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<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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<br>(per year on<br>reducing<br>balance) | Prescribed benefit rates of motor vehicles<br>provided by employer |                           |                          |
|-------------------------------------------------------------------------------------------------------------|----------------------------------|--------------------------------------------------------|--------------------------------------------------------------------|---------------------------|--------------------------|
| Capital expenditure incurred on:                                                                            |                                  |                                                        | (i) Saloons, Hatch Backs and Estates                               |                           |                          |
|                                                                                                             |                                  |                                                        |                                                                    | Monthly<br>rates<br>(Sh.) | Annual<br>rates<br>(Sh.) |
| (a) <b>Buildings:</b>                                                                                       |                                  |                                                        | 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) <b>Machinery:</b>                                                                                       |                                  |                                                        | (ii) Pick-ups, Panel Vans<br>(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<br>moving equipment                                                        | 25% per year on reducing balance |                                                        |                                                                    |                           |                          |
| • Computer software, calculators,<br>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<br>operations under prospecting rights<br>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<br>fibre optic cable by telecommunication<br>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<br>(Sh.) | Annual rates<br>(Sh.) |
|---------------------------------------------------------|------------------------|-----------------------|
| (i) Electricity (Communal or from a generator)          | 1,500                  | 18,000                |
| (ii) Water (Communal or from a borehole)                | 500                    | 6,000                 |
| <b>Agriculture employees: Reduced rates of benefits</b> |                        |                       |
| (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:**

1. Included in the factory land and building is the cost of land valued at Sh.45,000,000.
2. One of the saloon cars was disposed of during the year for Sh.2,200,000.
3. 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:

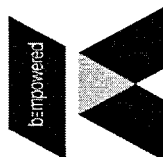
|                                            | Sh."000"     | Sh."000"        |
|--------------------------------------------|--------------|-----------------|
| Sales (inclusive of VAT at 14%)            |              | 114,000         |
| Cost of goods sold                         |              | <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          |
| <b>Less expenses:</b>                      |              |                 |
| 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>18,750</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)**
- .....



**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<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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<br>(per year on<br>reducing<br>balance) | Prescribed benefit rates of motor vehicles<br>provided by employer |           |                           |                          |
|-------------------------------------------------------------------------------------------------------------|----------------------------------|--------------------------------------------------------|--------------------------------------------------------------------|-----------|---------------------------|--------------------------|
| Capital expenditure incurred on:                                                                            |                                  |                                                        | (i) Saloons, Hatch Backs and Estates                               |           |                           |                          |
|                                                                                                             |                                  |                                                        |                                                                    |           | Monthly<br>rates<br>(Sh.) | Annual<br>rates<br>(Sh.) |
| (a) <b>Buildings:</b>                                                                                       |                                  |                                                        | 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) <b>Machinery:</b>                                                                                       |                                  |                                                        | (ii) Pick-ups, Panel Vans<br>(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<br>moving equipment                                                        | 25% per year on reducing balance |                                                        |                                                                    |           |                           |                          |
| • Computer software, calculators,<br>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<br>operations under prospecting rights<br>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<br>fibre optic cable by telecommunication<br>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<br>(Sh.) | Annual rates<br>(Sh.) |
|---------------------------------------------------------|------------------------|-----------------------|
| <b>Services</b>                                         |                        |                       |
| (i) Electricity (Communal or from a generator)          | 1,500                  | 18,000                |
| (ii) Water (Communal or from a borehole)                | 500                    | 6,000                 |
| <b>Agriculture employees: Reduced rates of benefits</b> |                        |                       |
| (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              |
| <b>Less: Expenses:</b>           |               |                         |
| 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:
 

|                                                 |            |
|-------------------------------------------------|------------|
|                                                 | <b>Sh.</b> |
| 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:
 

|                                                     |               |
|-----------------------------------------------------|---------------|
|                                                     | <b>Sh.</b>    |
| 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:
 

|                                              |            |
|----------------------------------------------|------------|
|                                              | <b>Sh.</b> |
| 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          |
| <b>Less expenses:</b>                   |               |                    |
| 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:**

