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ATD LEVEL III

DCM LEVEL III

PRINCIPLES OF PUBLIC FINANCE AND TAXATION

TUESDAY: 18 May 2021.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Any assumptions made must be clearly and concisely stated.

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

Year of income 2020.

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

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

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

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

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

QUESTION ONE

- (a) Explain the following terms as used in public finance management:
- (i) Budget ceilings. (2 marks)
 - (ii) Vote-on-account. (2 marks)
 - (iii) National government security. (2 marks)
- (b) State four factors that should be taken into consideration in the allocation of the national revenue between the national government and county governments. (4 marks)
- (c) Discuss five functions of the Auditor General as envisaged by the Constitution and the Public Finance Management Act. (10 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Highlight four parties or persons whose views must be sought and incorporated by the National Treasury in preparation of the Budget Policy Statement according to the Public Finance Management Act. (4 marks)
- (b) Explain the following types of taxes:
- (i) Progressive taxes. (2 marks)
 - (ii) Regressive taxes. (2 marks)
- (c) The following details were extracted from the books of Mapato Ltd., a registered business for value added tax (VAT) purposes for the month of August 2020:

Sales Journal		
Date	Details	Amount (Sh.)
August : 2	Hekima Traders	104,310
August : 8	J. Omollo	62,700
August : 14	Kampala Traders (Uganda)	400,000
August : 20	Mkopo Enterprises	230,280
August : 28	Ministry of Health	694,260
	Total	<u>1,491,550</u>

Purchases Journal		
Date	Details	Amount (Sh.)
August : 1	Matunda Traders	417,240
August : 3	Wizary Traders	928,530
August : 10	K. Kamau	250,800
	Total	<u>1,596,570</u>

Additional information:

1. A trade discount of Sh.37,620 from Wizary Traders had not been deducted from the records.
2. On 31 August 2020, Mapato Ltd. issued a debit note to Mkopo Enterprises for Sh.34,200.
3. J. Omollo was declared bankrupt by a court of law. As at the date of declaration, he owed Mapato Ltd. Sh.23,256 in relation to the goods supplied.
4. During the month of August 2020, the following expenses were paid through Mapato Ltd. bank account:

	Sh.
Audit services	57,000
Stationery	17,100
Salaries and wages	835,050
Legal services	104,310
Water bills	8,550
Electricity bills	43,890

The above transactions are quoted inclusive of VAT at the rate of 14% where applicable.

Required:

A VAT account for Mapato Ltd. for the month of August 2020.

(12 marks)
(Total: 20 marks)

QUESTION THREE

- (a) State four documents that an importer should have while clearing goods at the port of entry in the country. (4 marks)
- (b) Distinguish between the terms "Transit" and "Transshipment" as used in custom and excise taxes. (4 marks)
- (c) Philip Lupisha is employed by Hesabu Contractors Ltd. as a managing director.

During the year ended 31 December 2020, he presented the following information for income tax purposes:

1. He received a gross monthly salary of Sh.465,000. The company deducted Sh.135,000 from his monthly salary as PAYE.
2. The employer has a life insurance scheme for all the senior employees. During the year the company paid Sh.180,000 for Philip Lupisha in regard to the scheme.
3. He was provided with a saloon car of 1,750 cc by the company on 1 July 2020. The car had been purchased for Sh.960,000 in 2019 and was to be used for both private and official duties.
4. School fees amounting to Sh.120,000 was paid by the company for Philip Lupisha's children during the year. This amount was expensed in the company's income statement.
5. He was provided with a company house furnished at the cost of Sh.420,000 during the year.
6. He contributed Sh.6,000 per month to an approved pension scheme while the employer contributed a similar amount for him.
7. He received a bonus of Sh.80,000 from the company in December 2020 for being the best employee of the year.
8. He attended a seminar for 10 days during the month of September 2020. He was paid a daily allowance of Sh.5,000 for his accommodation.
9. The company house provided was fixed with a telephone line and the company paid an average monthly bill of Sh.5,800.
10. On 1 October 2020, Philip Lupisha obtained a loan of Sh.1,800,000 at an interest rate of 8% per annum from Hesabu Contractors Ltd. The prevailing market interest rate was 18% per annum while the prescribed interest rate by the Commissioner was 12%.
11. Philip Lupisha's other income for the year comprised:

	Sh.
Part-time lecturing fee	280,000
Monthly pension income	28,000
Interest from infrastructure bond	96,000
Business income	120,000

Required:

- (i) Taxable income of Philip Lupisha for the year ended 31 December 2020. (10 marks)
- (ii) Tax payable (if any) on the income computed in (c) (i) above. (2 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Riziki Ltd. presented the following statement of profit or loss for the year ended 31 December 2020:

	Sh.	Sh.
Revenues		12,800,000
Cost of sales		<u>(4,300,000)</u>
Gross profit		8,500,000
Expenses:		
Distribution costs	1,300,000	
General expenses	960,000	
Depreciation	140,000	
Provision for tax	180,000	
Staff costs	1,900,000	
Specific provision for bad debts	250,000	
Repairs and maintenance	137,000	
Legal fees	<u>1,200,000</u>	<u>(6,067,000)</u>
Net profit		<u>2,433,000</u>

Additional information:

1.	Distribution costs include:	Sh.
	Motor vehicle running and maintenance cost	400,000
	Traffic fines	180,000
	Replacement of motor vehicle engine	550,000
	Motor vehicle insurance and licensing cost	<u>170,000</u>
		<u>1,300,000</u>
2.	General expenses include:	Sh.
	Office renovation and re-painting	370,000
	Office lease amortisation	<u>590,000</u>
		<u>960,000</u>
3.	Staff costs include:	Sh.
	Salaries and wages	960,000
	Cash embezzlement by the cashier	80,000
	Staff catering costs	420,000
	Staff Christmas party	<u>440,000</u>
		<u>1,900,000</u>
4.	Legal fees include:	Sh.
	VAT penalties	800,000
	Drafting employment contracts	150,000
	Defending the company against breach of contracts	<u>250,000</u>
		<u>1,200,000</u>
5.	Repairs and maintenance costs included Sh.120,000 spent on partitioning the Finance Manager's office.	
6.	Capital allowances were agreed with the commissioner for revenue authority at Sh.1,480,000 for the year 2020.	

Required:

Adjusted taxable profit or loss for Riziki Ltd. for the year ended 31 December 2020. (10 marks)

- (b) Galaxy Ltd. a clothing manufacturing company commenced operations on 1 May 2020 after incurring the following costs:

	Sh.
Land	8,000,000
Factory building	3,200,000
Security wall	960,000
Furniture	380,000
Staff recreation facility	450,000
Computers	480,000
Delivery van	2,800,000
Warehouse building	1,800,000
Drainage system	640,000
Tractor	3,260,000
Processing machinery	1,860,000
Sports pavilion	720,000

Additional information:

1. The following assets were acquired or constructed during the year 2020:

Asset	Date of first use	Cost (Sh.)
Factory store	1 June 2020	960,000
Factory building extension	1 July 2020	850,000
Lorry (3 tonnes)	1 August 2020	2,780,000
Labour quarters	1 October 2020	1,500,000
Packing machinery	1 November 2020	400,000

2. The company disposed of two computers at Sh.40,000 each on 1 October 2020.
 3. A borehole was drilled at a cost of Sh.940,000 and utilised from 1 September 2020.
 4. The company acquired a saloon car for a director at Sh.4,000,000.

Required:

Capital allowances due to Galaxy Ltd. for the year ended 31 December 2020.

(10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Edward Leleku, a small business operator has approached you for tax advice in relation to turnover tax and presumptive tax.

Required:

In light of Tax Laws (Amendment) Act, 2020 advise Edward Leleku on tax position in relation to:

- (i) Turnover tax (TOT). (2 marks)
- (ii) Presumptive tax (PT). (2 marks)
- (b) Identify four circumstances under which the commissioner of Revenue Authority might require a taxpayer to file a tax return before the due date of filing of tax returns. (4 marks)
- (c) Kizuki, Kabuga and Kanja are trading as a partnership registered as Kaka Enterprises. The partners share profits and losses in the ratio of 3:2:1 respectively.

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

	Sh.
Gross profit	2,400,000
Sundry receipts	92,000
Dividends (gross)	360,000
Lottery winnings	120,000
Gain on sale of shares	<u>80,000</u>
	3,052,000
Expenses:	
Repairs of premises	192,000
Gifts and presents for charity	40,000
Legal charges	398,000
Commission to partners:	
Kizuki	96,000
Kabuga	60,000
Kanja	45,000
Depreciation	120,000
Stationery and printing	220,000
Value added tax (VAT)	48,000
Bad debts	240,000
Goodwill written off	84,000
Interest on capital:	
Kizuki	180,000
Kabuga	120,000
Kanja	90,000
Salaries and wages	960,000
Purchase of computers	280,000
General expenses	<u>450,000</u>
Reported net loss	<u>(3,623,000)</u> <u>(571,000)</u>

Additional information:

1. General expenses comprised of:
- | | Sh. |
|---------------------------------|----------------|
| Purchase of computer software | 80,000 |
| Partner's Christmas party | 165,000 |
| Preparation of tender documents | 48,000 |
| Staff catering services | 74,000 |
| Embezzlement by Kabuga | <u>83,000</u> |
| | <u>450,000</u> |
2. The salaries and wages included monthly salaries of Sh.22,000 and Sh.18,000 to Kizuki and Kanja respectively.

- | | | |
|----|--|----------------|
| 3. | Legal charges comprised the following: | Sh. |
| | Parking fines to the local authority | 32,000 |
| | Cost of defending partnership premises | 96,000 |
| | Charges for registering patents | 120,000 |
| | Appeal on tax assessment | 60,000 |
| | Court charges for breach of contract | <u>90,000</u> |
| | | <u>398,000</u> |
| 4. | Bad debts comprised: | Sh. |
| | Expired goods | 80,000 |
| | Specific provision for bad debts | 140,000 |
| | General provision for bad debts | <u>20,000</u> |
| | | <u>240,000</u> |
| 5. | Repairs of premises included Sh.42,000 used in erecting a sign post to the partnership premises. | |

Required:

- (i) Taxable profit or loss of the partnership for the year ended 31 December 2020. (8 marks)
- (ii) Allocation of the taxable profit or loss in (c) (i) above to the partners. (4 marks)

(Total: 20 marks)

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