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CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

WEDNESDAY: 1 September 2021.

Time Allowed: 3 hours.

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

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

Year of income 2020.

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

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

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

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

Commissioner's prescribed benefit rates:

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

QUESTION ONE

(a) 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.	1,790,750
Revenue from consultancy services in Rwanda		2,686,125
Revenue from Ministry of Lands contract		1,486,250
Revenue from customers not registered for VAT		<u>2,586,800</u>
		8,549,925

Expenditure:

Legal services	435,000	
Salaries and wages	1,740,000	
Medical services	556,800	
Motor vehicle fuel	125,280	
Purchase of design materials	870,000	
Motor vehicle insurance	69,600	
Stationery	29,000	
Audit fees	501,120	
Office rent	228,375	
Advertising	<u>194,300</u>	
		<u>(4,749,475)</u>
		<u>3,800,450</u>

Additional information:

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

Required:

Prepare a VAT account for the month of March 2021 showing the VAT payable or refundable.

(10 marks)

(Total: 20 marks)

QUESTION THREE

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

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

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

Required:

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

(Total: 20 marks)

QUESTION FOUR

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

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

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

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

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

Additional information:

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

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

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

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

Required:

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

(12 marks)

(Total: 20 marks)

QUESTION FIVE

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

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

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

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