- Gross sales include VAT at 14%. In addition, 10% of sales before VAT represents closing stock. The stock had been overstated by 20%.
- The amounts due to partners are to be apportioned according to profit or loss sharing ratios.
- 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> |
- 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                            | <u>72,500</u> |
- 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:**

- Adjusted partnership statement of profit or loss for the year ended 31 December 2020. (8 marks)
- 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: 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<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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<br>(Sh.)                  | Annual rates<br>(Sh.) |
|----------------------------------------------|-----------------------------------------|-----------------------|
| <b>Capital allowance:</b>                    |                                         |                       |
| <b>Wear and tear allowance:</b>              |                                         |                       |
| Class I 37.5%                                | (i) Saloons, Hatch Backs and Estates    |                       |
| Class II 30%                                 | Up to 1200 cc 3,600                     | 43,200                |
| Class III 25%                                | 1201 1500 cc 4,200                      | 50,400                |
| Class IV 12.5%                               | 1501 1750 cc 5,800                      | 69,600                |
| Software 20%                                 | 1751 2000 cc 7,200                      | 86,400                |
|                                              | 2001 3000 cc 8,600                      | 103,200               |
|                                              | Over 3000 cc 14,400                     | 172,800               |
| <b>Industrial building allowance:</b>        |                                         |                       |
| Up to 2009 2.5%                              |                                         |                       |
| From 1 January 2010 10%                      |                                         |                       |
| Hotels 10%                                   |                                         |                       |
| Hostels/Education buildings 50%              |                                         |                       |
| From 1 January 2010-<br>Commercial building: |                                         |                       |
| (Shop, office or show room) 25%              |                                         |                       |
| <b>Farm works allowance 100%</b>             | (ii) Pick-ups, Panel Vans (unconverted) |                       |
| <b>Investment deduction allowance 100%</b>   | Up to 1750 cc 3,600                     | 43,200                |
|                                              | Over 1750 cc 4,200                      | 50,400                |
|                                              | (iii) Land Rovers/Cruisers 7,200        | 86,400                |
| <b>Shipping investment deduction 40%</b>     |                                         |                       |
| <b>Mining allowance:</b>                     |                                         |                       |
| Year 1 - 40%                                 |                                         |                       |
| Years 2 - 7 - 10%                            |                                         |                       |

#### Commissioner's prescribed benefit rates

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



## QUESTION ONE

- QUESTION ONE**
- (a) Distinguish between “division of revenue” and “allocation of revenue” as used in revenue management at national and county government levels. (4 marks)
- (b) Outline five roles played by the county head of internal audit services in relation to public finance management. (5 marks)
- (c) During a recent seminar on “overview of public finance and management”, a senior National Treasury official remarked that, “there has been a very low budget absorption capacity by the county governments”.

In relation to the above statement:

- (i) Explain the meaning of “low budget absorption capacity”. (2 marks)
- (ii) Identify three possible causes of low budget absorption capacity. (3 marks)
- (d) The Commission on Revenue Allocation (CRA) is supposed to ensure equitable sharing of national revenue. Discuss three parameters used by the Commission in sharing revenue among county governments or their equivalent in your country. (6 marks)
- (Total: 20 marks)**

## QUESTION TWO

- QUESTION TWO**
- (a) Explain the following terms as used under the Public Procurement and Asset Disposal Act, 2015:
- (i) Electronic reverse auction. (2 marks)
- (ii) Framework agreement. (2 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) John Mpumalanga is a trader registered for value added tax (VAT). He also offers consultancy services for clients at a fee. He has provided you with the following information relating to his business for the month of March 2017:

|                                                          | <b>Sh.</b> |
|----------------------------------------------------------|------------|
| Consultancy fee: Local clients                           | 1,587,500  |
| Clients in the Democratic Republic of Congo              | 389,375    |
| Sale of goods: Exports                                   | 400,000    |
| Local market                                             | 3,200,000  |
| E-mail and webhosting expenses                           | 92,000     |
| Legal fees incurred                                      | 608,000    |
| Import of goods for resale (cost, insurance and freight) | 450,000    |
| Consultancy fee: Client with goods on transit            | 500,000    |
| Photocopying costs                                       | 90,000     |
| Audit fee paid                                           | 260,000    |
| Purchases: Zero rated                                    | 250,000    |
| Standard rate                                            | 1,900,000  |
| Sales (Exempt)                                           | 620,000    |

