



**kasneb**

**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: 28 November 2018.**

**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 2017.**

Monthly taxable pay (Sh.)		Annual taxable pay (Sh.)		Rate of tax % in each Sh.
1	- 11,180	1	- 134,164	10%
11,181	- 21,715	134,165	- 260,567	15%
21,716	- 32,249	260,568	- 386,970	20%
32,250	- 42,782	386,971	- 513,373	25%
Excess over	- 42,782	Excess over	- 513,373	30%

**Personal relief Sh.1,280 per month (Sh.15,360 per annum)**

**Prescribed benefit rates of motor vehicles provided by employer**

		Monthly rates (Sh.)	Annual rates (Sh.)
<b>Capital allowance:</b>	(i) Saloons, Hatch Backs and Estates		
<b>Wear and tear allowance:</b>	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

**Industrial building allowance:**

Up to 2009	2.5%
From 1 January 2010	10%
Hotels	10%
Hostels/Education/Film producers buildings	100%
From 1 January 2010 - Commercial building:	
(Shop, office or show room)	25%

**Farm works allowance**

**Investment deduction allowance** 100%

**Shipping investment deduction** 100%

**(Ships over 125 tonnes)**

(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
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**Extraction expenditure:**

Written off over 5 years (20%)

**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) The Public Finance Management Act requires that all payments from the consolidated fund should be authorised and comply with certain general rules.

With reference to the above statement, outline two ways of authorising payments out of the consolidated fund. (4 marks)

- (b) According to the Public Procurement and Asset Disposal (PPAD) Act, open tendering should be the preferred procurement method for procurement of goods, works and services. The procuring entity may use an alternative procurement procedure only if that procedure is allowed and satisfies the conditions under the Act for use of that method.

- (i) With reference to the above statement:

Explain three circumstances under which open tendering might not be appropriate. (6 marks)

- (ii) Suggest four methods of procurement as provided under PPAD Act other than the open tendering process. (4 marks)

- (c) Discuss three roles played by the senate or equivalent institution in your country in relation to public finance management. (6 marks)

**(Total: 20 marks)**

### QUESTION TWO

- (a) Explain the meaning of "Appropriation Act" as provided under the Public Finance Management Act. (2 marks)

- (b) For the past few years, most of the counties revenue generation has stagnated or even declined although the economy's gross domestic product (GDP) has grown within the same period.

Propose four causes to which this underperformance in revenue collection by the counties or similar devolved units in your country could be attributed. (8 marks)

- (c) Bandika Ltd., a company dealing in a variety of value added tax (VAT) designated goods, was registered for VAT purposes on 1 March 2018.

The following transactions were recorded for the month of March 2018:

- March 10: Opening stock 9,200 units valued at Sh.85 per unit.  
March 5: Imported 10,000 units at Sh.80 per unit being cost, insurance and freight (CIF).  
March 8: Purchased 5,000 units from the local market at Sh.60 per unit.  
March 9: Sold 6,000 units at Sh.90 per unit.  
March 12: Purchased office furniture for Sh.40,000 for use in the business.  
March 15: Paid Sh.10,000 for photocopy and printing of office documents.  
March 16: Purchased oil filters and lubricants for use in the factory for Sh.75,000.  
March 16: Paid an invoice for Sh.85,000 in respect of fuel for company vehicles, the fuel had been used in February 2018.  
March 18: Supplied 30,000 units to a department in the National Treasury at a price of Sh.85 per unit.  
March 20: Sold 2,500 units at Sh.90 per unit to a company in Uganda.  
March 23: Purchased on credit 2,500 units locally at Sh.80 per unit before deducting a cash discount of 5%.  
March 27: The directors' appropriated goods valued at Sh.320,000 which were not paid for.  
March 28: Paid electricity expense of Sh.15,000 and telephone expense of Sh.6,000.

All transactions were inclusive of VAT at the rate of 16% where applicable, unless otherwise specified.

Assume the rate of import duty is 20%.

#### Required:

A value added tax (VAT) account for the month of March 2018 for Bandika Ltd. (10 marks)

**(Total: 20 marks)**

### QUESTION THREE

- (a) Fiscal policy influences both the pattern of economic activities and also the level and growth of aggregate demand, output and employment.

#### Required:

Summarise four ways through which taxation could be used as a tool of fiscal policy in your country. (8 marks)

- (b) Beckham Atondo retired as a marketing manager from Bright Insurance Company Limited on 30 September 2017 after serving the company for 20 years and received a lumpsum pension of Sh.1,580,000.

