

# 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

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WEDNESDAY: 23 November 2016.

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 2015.

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

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

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

	Monthly rates (Sh.)	Annual rates (Sh.)
<b>Capital allowance:</b>		
<b>Wear and tear allowance:</b>		
Class I	37.5%	
Class II	30%	
Class III	25%	
Class IV	12.5%	
Software	20%	
	(i) Saloons, Hatch Backs and Estates	
	Up to 1200 cc	3,600
	1201 1500 cc	4,200
	1501 1750 cc	5,800
	1751 2000 cc	7,200
	2001 3000 cc	8,600
	Over 3000 cc	14,400

<b>Industrial building allowance:</b>	
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%

<b>Farm works allowance</b>	100%
<b>Investment deduction allowance</b>	100%

<b>Shipping investment deduction (Ships over 125 tonnes)</b>	100%
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(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**

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

### QUESTION ONE

- (a) Explain the following terms as used in public finance management:
- (i) Vote. (2 marks)
  - (ii) County government linked corporation. (2 marks)
- (b) Discuss three responsibilities of the Senate Budget Committee with regard to public finance. (6 marks)
- (c) The purpose of the Intergovernmental Budget and Economic Council is to provide a forum for consultation and cooperation between the national and county governments on various issues.

With reference to the above statement, summarise five issues for consultation between the national and county governments as envisaged in the Public Finance Management Act. (10 marks)

(Total: 20 marks)

### QUESTION TWO

- (a) The National Treasury is expected to prepare and submit financial statements each year to the Auditor General in respect of the Contingencies Fund.

With reference to the above statement, highlight four contents of the financial statements prepared for the Contingencies Fund. (4 marks)

- (b) Propose three committees that should be established by a county procuring entity to ensure that procurement and asset disposal decisions are made in a systematic and structured manner. (6 marks)
- (c) Mark Malechi is a registered trader for VAT purposes. He has provided you with the following details of his trading activities for the month of May 2016:

1. He sells goods on both cash and credit terms. The credit terms are 30 to 60 days, 61 to 90 days and 91 to 120 days. Any debt beyond 120 days is written off as bad.

2. His sales during the month of May 2016 were as follows:

	Sh.
Cash sales	900,000
Credit sales: 30 – 60 days	920,000
61 – 90 days	1,840,000
91 – 120 days	632,000

3. Debts of the firm are collected by an agent who charges Sh.160,000 per month. For debts aged over 120 days, Mark hires a lawyer to enforce collection. The legal fee for the month of May 2016 was Sh.300,000.
4. Goods worth Sh.280,000 were delivered to a customer in May 2016. The customer had paid for the goods in April 2016.
5. During the last several years, he had written off bad debts as follows:

Year ending 31 December:	Sh.
2015	316,000
2014	245,000
2013	198,000
2012	232,000

6. During the month an extension to the business premises was constructed for which the contractor charged Sh.3,000,000.
7. He made a donation to Watoto Children's Home that comprised of goods worth Sh.480,000 and cash Sh.100,000.
8. A bad debt written off in year 2011 of Sh.90,000 was recovered during the month of May 2016.
9. He imported a pick-up motor vehicle for use in the business during the month. The cost details of the motor vehicle were as follows:

	Sh.
Purchase cost	700,000
Customs duty	70,000
Excise duty	140,000
Logistics costs	200,000
Insurance cost	180,000

- 40% of logistics costs related to freight for the vehicle and the balance was a clearing agent's fee.
  - 25% of insurance cost was for insurance in transit and the rest was for third party insurance cover.
10. Purchases of goods amounted to Sh.1,500,000 during the month.

11. A customer returned goods worth Sh.68,000 and was issued with a credit note during the month.
12. A credit customer with a debt of Sh.120,000 and a cash customer for goods worth Sh.390,000 were declared bankrupt during the month.
13. A trusted customer was invoiced in May 2016 for goods worth Sh.150,000 which he would collect and pay for in June 2016.
14. He exported goods to Tanzania amounting to Sh.1,300,000.
15. He paid the following expenses during the month; Sh.260,000 to an advertising company, Sh.180,000 for telephone and Sh.74,000 for electricity.