**Additional information:**

- Additional information:**
- On the goods imported for resale, John incurred transport cost of Sh.50,000 and repackaging cost of Sh.20,000 before adding a mark-up of 20% and later selling them as part of exports.
  - The exempt sales had been purchased at standard rate and constituted 25% of the batch.
  - On 13 March 2017, a customer owing Sh.45,000 was declared bankrupt.
  - John received credit notes of Sh.25,000 and sent out debit notes of Sh.50,000 during the month.
  - The rate of customs duty was 25%.

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

**Required:**

**Required:**  
Compute the value added tax (VAT) payable by (or refundable to) John Mpumalanga for the month of March 2017.  
(10 marks)

(Total: 20 marks)

**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          |
| <b>Expenses:</b>                     |               |                    |
| 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> |                    |
| Net profit                           |               | <u>(3,772,000)</u> |
|                                      |               | <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)**

.....

# 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<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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<br>(Sh.)               | Annual rates<br>(Sh.) |
|---------------------------------|--------------------------------------|-----------------------|
| <b>Capital allowance:</b>       |                                      |                       |
| <b>Wear and tear allowance:</b> |                                      |                       |
| Class I 37.5%                   | (i) Saloons, Hatch Backs and Estates |                       |
| Class II 30%                    | Up to 1200 cc                        | 3,600                 |
| Class III 25%                   | 1201 1500 cc                         | 4,200                 |
| Class IV 12.5%                  | 1501 1750 cc                         | 5,800                 |
| Software 20%                    | 1751 2000 cc                         | 7,200                 |
|                                 | 2001 3000 cc                         | 8,600                 |
|                                 | 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 |
| Over 1750 cc  | 4,200 |

#### (iii) Land Rovers/Cruisers

|       |        |
|-------|--------|
| 7,200 | 86,400 |
|-------|--------|

#### Extraction expenditure:

Written off over 5 years (20%)

#### Commissioner's prescribed benefit rates

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

### 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) Ziواني 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<br>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 Ziواني Ltd. for the year ended 31 December 2015. (8 marks)
- (ii) A statement of adjusted taxable profit or loss for Ziواني 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:**

| <b>Receipts</b>      | <b>Sh.</b> | <b>Payments</b>      | <b>Sh.</b> |
|----------------------|------------|----------------------|------------|
| 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:**

|                                       | <b>1 January 2015</b> | <b>31 December 2015</b> |
|---------------------------------------|-----------------------|-------------------------|
|                                       | <b>Sh.</b>            | <b>Sh.</b>              |
| 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<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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<br>(Sh.) | Annual rates<br>(Sh.) |
|--------------------------------------|------------------------|-----------------------|
| <b>Capital allowance:</b>            |                        |                       |
| <b>Wear and tear allowance:</b>      |                        |                       |
| Class I 37.5%                        |                        |                       |
| Class II 30%                         |                        |                       |
| Class III 25%                        |                        |                       |
| Class IV 12.5%                       |                        |                       |
| Software 20%                         |                        |                       |
| (i) Saloons, Hatch Backs and Estates |                        |                       |
| Up to 1200 cc                        | 3,600                  | 43,200                |
| 1201 - 1500 cc                       | 4,200                  | 50,400                |
| 1501 - 1750 cc                       | 5,800                  | 69,600                |
| 1751 - 2000 cc                       | 7,200                  | 86,400                |
| 2001 - 3000 cc                       | 8,600                  | 103,200               |
| Over 3000 cc                         | 14,400                 | 172,800               |

