



**CAMS LEVEL II**

**ELEMENTS OF PUBLIC FINANCE AND ADMINISTRATION**

**MONDAY: 30 August 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 types of funds as provided in Public Finance Management Act, 2012:
- (i) Consolidated fund. (2 marks)
  - (ii) Contingency fund. (2 marks)
  - (iii) Equalisation fund. (2 marks)
- (b) Summarise six roles of the council of governors in public finance management. (6 marks)
- (c) Outline the stages to be followed in the budget process for the county government in any financial year. (8 marks)
- (Total: 20 marks)**

### QUESTION TWO

- (a) Explain the following terms as used in supply chain management in public entities:
- (i) Procuring agent. (2 marks)
  - (ii) E-procurement. (2 marks)
  - (iii) Tender. (2 marks)
- (b) Summarise two functions of the Deputy President as envisaged by the Constitution. (4 marks)
- (c) Mavunoh Ltd. is a registered business for value added tax (VAT) purposes. The following transaction relates to the business for the month of June 2021:
- June 1: Opening stock was valued at Sh.750,000.
  - June 2: Purchased goods from Mwangaza Ltd. worth Sh.342,000.
  - June 3: Sold goods to Kerich traders for Sh.570,000.
  - June 5: Purchased furniture for Sh.228,000 for business use.
  - June 6: Imported goods valued at Sh.800,000 being cost, insurance and freight excluding import duty and VAT. Import duty rate was 20% during the month.
  - June 8: Paid Sh.11,400 for printing papers and other stationeries.
  - June 10: Sold goods to Pengo Ltd. for Sh.407,800.
  - June 15: Sold goods to Pendo Hospital for Sh.293,800.
  - June 20: Purchased goods from Jawabu Ltd. for Sh.168,000.
  - June 22: Paid electricity expenses Sh.17,100 and telephone expenses Sh.10,400.
  - June 26: Paid for motor vehicle repair Sh.14,800. The vehicle is used for business purposes.
  - June 28: Paid for legal fees, amounting to Sh.32,100.
  - June 30: Paid for catering expenses Sh. 21,000.

All transactions are quoted exclusive of VAT at the rate of 16% where applicable, unless otherwise stated.

#### Required:

A value added tax (VAT) account for the month of June 2021.

(10 marks)  
**(Total: 20 marks)**

### QUESTION THREE

- (a) Highlight four advantages of direct taxes. (4 marks)
- (b) List four income tax offences as provided by the Income Tax Act. (4 marks)
- (c) Stephen Mwema is an employee of Ruza Enterprises Ltd. He has provided the following information relating to his income for the year ended 31 December 2020:
1. Basic salary Sh.150,000 per month (PAYE Sh.42,000 per month).
  2. He was provided with a house with water and electricity. He pays a nominal rent of Sh.15,000 per month. Water consumed amounted to Sh.5,200 while electricity amounted to Sh.12,000 during the year.
  3. He was entitled to an annual leave pay equivalent to one month's basic salary which was paid in December 2020.
  4. The company paid for his life insurance premiums of Sh.12,000 per annum for each household member. The insurance policy covered himself, his wife and their son.
  5. The company provided him with a 2,000 cc saloon car for his personal use. The car had been bought for Sh.2,500,000.
  6. He is a member of registered pension scheme where he contributed Sh.40,000 per month.
  7. During the year, he was reimbursed Sh.85,000 for medical expenses. The company operates a medical scheme for all its staff.
  8. He was provided with a monthly travelling allowance of Sh.10,000 during the year.
  9. During the year, he earned an overtime allowance of Sh.480,000.
  10. He contributed Sh.8,000 per month to a registered Home Ownership Saving Plan (HOSP).

#### Required:

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

**(Total: 20 marks)**

### QUESTION FOUR

- (a) Explain the following principles of taxation:
- (i) Certainty. (2 marks)
  - (ii) Convenience. (2 marks)
- (b) Describe two types of reliefs available against gross tax liability from employment income. (4 marks)
- (c) Rummy Ltd. has provided the following statement of profit or loss for the year ended 31 December 2020:

	Sh.	Sh.
Gross profit		8,200,000
Discount received		180,000
Bad debts recovered		<u>200,000</u>
		8,580,000
<b>Expenses:</b>		
Salaries and wages	1,800,000	
General expenses	850,000	
Goodwill amortisation	150,000	
Directors fees	550,000	
Depreciation	648,000	
Provision for dividends	620,000	
Auditor's fees	700,000	
Advertising	160,000	
General bad debts provision	156,000	
Value added tax (VAT)	247,200	
Legal and professional fees	210,500	
Purchase of equipment	250,000	
Insurance	140,800	
Subscriptions to Kenya Association of Manufacturers (KAM)	100,000	
Redundancy payments	600,000	
Stationery and postage	35,000	
Installment tax	<u>312,000</u>	
Net profit		<u>(7,529,500)</u> <u>1,050,500</u>

**Additional information:**

1. Legal and professional fees included the following:

	<b>Sh.</b>
Appeal to a Tax Tribunal against tax assessment	120,000
Court fines	40,000
Others	<u>50,500</u>
	<u>210,500</u>

2. Capital allowances were agreed with the revenue authority at Sh.320,000 for the year.  
3. General expenses comprised of the following:

	<b>Sh.</b>
Cash embezzlement by the cashier	150,000
Staff catering services	220,000
Partition of staff offices	300,000
Stamp duty on land transfer	<u>180,000</u>
	<u>850,000</u>

4. Advertising expenses include Sh.125,000 spent on acquisition of a neon sign.

**Required:**

Adjusted taxable profit or loss for Rummy Ltd. for the year ended 31 December 2020.

(12 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) Outline four circumstances under which a person may apply for deregistration from value added tax (VAT) regulations in your country. (4 marks)
- (b) Distinguish between “farm works deductions” and “investment allowance on building and machinery”. (4 marks)
- (c) Kimaly and Kalama trade in retail goods as KK Enterprises. They share profits and losses equally. The statement of profit or loss for the partnership for the year ended 31 December 2020 was as follows:

	<b>Sh.</b>	<b>Sh.</b>
Gross profit		2,800,000
Discount received		<u>240,000</u>
		3,040,000
<b>Expenses:</b>		
Office expenses	230,000	
General expenses	140,000	
Commission to partners	320,000	
Advertising	150,000	
Depreciation	160,000	
Printing and stationery	128,000	
Interest on capital	380,000	
Legal fees	164,000	
General reserve	250,000	
Capital allowances	400,000	
Installment tax	90,000	
Specific bad debts provision	136,000	
Property taxes	<u>240,000</u>	<u>(2,788,000)</u>
Net profit		<u>252,000</u>

**Additional information:**

1. Office expenses include Sh.92,000 and Sh.82,000 paid to Kimaly and Kalama respectively as salaries.  
2. Interest on capital was Sh.180,000 to Kimaly and Sh.200,000 to Kalama.  
3. Legal fees includes Sh.80,000 as a fine for breach of regulations.  
4. Commission to partners include Sh.180,000 to Kimaly and the balance to Kalama.

**Required:**

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

**(Total: 20 marks)**

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