All the above transactions are quoted inclusive of VAT at the rate of 16% where applicable.

**Required:**

The VAT payable or refundable to Mark Malechi for the month of May 2016.

(10 marks)

**(Total: 20 marks)**

**QUESTION THREE**

(a) Explain the following theories of tax shifting:

- (i) Diffusion theory. (2 marks)
- (ii) Demand and supply theory. (2 marks)
- (iii) Concentration theory. (2 marks)

(b) Peterson Menza is employed by Heli Foundation, a charitable Non-governmental organisation (NGO) that has been issued with a tax exemption certificate by the commissioner of domestic taxes. He has provided the following information relating to his income for the year ended 31 December 2015:

1. Basic salary Sh.150,000 per month (PAYE Sh.36,000 per month).
2. He was provided with a fully furnished house by the employer. The market rental rate for similar houses is Sh.18,000 per month. The employer deducts 3% of his basic pay towards maintenance of the house. The furniture had cost Sh.200,000 in year 2012.
3. He was provided with a company car of 1900cc, which had been purchased in year 2013 at a cost of Sh.800,000. During the year, he used out-of-pocket cash to fuel the car on official use for which he was reimbursed Sh.120,000.
4. He contributed Sh.22,000 per month towards a registered provident fund, and a further Sh.10,000 per month towards an unregistered pension scheme. The employer contributed an equal amount to both schemes for him.
5. The employer reimbursed him Sh.200,000 for medical expenses he incurred during the year. There is a medical scheme that covers all employees.
6. He contributes Sh.5,000 per month to a registered home ownership savings plan (HOSP).
7. During the year 2015, he was paid an entertainment allowance of Sh.6,000 per day for 20 days that he was away on official duty.
8. He has a life insurance cover for self and family for which he paid premiums of Sh.440,000 per annum.
9. He has a farming business which generated a net surplus of Sh.240,000 during the year.
10. He holds Sh.4,000,000 in a fixed deposit account which earned him an interest of Sh.60,000 during the year.
11. He earned Sh.200,000 interest from housing development bonds.
12. He received dividend income of Sh.30,000 net from Bidii Cooperative Bank and Sh.67,200 gross from Busala Cooperative Society Ltd.

**Required:**

- (i) Taxable income for Peterson Menza for the year ended 31 December 2015. (10 marks)
  - (ii) Tax payable (if any) on the income computed in (b) (i) above. (2 marks)
  - (iii) Comment on any information not used in your computations under (b) (i) and (b) (ii) above. (2 marks)
- (Total: 20 marks)**

**QUESTION FOUR**

(a) With reference to Tax Procedure Act 2015, outline the penalties that arise from the following offences:

- (i) Failure to submit a tax return by the due date. (2 marks)
- (ii) Failure to keep, retain or maintain documents required for a reporting period without a reasonable cause. (2 marks)
- (iii) Tax avoidance or fraudulent claim for a refund. (2 marks)

- (b) Ziwani Ltd. is a company registered on 1 January 2015 whose main business is the growing of sugarcane and processing sugar for the local market.

The company's income statement for the year ended 31 December 2015 indicated the following:

	Sh.	Sh.
Sale of sugar		10,200,000
Sale of molasses		2,400,000
Profit on disposal of a tractor		560,000
Discount received		180,000
Dividends from Ukulima Co-operative Ltd.		<u>1,200,000</u>
		14,540,000
Expenses		
Cost of cane from growers	3,860,000	
Salaries and wages	1,250,000	
Depreciation charges	120,000	
Billboards for advertising	250,000	
Machines and motor vehicles repairs	620,000	
VAT on supplies	1,800,000	
Directors emoluments	1,500,000	
Legal fees	<u>960,000</u>	<u>(10,360,000)</u>
Net profit		<u>4,180,000</u>