#### Industrial building allowance:

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

#### Farm works allowance

100%

#### Investment deduction allowance

100%

#### Shipping investment deduction (Ships over 125 tonnes)

100%

#### (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<br>Sh. | Annual rates<br>Sh. |
|---------------------------------------------------------|----------------------|---------------------|
| <b>Services</b>                                         |                      |                     |
| (i) Electricity (Communal or from a generator)          | 1,500                | 18,000              |
| (ii) Water (Communal or from a borehole)                | 500                  | 6,000               |
| <b>Agriculture employees: Reduced rates of benefits</b> |                      |                     |
| (i) Water                                               | 200                  | 2,400               |
| (ii) Electricity                                        | 900                  | 10,800              |

### QUESTION ONE

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

### QUESTION TWO

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

### QUESTION THREE

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

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

#### Required:

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

#### QUESTION FOUR

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

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

**Required:**

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

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

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

**Additional information:**

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

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

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

**Required:**

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

#### QUESTION FIVE

- (a) Outline four contents of a notice of assessment. (4 marks)
- (b) In a tax seminar, one of the facilitators noted that "introduction of information communication technology in taxation, such as the iTax system by the Revenue Authority has benefited both the taxpayer and the Revenue Authority".

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

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

|                                             | Sh.           | Sh.                |
|---------------------------------------------|---------------|--------------------|
| Sales (inclusive of VAT at the rate of 16%) |               | 9,280,000          |
| Capital gain on sale of property            |               | 290,000            |
| Rental income                               |               | 240,000            |
| Dividends from Waki Cooperative (net)       |               | 170,000            |
| Unrealised foreign exchange gain            |               | <u>94,000</u>      |
|                                             |               | 10,074,000         |
| <b>Less expenses:</b>                       |               |                    |
| 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:**

- 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  |
- 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 |
- Salaries to partners and interest on partners capital is to be shared according to the profit and loss sharing ratio.
- Salaries and wages include salaries to employees of Sh.160,000 while the balance was paid to partners.
- Cost of goods sold include purchases valued at Sh.300,000 which had been overstated by 20%.

**Required:**

- Adjusted taxable profit or loss for the partnership for the year ended 31 December 2015. (8 marks)
  - 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

#### 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<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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<br>(Sh.)                  | Annual rates<br>(Sh.) |
|--------------------------------------------|-----------------------------------------|-----------------------|
| <b>Capital allowance:</b>                  |                                         |                       |
| <b>Wear and tear allowance:</b>            |                                         |                       |
| Class I 37.5%                              | (i) Saloons, Hatch Backs and Estates    |                       |
| Class II 30%                               | Up to 1200 cc                           | 3,600                 |
| Class III 25%                              | 1201 1500 cc                            | 4,200                 |
| Class IV 12.5%                             | 1501 1750 cc                            | 5,800                 |
| Software 20%                               | 1751 2000 cc                            | 7,200                 |
|                                            | 2001 3000 cc                            | 8,600                 |
|                                            | Over 3000 cc                            | 14,400                |
| <b>Industrial building allowance:</b>      |                                         |                       |
| 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%            |                                         |                       |
| <b>Farm works allowance 100%</b>           | (ii) Pick-ups, Panel Vans (unconverted) |                       |
| <b>Investment deduction allowance 100%</b> | Up to 1750 cc                           | 3,600                 |
|                                            | Over 1750 cc                            | 4,200                 |
|                                            | (iii) Land Rovers/Cruisers              | 7,200                 |
| <b>Shipping investment deduction 40%</b>   |                                         |                       |
| <b>Mining allowance:</b>                   |                                         |                       |
| Year 1 - 40%                               |                                         |                       |
| Years 2 - 7 - 10%                          |                                         |                       |

**Commissioner's prescribed benefit rates**

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

|                              |         |                  |
|------------------------------|---------|------------------|
| 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:

|                                 |                  |
|---------------------------------|------------------|
|                                 | <b>Sh.</b>       |
| 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:

|                                         |            |
|-----------------------------------------|------------|
|                                         | <b>Sh.</b> |
| 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:

|                           |            |
|---------------------------|------------|
|                           | <b>Sh.</b> |
| 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:**

1. A borehole was drilled at a cost of Sh.1,300,000 and utilised with effect from 1 November 2014.
2. On 1 December 2014, the company constructed a factory extension at a cost of Sh.2,650,000 and put to use immediately.
3. 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   |
4. 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**

- (a) 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)
- (b) 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)

- (c) 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:

|                                |                  |
|--------------------------------|------------------|
|                                | <b>Sh. '000'</b> |
| 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)**
- .....

