



CAMS LEVEL II

ELEMENTS OF PUBLIC FINANCE AND ADMINISTRATION

MONDAY: 17 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).

Prescribed benefit rates of motor vehicles provided by employer

	Monthly rates (Sh.)	Annual rates (Sh.)
(i) Saloons, Hatch Backs and Estates		
Up to 1200 cc	3,600	43,200
1201 1500 cc	4,200	50,400
1501 1750 cc	5,800	69,600
1751 2000 cc	7,200	86,400
2001 3000 cc	8,600	103,200
Over 3000 cc	14,400	172,800
(ii) Pick-ups, Panel Vans (unconverted)		
Up to 1750 cc	3,600	43,200
Over 1750 cc	4,200	50,400
(iii) Land Rovers/Cruisers	7,200	86,400

Commissioner's prescribed benefit rates

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

QUESTION ONE

- (a) Explain the following terms as used in public finance management:
- (i) Appropriation Act. (2 marks)
 - (ii) Sinking fund. (2 marks)
 - (iii) Budget circular. (2 marks)
- (b) Outline six roles of the Commission on Revenue Allocation (CRA) or its equivalent in your country. (6 marks)
- (c) Describe four types of offences that a public officer of a procuring entity might commit as envisaged by the Public Procurement and Asset Disposal Act. (8 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Identify four parties that could be interested in the Public Sector financial statements and the Auditor General's report. (4 marks)
- (b) Summarise six roles of the Director of Public Prosecution (DPP). (6 marks)
- (c) Kenview Enterprises is a registered business for value added tax (VAT) purposes. During the month of August 2020, Kenview Enterprises made the following transactions:

Date	Transaction	Amount (Sh.)
August 5:	Cash sales	480,000
August 7:	Credit purchases	180,000
August 9:	Returns inward	64,000
August 10:	Purchase of stationery	172,000
August 12:	Credit sales	640,000
August 13:	Exports to Uganda	380,000
August 15:	Cash purchases	560,000
August 16:	Paid for legal fees	45,000
August 18:	Returns outward	120,000
August 20:	Bought airtime for mobile phones	12,000
August 23:	Cash received from debtors	164,000
August 25:	Paid for catering services	62,000
August 28:	Paid suppliers	220,000
August 31:	Paid for electricity	18,000

All transactions are stated exclusive of VAT at the rate of 14% where applicable unless otherwise stated.

Required:

- A value added tax (VAT) account for the month of August 2020. (10 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Highlight five ways through which the Revenue Authority could use to recover unpaid taxes as provided under the Tax Procedures Act. (5 marks)
- (b) Alex Namu provided the following information relating to his income for the year ended 31 December 2020:
1. He was employed by Summerland Ltd. as an electrical engineer with a basic salary of Sh.175,000 per month.
 2. The company provided him with the following benefits:
 - A saloon car (1,800cc) which was purchased in the year 2018 at a cost of Sh.1,800,000.
 - A house which had a market rental value of Sh.45,000 per month.
 - An annual bonus of Sh.200,000 payable in the month of December each year.
 - A security guard and a domestic servant who were paid Sh.25,000 each per month by the company.
 3. During the year, the company paid Sh.80,000 as life insurance premiums for Alex Namu.
 4. He contributed Sh.20,000 per month to a registered pension scheme and Sh.10,000 per month to a home ownership savings plan (HOSP).

5. In the month of June 2020, he received a cash gift of Sh.100,000 from the company for being among the best employees.
6. The company paid Sh.35,000 as annual subscriptions to the Association of Electrical Engineers for Alex Namu.
7. Medical bills amounting to Sh.500,000 were settled by the company in respect of Alex Namu's sick child. The company has a medical scheme for its senior employees only.
8. PAYE deducted by the employer during the year amounted to Sh.504,000.

Required:

- (i) Taxable income for Alex Namu for the year ended 31 December 2020. (12 marks)
 - (ii) Tax payable (if any) on the income computed in (b) (i) above. (3 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Argue four cases in favour of indirect taxes imposed by the revenue authority or similar body in your country. (8 marks)
- (b) The following income statement relates to Bidii Ltd. for the year ended 31 December 2020:

	Sh.	Sh.
Sales		<u>15,400,000</u>
Gross profit		2,800,000
Less expenses:		
Administrative expenses	280,000	
Salaries and wages	1,200,000	
Depreciation	180,000	
Legal fees	600,000	
Purchases of ETR machine	80,000	
Loan repayment	375,000	
Bad debts	52,000	
Advertisement expenses	250,000	
Discount allowed	80,000	
Repairs and replacement costs	<u>350,000</u>	<u>(3,447,000)</u>
Net loss		<u>(647,000)</u>

Additional information:

1. Sales comprised:

	Sh.
Local sales	10,500,000
Export sales	4,900,000
2. Provision for general bad debts of Sh.30,000 was included in the reported bad debts.
3. Advertisement expenses comprised:

	Sh.
Erection of a neon sign	35,000
Newspapers advertisement	173,000
Free samples to customers	42,000
4. Legal fees comprised the following:

	Sh.
Debt collection	120,000
Court fines on breach of contracts	300,000
Stamp duty	180,000
5. Repairs and replacement costs included Sh.180,000 for office partitioning.
6. Capital allowances were agreed at Sh.196,000 with the Commissioner of Domestic Taxes.
7. Assume that corporate tax rate during the year was 25%.

Required:

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

QUESTION FIVE

- (a) Identify four structures or items that qualify for investment deduction allowance. (4 marks)
- (b) Distinguish between “single tax system” and “multiple tax system” as used in taxation. (4 marks)
- (c) Tanui and Tembo are partners trading as Tembo Enterprises, sharing profits and losses equally.

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

	Sh.	Sh. ;
Revenue		10,200,000
Cost of sales		<u>(4,120,000)</u>
Gross profit		6,080,000
Discount received		200,000
Interest from commercial banks		<u>370,000</u>
		6,650,000
Expenses:		
Distribution costs	340,000	
Salaries and wages	1,670,000	
Motor vehicle depreciation	164,000	
Insurance for the partnership business	390,000	
Custom duty	180,000	
Interest on partner’s capital:		
Tanui	240,000	
Tembo	320,000	
Legal and professional fees	980,000	
Motor vehicle expenses	140,000	
Commission to Tanui	300,000	
General expenses	<u>860,000</u>	<u>(5,584,000)</u>
Net profit		<u>1,066,000</u>

Additional information:

- Salaries and wages include partners’ monthly salary of Sh.45,000 to each partner.
- Legal and professional fees include:

	Sh.
Stamp duty on purchase of partnership land	210,000
Book keeping fees	180,000
Defending Tanui on careless driving	150,000
Court expenses for collection of bad debts	85,000
Court expenses for breach of contracts	<u>355,000</u>
	<u>980,000</u>
- General expenses include:

	Sh.
General bad debts provision	118,000
Installation of CCTV cameras	220,000
Bad debts written off	<u>522,000</u>
	<u>860,000</u>
- Capital allowances during the year were agreed with the Commissioner of Domestic Taxes at Sh.960,000.

Required:

- Adjusted taxable profit or loss for the partnership business for the year ended 31 December 2020. (9 marks)
 - A schedule showing the distribution of the partnership profit or loss computed in (c) (i) above. (3 marks)
- (Total: 20 marks)**
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