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CPA PART I SECTION 2

CS PART I SECTION 2

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CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

PILOT PAPER

September 2015.

Time Allowed: 3 hours.

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

RATES OF TAX (Including wife's employment, self-employment and professional income rates of tax). Year of income 2014.

Monthly taxable pay (Sh.)		Annual taxable pay		Rate of tax		
			(Sh.)			% 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 ove	r -	38,892	Excess over	-	466,704	30%
					•	~~)

Personal relief Sh.1,162 per month (Sh.13,944 per annum)

Prescribed benefit rates			by emp	oloyer
	Monthly	atas A		0400

				of the	Monthly rates	Annual rates
				, (O	(Sh.)	(Sh.)
Capital a	allowance:	(i)	Saloons,	Hatch Backs and E	Estates	
Wear an	id tear allowance:		Up to	1200 cc	3,600	43,200
Class I	37.5%		1201	1500 cc	4,200	50,400
Class II	30%		1501	1750 cc	5,800	69,600
Class III	25%		1751	2000 cc	7,200	86,400
Class IV	12.5%		2001	3000 cc	8,600	103,200
Software	20%		Over	3000 cc	14,400	172,800
Industri	al building allowance:	ررو				
	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 rooms 25%

(Shop, office of show room)	2370					
Farm works allowance	100%	(ii)) Pick-ups, Panel Vans (unconverted)			
Investment deduction allowance	100%		Up to	1750 cc	3,600	43,200
			Over	1750 cc	4,200	50,400
		(iii)	Land Rovers/Cr	uisers	7.200	86,400

Shipping investment deduction 40% Mining allowance:

> 40% Year 1 10% Years 2 - 7

Commissioner's prescribed benefit rates

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

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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	(<u>7,845,260)</u>
Reported loss		(452,660)

Additional information:

General expenses comprise:

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

- Salaries and wages include Sh.700,000 and Sh.800,000 paid to Asafa and Bon respectively during the year. 2.
- 3. Interest on capital was provided at 45% of the capital contributions.
- Legal expenses include:

	Sn.
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
	<u> </u>

- Mortgage interest relates to a partner's residential house. 5.
- Assume that the income accrued evenly throughout the year 6.
- Ignore capital allowances.

Required:

The adjusted partnership profit or loss for the year ended 31 December 2014.

(9 marks)

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

(4 marks)

(Total: 20 marks)

QUESTION FOUR

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

(5 marks)

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

Your analysis should be guided by the following key aspects:

- Acquisition of items previously used by another person for the same qualifying business. (i)
- (ii) New items acquired during the year of income.

(4 marks)

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

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

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

Additional information:

- A borehole was drilled at a cost of Sh.1,300,000 and utilised with effect from 1 November 2014. 1.
- 2. On 1 December 2014, the company constructed a factory extension at a cost of Sh.2,650,000 and put to use The following items were purchased on 1 December 2014:
- 3.

and the contract of the second	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:

Computers 30 December 2014 100,000 60,000 Mobile phones 20 December 2014 60,000 20,000		Disposal Date	in the second second	Initial Cost (Sh.)	Disposal proceed (Sh.)
Mobile phones 20 December 2014 60 000 20 000 20 000	Computers	30 December 2	2014	100,000	60,000
Nicone phones 20 20 200 more 2011	Mobile phones	20 December 2	2014	60,000	20,000

Required:

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

QUESTION FIVE

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

Explain the validity or otherwise of this assertion.

(5 marks)

Sh."000" 3,490,000 423,000 4,800 88,000 54,000 32,000 250,000

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(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:

Stock (1 January 2014) Purchases Bank charges	Sh."000"	
Stock (1 January 2014)	450,000	Sales
Purchases	1,400,500	Stock (31 December 2014)
Bank charges	30,200	Interest from Post Bank
Wages to casual workers	588,000	Insurance recovery - van
Insurances	78,000	Profit on sale of shares
Salaries to permanent staff	144,000	Dividend (net)
NSSF contributions - workers	13,000	Income from sale of saw dust
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	224,000	
	4,341,800	4,341,800

Additional information:

- 1. 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.
- 2. Legal expenses analysis:

	Sh. '000'
Preparing a lease for 50 years	1,200
Collection of business debts	2,200
Purchase of directors house	<u>17,000</u>
	20 400

- 3. Entertainment expenses relate to customers and staff.
- 4. 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.
- 5. The capital allowances were agreed at Sh.2,000,000 for the year.

Required:

(i) Adjusted taxable income for the year ended 31 December 2014. (10 marks)

(ii) Compute the tax payable (if any) on the income in (c) (i) above. (3 marks)

(Total: 20 marks)