# 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<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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<br>(Sh.)                                   | Annual rates<br>(Sh.) |
|---------------------------------------------------------------------------------|----------------------------------------------------------|-----------------------|
| <b>Capital allowance:</b>                                                       |                                                          |                       |
| <b>Wear and tear allowance:</b>                                                 |                                                          |                       |
| Class I 37.5%                                                                   | (i) Saloons, Hatch Backs and Estates<br>Up to 1200 cc    | 3,600 43,200          |
| Class II 30%                                                                    | 1201 - 1500 cc                                           | 4,200 50,400          |
| Class III 25%                                                                   | 1501 - 1750 cc                                           | 5,800 69,600          |
| Class IV 12.5%                                                                  | 1751 - 2000 cc                                           | 7,200 86,400          |
| Software 20%                                                                    | 2001 - 3000 cc                                           | 8,600 103,200         |
|                                                                                 | Over 3000 cc                                             | 14,400 172,800        |
| <b>Industrial building allowance:</b>                                           |                                                          |                       |
| Up to 2009 2.5%                                                                 |                                                          |                       |
| From 1 January 2010 10%                                                         |                                                          |                       |
| Hotels 10%                                                                      |                                                          |                       |
| Hostels/Education buildings 50%                                                 |                                                          |                       |
| From 1 January 2010-<br>Commercial building:<br>(Shop, office or show room) 25% |                                                          |                       |
| <b>Farm works allowance</b> 100%                                                | (ii) Pick-ups, Panel Vans (unconverted)<br>Up to 1750 cc | 3,600 43,200          |
| <b>Investment deduction allowance</b> 100%                                      | Over 1750 cc                                             | 4,200 50,400          |
|                                                                                 | (iii) Land Rovers/Cruisers                               | 7,200 86,400          |
| <b>Shipping investment deduction</b> 40%                                        |                                                          |                       |
| <b>Mining allowance:</b>                                                        |                                                          |                       |
| Year 1 - 40%                                                                    |                                                          |                       |
| Years 2 - 7 - 10%                                                               |                                                          |                       |

#### Commissioner's prescribed benefit rates

|                                                         | Monthly rates<br>Sh. | Annual rates<br>Sh. |
|---------------------------------------------------------|----------------------|---------------------|
| <b>Services</b>                                         |                      |                     |
| (i) Electricity (Communal or from a generator)          | 1,500                | 18,000              |
| (ii) Water (Communal or from a borehole)                | 500                  | 6,000               |
| <b>Agriculture employees: Reduced rates of benefits</b> |                      |                     |
| (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)

.....





**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 |   |        | Annual taxable pay |   |         | Rate of tax   |   |
|---------------------|---|--------|--------------------|---|---------|---------------|---|
| (Sh.)               |   |        | (Sh.)              |   |         | % 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.)        |
| <b>Capital allowance:</b>                  |       | (i)   | Saloons, Hatch Backs and Estates   |               |              |
| <b>Wear and tear allowance:</b>            |       | 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      |
| <b>Industrial building allowance:</b>      |       |       |                                    |               |              |
| 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%   |       |                                    |               |              |
| <b>Farm works allowance</b>                | 100%  | (ii)  | Pick-ups, Panel Vans (unconverted) |               |              |
| <b>Investment deduction allowance</b>      | 100%  | Up to | 1750 cc                            | 3,600         | 43,200       |
|                                            |       | Over  | 1750 cc                            | 4,200         | 50,400       |
| <b>Shipping investment deduction</b>       | 100%  | (iii) | Land Rovers/Cruisers               | 7,200         | 86,400       |
| (Ships over 125 tonnes)                    |       |       |                                    |               |              |

**Extraction expenditure:**

Written off over 5 years (20%)