**Additional information:**

1. Legal fees comprised the following:

	Sh.
Parking fines	120,000
Collection of debts from customers	150,000
Stamp duty on land	480,000
Settling a dispute with a customer	<u>210,000</u>
	<u>960,000</u>

2. Machines and motor vehicles repairs include Sh.280,000 spent on the purchase of conveyor belts during the year.
3. During the year the company acquired the following assets:

Asset	Cost Sh.	Date of purchase and use
Computers	820,000	2 March 2015
Water pump	480,000	1 January 2015
Furniture	250,000	2 January 2015
Sugar processing machine	6,200,000	3 January 2015
Tractors	8,900,000	2 February 2015
2 saloon cars	4,800,000	10 May 2015
Heating plant	2,300,000	2 January 2015
Pick-up motor vehicles	8,600,000	5 January 2015

4. The tractor disposed of during the year had cost Sh.2,200,000 at the beginning of the year.
5. The company constructed a factory building at a cost of Sh.8,600,000 which was utilised with effect from 5 January 2015. The factory building included the showroom and a retail shop constructed at the cost of Sh.1,200,000 and Sh.960,000 respectively.
6. A godown and staff quarters were constructed at a cost of Sh.2,860,000 and Sh.1,620,000 respectively and put into use from 1 October 2015.

**Required:**

- (i) Capital allowances due to Ziwani Ltd. for the year ended 31 December 2015. (8 marks)
- (ii) A statement of adjusted taxable profit or loss for Ziwani Ltd. for the year ended 31 December 2015. (6 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) As a tax dispute resolution mechanism, a tax payer who is not satisfied with the commissioner's decision regarding his objection, has a right to appeal to the local committee.

In relation to the above statement, highlight four instances when a taxpayer can appeal to the local committee.

(4 marks)

- (b) Outline four recent measures introduced by the government of your country to prevent dumping of imported goods into your country. (4 marks)
- (c) Loise Lubandi is a sole trader, operating as Loy Traders. She did not maintain proper accounting records, but has provided the following information relating to her income and expenditure for the year ended 31 December 2015:

**Summary of cash transactions for the year ended 31 December 2015:**

Receipts		Sh.	Payments		Sh.
Balance brought down		861,600	Trade payables		1,005,200
Trade receivables		1,226,200	Cash purchase		1,620,800
Cash sales		1,620,000	Salary and wages		1,660,400
Commission received		124,000	Rates and insurances		320,800
Capital		1,000,000	Medical bills (self)		28,000
			Transport		56,400
			Bank charges		3,000
			General expenses		145,400
			Loan interest		120,000
			New motor vehicle		600,000
			Drawings		72,000

**Summary of assets and liabilities as at 1 January 2015 and 31 December 2015:**

	1 January 2015	31 December 2015
	Sh.	Sh.
Furniture - written down value (WDV):	120,000	?
Motor vehicle - (WDV)	960,000	?
Trade payable	985,000	1,180,000
Inventory	1,241,600	1,480,600
Trade receivables	781,000	821,400
Salary and wages due	184,000	150,000
Prepaid rates	50,000	72,000
Commission received in advance	80,000	136,000
Capital	727,600	-

**Additional information:**

- Discount allowed and discount received during the year amounted to Sh.50,600 and Sh.151,200 respectively.
- During the year she took goods for free from the business worth Sh.100,000 for her own use.
- Depreciation was ascertained as follows:  
Motor vehicle 25% per annum on book value.  
Furniture 12.5% per annum on book value.
- Bad debts written off during the year amounted to Sh.72,000.

**Required:**

- (i) The taxable income for Loise Lubandi for the year ended 31 December 2015. (10 marks)
- (ii) Tax payable (if any) by Loise Lubandi. (2 marks)

(Total: 20 marks)

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