He has provided the following information on his employment and other income for the year ended 31 December 2017:

1. Basic salary and other allowances:
- |                                    | Sh.                              |
|------------------------------------|----------------------------------|
| • Basic salary per month           | 160,000 (Monthly PAYE Sh.42,000) |
| • Monthly responsibility allowance | 42,000                           |
| • Bonus paid in June 2017          | 250,000                          |
| • Monthly risk allowance           | 35,000                           |
2. During his employment, the company paid his monthly electricity, water and telephone bills averaging to Sh.22,000, Sh.18,500 and Sh.16,000 respectively.
3. The company paid Sh.320,000 to cover for Atondo's family life insurance premiums during his employment period in the year ended 31 December 2017.
4. He contributed Sh.18,000 per month towards a registered Home Ownership Saving Plan (HOSP) during his employment period at Bright Insurance Company.
5. In October 2017, he invested half of his pension income in a taxi services business. His records from the taxi services business indicated a net profit of Sh.120,000.
- The following expenses had been charged in the books during the three month period for year ended 31 December 2017 relating to the taxi business:

	Sh.
Repairs and maintenance	180,000
Depreciation	60,000
Fuels and lubricants	240,000
Parking fines	42,000
Driver's salaries	64,000
General provision for bad debts	26,000
Licences and registration	60,000
Replacement of car engine	260,000
Motor vehicle inspection	25,000

**Required:**

- (i) Taxable income of Beckham Atondo for the year ended 31 December 2017. (10 marks)
- (ii) Tax payable (if any) from the income computed in (b)(i) above. (2 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

- (a) Highlight two reasons why an importer is required to fill in an import declaration form. (2 marks)
- (b) Morris Kwachu applied for a licence to commence manufacturing business dealing in excisable goods. The Commissioner refused to issue him with a licence.

Advise him on four grounds under which the Commissioner might refuse to issue the applicant with a licence as provided under the Excise Duty Act. (4 marks)

- (c) Benard, Cosmas and Korrir are partners, operating a chain of retail shops. They share profits or losses in the ratio 2:2:1 respectively. During the year ended 31 December 2017, the partners reported a loss of Sh.2,542,000 after deducting the following:

	Sh.
Interest on capital:	
Benard	135,000
Cosmas	135,000
Korrir	215,000
Salaries to partners:	
Benard	400,000
Cosmas	320,000
Korrir	576,000
Motor vehicle repairs	526,000
General repairs and maintenance	120,000
Office and Sundry expenses	260,000
Goodwill impairment	340,000

	Sh.
Loss on disposal of motor vehicle	385,000
Postage and telephone	180,000
Water and electricity	146,000
Subscription to Wananchi Golf Club	105,000
Donations	240,000
Bad debts written off	346,000
Rent, rates and licences	180,000
Accountancy services	325,000
Depreciation	845,000
Purchase of pickup	1,500,000
Transport cost	340,000
Insurance of motor vehicles	520,000

**Additional information:**

- Office and sundry expenses included cost of office cabinet of Sh.90,000.
- Transport cost included Sh.10,000 per month relating to personal use.
- Provision for bad and doubtful debts account:

	Sh.		Sh.
Bad debts	246,000	General (brought forward)	330,000
Specific (carried forward)	192,000	Specific (brought forward)	152,000
General (carried forward)	<u>390,000</u>	Profit and loss account	<u>346,000</u>
	<u>828,000</u>		<u>828,000</u>

- Wear and tear allowances agreed with the Commissioner amounted to Sh.1,236,000.
- Included in general repairs and maintenance is Sh.80,000 paid for the year 2018.

**Required:**

- The adjusted partnership profit or loss for the year ended 31 December 2017. (10 marks)
- Distribution schedule of the profit or loss calculated in (c)(i) above. (4 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- State four conditions that must be fulfilled for donations to be allowable deduction for tax purposes. (4 marks)
- Outline four circumstances upon which the Commissioner of Domestic Tax may accept a late notice of objection from a tax payer. (4 marks)
- Chemtech Ltd. was incorporated in March 2017 to manufacture edible oils. The company started its operations in June 2017 after constructing the following structures:

	Sh.
Factory building	2,600,000
Staff canteen	840,000
Drainage system	350,000
Stone perimeter wall	1,200,000
Labour quarters	1,800,000

The following assets were acquired by the company and put in use as from 1 July 2017:

	Sh.
Distribution van	2,300,000
Processing machinery	1,800,000
Furniture and fittings	860,000
Mercedes Benz Saloon (for the director)	3,400,000
Generator	420,000
Pick-up	1,200,000
Heating plant	830,000
Fax machines	180,000
Conveyor belts	650,000
Computers	320,000
Packaging machines	800,000
Two lorries (each 4 tonnes)	4,000,000
Photocopier machine	120,000
Forklift	960,000
Water pump	480,000
Laptop computers	260,000

**Additional information:**

1. A godown and a sports pavilion were constructed at a cost of Sh.890,000 and Sh.1,200,000 respectively and used with effect from 1 October 2017.
2. The Director's Mercedes Benz was involved in an accident on 11 December 2017 and the insurance company compensated the company Sh.3,000,000 as the write off value.
3. The company sunk a borehole at a cost of Sh.450,000 which was utilised from 1 November 2017.
4. A loading bay and an extension to the factory building were constructed and utilised with effect from 1 September 2017. The loading bay cost Sh.450,000 while the factory extension cost Sh.225,000.

**Required:**

Capital allowances due to Chemtech Ltd. for the year ended 31 December 2017.

(12 marks)

**(Total: 20 marks)**

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