**Commissioner's prescribed benefit rates**

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



### QUESTION ONE

- (a) The Public Finance Management Act requires that, not later than 30<sup>th</sup> 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                          | 7,586,400 |
| Relief supplies                         | 1,740,000 |
| 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:

|                            | <b>Sh.</b> |
|----------------------------|------------|
| 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"       |
|-----------------------------|------------|-----------------|
| <b>Income</b>               |            |                 |
| 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           |
| <b>Expenses</b>             |            |                 |
| Impairment loss             | 340        |                 |
| Insurance and interest      | 490        |                 |
| Rent and rates              | 810        |                 |
| Deprecation                 | 263        |                 |
| Commission to Philip        | 440        |                 |
| Purchase of saloon car      | 3,500      |                 |
| Legal fees                  | 670        |                 |
| VAT paid                    | 1,200      |                 |
| Repairs to rental property  | 510        |                 |
| Salaries and wages          | 1,760      |                 |
| Medical expenses            | <u>978</u> | <u>(10,961)</u> |
| 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<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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<br>(Sh.) (Sh.) |                |
|---------------------------------------------------------------|-------|-------------------------------------------|----------------|
| <b>Capital allowance:</b>                                     |       |                                           |                |
| <b>Wear and tear allowance:</b>                               |       |                                           |                |
| Class I                                                       | 37.5% | (i) Saloons, Hatch Backs and Estates      |                |
| Class II                                                      | 30%   | Up to 1200 cc                             | 3,600 43,200   |
| Class III                                                     | 25%   | 1201 - 1500 cc                            | 4,200 50,400   |
| Class IV                                                      | 12.5% | 1501 - 1750 cc                            | 5,800 69,600   |
| Software                                                      | 20%   | 1751 - 2000 cc                            | 7,200 86,400   |
|                                                               |       | 2001 - 3000 cc                            | 8,600 103,200  |
|                                                               |       | Over 3000 cc                              | 14,400 172,800 |
| <b>Industrial building allowance:</b>                         |       |                                           |                |
| 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%   |                                           |                |
| <b>Farm works allowance</b>                                   | 100%  | (ii) Pick-ups, Panel Vans (unconverted)   |                |
| <b>Investment deduction allowance</b>                         | 100%  | Up to 1750 cc                             | 3,600 43,200   |
|                                                               |       | Over 1750 cc                              | 4,200 50,400   |
| <b>Shipping, investment deduction (Ships over 125 tonnes)</b> | 100%  | (iii) Land Rovers/Cruisers                | 7,200 86,400   |

**Extraction expenditure:**

Written off over 5 years (20%)

**Commissioner's prescribed benefit rates**

| Services                                                | Monthly rates<br>(Sh.) | Annual rates<br>(Sh.) |
|---------------------------------------------------------|------------------------|-----------------------|
| (i) Electricity (Communal or from a generator)          | 1,500                  | 18,000                |
| (ii) Water (Communal or from a borehole)                | 500                    | 6,000                 |
| <b>Agriculture employees: Reduced rates of benefits</b> |                        |                       |
| (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          |
|            | <b>Total</b>                |       | <b>1,690,000</b> |

**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          |
|            | <b>Total</b>           |       | <b>1,100,000</b> |

**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        |
|          |                      | <b>1,760,000</b> | <b>4,650,000</b> |          |                     | <b>1,760,000</b> | <b>4,650,000</b> |

**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: (2 marks)
- (i) Clean report of findings. (2 marks)
- (ii) Import declaration form. (4 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          |
| <b>Interest on capital:</b>    |                  |                          |                  |
| Teddy                          | 60,000           |                          |                  |
| Racheal                        | 70,000           |                          |                  |
| Michael                        | 80,000           |                          |                  |
| Legal fees                     | 82,000           |                          |                  |
| <b>Commission to partners:</b> |                  |                          |                  |
| 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                     | 1,040,000        |                          |                  |
|                                | <u>2,882,000</u> |                          | <u>2,882,000</u> |

**Additional information:**

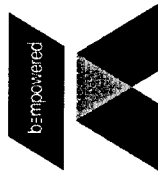
- It has been the firm's practice to value the stocks at the cost price, however, the closing stock amounting to Sh.180,000 was valued based on net realisable value which is 10% less of its cost price.
- Salaries and wages include salaries amounting to Sh.40,000 paid to Racheal.
- Advertising includes Sh.10,000 spent on advertising campaign to introduce a new product in the market.
- Legal fees include a sum of Sh.12,000 paid as parking fine and penalty to the county government.
- Capital allowances have been agreed with the Commissioner of Income Tax at Sh.90,000.
- 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.
- 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<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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%   |

(i) Saloons, Hatch Backs and Estates

|                |        |         |
|----------------|--------|---------|
| Up to 1200 cc  | 3,600  | 43,200  |
| 1201 - 1500 cc | 4,200  | 50,400  |
| 1501 - 1750 cc | 5,800  | 69,600  |
| 1751 - 2000 cc | 7,200  | 86,400  |
| 2001 - 3000 cc | 8,600  | 103,200 |
| Over 3000 cc   | 14,400 | 172,800 |

**Industrial building allowance:**

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

**Farm works allowance** 100%

**Investment deduction allowance** 100%

**Shipping investment deduction** 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**

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

### 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:

1. The firm received debit notes valued at Sh.23,200 in respect to erroneous invoices issued by suppliers.
2. The firm issued credit notes of Sh.20,880 to credit customers because of price adjustments.
3. 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%.
4. A debtor of goods valued at Sh.32,480 was declared bankrupt, and the debt written off.
5. 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.
6. 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.                |
|--------------------------------------------------|------------------|--------------------|
| <b>Income:</b>                                   |                  |                    |
| 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         |
| <b>Less expenses:</b>                            |                  |                    |
| 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.                |
|--------------------------------------------------|---------------|--------------------|
| <b>Income:</b>                                   |               |                    |
| 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>   |
| <b>Less expenses:</b>                            |               |                    |
| 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:

|         |            |
|---------|------------|
|         | <b>Sh.</b> |
| 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)**
- .....



**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<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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<br>(Sh.)               | Annual rates<br>(Sh.) |
|---------------------------------|--------------------------------------|-----------------------|
| <b>Capital allowance:</b>       |                                      |                       |
| <b>Wear and tear allowance:</b> |                                      |                       |
| Class I 37.5%                   | (i) Saloons, Hatch Backs and Estates |                       |
| Class II 30%                    | Up to 1200 cc                        | 3,600                 |
| Class III 25%                   | 1201 1500 cc                         | 4,200                 |
| Class IV 12.5%                  | 1501 1750 cc                         | 5,800                 |
| Software 20%                    | 1751 2000 cc                         | 7,200                 |
|                                 | 2001 3000 cc                         | 8,600                 |
|                                 | 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)**

**Extraction expenditure:**

Written off over 5 years (20%)

**Commissioner's prescribed benefit rates**

| Services                                         | Monthly rates<br>Sh. | Annual rates<br>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)  | 330,000        |
| 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)**

-----





**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<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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<br>(Sh.)               | Annual rates<br>(Sh.) |
|---------------------------------|--------------------------------------|-----------------------|
| <b>Capital allowance:</b>       |                                      |                       |
| <b>Wear and tear allowance:</b> |                                      |                       |
| Class I 37.5%                   | (i) Saloons, Hatch Backs and Estates |                       |
| Class II 30%                    | Up to 1200 cc                        | 3,600                 |
| Class III 25%                   | 1201 - 1500 cc                       | 4,200                 |
| Class IV 12.5%                  | 1501 - 1750 cc                       | 5,800                 |
| Software 20%                    | 1751 - 2000 cc                       | 7,200                 |
|                                 | 2001 - 3000 cc                       | 8,600                 |
|                                 | Over 3000 cc                         | 14,400                |

**Industrial building allowance:**

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

**Farm works allowance**

100%

**Investment deduction allowance**

100%

**Shipping investment deduction  
(Ships over 125 tonnes)**

100%

**Extraction expenditure:**

Written off over 5 years (20%)

**Commissioner's prescribed benefit rates**

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

**CA23, CS23, CF23 & CP23 Page I  
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<br>1 January 2017 | Additions during<br>the year (at cost) | Depreciation<br>for the year | Disposal proceeds<br>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:**

1. A perimeter wall was constructed at a cost of Sh.960,000 during the year ended 31 December 2017.
2. 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.
3. 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:

- 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 |

- Salaries and wages include Sh.525,000, Sh.600,000 and Sh.235,000 paid to Chege, Telek and Lopez respectively.
- Mortgage interest relates to a partner's residential house.
- Assume that the income accrued evenly throughout the year.
- 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 |

- Repair and maintenance costs comprise:

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

- Bad and doubtful debts comprise:

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

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

#### Required:

- Adjusted taxable profit or loss for the partnership for the year ended 31 December 2017. (8 marks)
- 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<br>(Sh.) | Annual taxable pay<br>(Sh.) | Rate of tax<br>% 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<br>(Sh.) | Annual rates<br>(Sh.) |
|-------------------------------------------------|-----------------------------------------|------------------------|-----------------------|
| <b>Capital allowance:</b>                       | (i) Saloons, Hatch Backs and Estates    |                        |                       |
| <b>Wear and tear allowance:</b>                 | 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               |
| <b>Industrial building allowance:</b>           | (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%                 |                                         |                        |                       |
| <b>Farm works allowance</b> 100%                |                                         |                        |                       |
| <b>Investment deduction allowance</b> 100%      |                                         |                        |                       |
| <b>Shipping investment deduction</b> 100%       |                                         |                        |                       |
| (Ships over 125 tonnes)                         |                                         |                        |                       |
| <b>Extraction expenditure:</b>                  |                                         |                        |                       |
| Written off over 5 years (20%)                  |                                         |                        |                       |

Commissioner's prescribed benefit rates

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



### QUESTION ONE

- (a) The Constitution and the Public Finance Management Act provide for establishment of public funds.

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

- (i) Revenue funds for county government. (2 marks)
- (ii) Contingencies fund. (2 marks)
- (b) Summarise five functions of the Commission on Revenue Allocation (CRA). (5 marks)
- (c) In order to achieve its objectives, the public finance management regulatory framework or equivalent frameworks contemplate certain principles to guide all aspects of public finance.

With reference to the above statement, identify five such principles. (5 marks)

- (d) Citing six reasons, justify why an accounting officer of a procuring entity, may, at any time, prior to notification of tender award, terminate or cancel procurement or asset disposal proceedings without entering into a contract. (6 marks)

(Total: 20 marks)

### QUESTION TWO

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

|                       |                    | Sh.     |              |
|-----------------------|--------------------|---------|--------------|
| <b>Cash purchases</b> |                    |         |              |
| 1 May 2017            | Furniture          | 174,000 |              |
| 5 May 2017            | Goods for sale     | 232,000 |              |
| 10 May 2017           | Stationery         | 58,000  |              |
|                       |                    | 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  |
| Capital gain | : Sale of private customised landrover at a profit | 120,000 |

**Required:**

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

**(Total: 20 marks)**

**QUESTION FOUR**

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

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

**Additional information:**

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

**Required:**

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

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

| <b>Income</b>                       | <b>Sh.</b>     | <b>Sh.</b>         |
|-------------------------------------|----------------|--------------------|
| 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          |
| <b>Expenditure</b>                  |                |                    |
| 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:**

- Audit fees include Sh.100,000 for auditing a subsidiary company and Sh.80,000 for the preparation of revised accounts.
- 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  |
- 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 |
- Bad debts represented the general provision as at the end of the year.
- 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**

- 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)
- Summarise four actions that the revenue authority in your country could take against tax payers for recovery of overdue tax. (4 marks)
- 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:

|                                 | <b>Sh."000"</b> | <b>Sh."000"</b> |
|---------------------------------|-----------------|-----------------|
| Sales                           |                 | 31,200          |
| <b>Less: Cost of sales</b>      |                 |                 |
| Opening stock                   | 9,900           |                 |
| Purchases                       | 17,100          |                 |
| Closing stock                   | <u>(6,200)</u>  | <u>(20,800)</u> |
| Gross profit                    |                 | 10,400          |
| <b>Add: Other income</b>        |                 |                 |
| 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          |

