

KASNEB

ATD LEVEL III

DCM LEVEL III

PRINCIPLES OF PUBLIC FINANCE AND TAXATION

TUESDAY: 24 May 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.)
Capital allowance:		
Wear and tear allowance:		
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
	(ii) Pick-ups, Panel Vans (unconverted)	
	Up to 1750 cc	3,600
	Over 1750 cc	4,200
	(iii) Land Rovers/Cruisers	7,200
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	100%	
Investment deduction allowance	100%	
Shipping investment deduction (Ships over 125 tonnes)	100%	

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 Cabinet Secretary for the National Treasury or the State Officer responsible for finance in your country is mandated by law to manage the national budget process. In relation to this function, he issues a circular setting guidelines to be followed to all government entities.

With reference to the above statement, outline four contents of such a circular. (4 marks)

- (b) In managing the national government public finances, the National Treasury or such state organ in your country enforces certain fiscal responsibility principles in accordance with the constitution and the Public Finance Management Act.

In relation to the above statement, explain four fiscal responsibility principles. (8 marks)

- (c) In relation to Public Finance Management, distinguish between the following set of terms:

(i) "Capital expenditure" and "Recurrent expenditure". (4 marks)

(ii) "Eurobond" and "Treasury bond". (4 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain the term "Finance Bill" as provided under the Public Finance Management Act. (2 marks)

- (b) Effective oversight and monitoring are crucial to sound governance and Public Finance Management.

With reference to the above statement, discuss four roles of internal audit. (8 marks)

- (c) The Public Finance Management Act requires both the County governments and National government to engage the public in the budget process.

Highlight six advantages of public participation in the County budgeting process. (6 marks)

- (d) State four sources of revenue for County governments apart from the share of revenue from the National government. (4 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Identify three omissions that constitute pay as you earn (PAYE) offences. (3 marks)

- (b) Summarise four challenges faced by the customs department within the East African Community in an effort to improve customs administration. (4 marks)

- (c) James Bekele practises crop and livestock farming. He has provided the following income statement summary for the year ended 31 December 2015:

Revenue	Sh.	Sh.
Sale of milk to Maziwa Ltd.		642,000
Sale of onions		517,200
Sale of mutton and chicken		780,000
Sale of tomatoes		<u>1,200,000</u>
Total revenue		<u>3,139,200</u>
Expenditure		
Fertilizers	40,000	
Pesticides	15,000	
Seeds	45,000	
Planting onions and tomatoes	80,000	
Motor vehicle expenses	120,000	
Insurance for the farm	15,000	
Crops destroyed by hailstones	25,000	
Salaries and wages	75,000	
Animal feeds	15,000	
Trade fair expenses	6,000	
Electricity and water	5,000	
Subscription to Kenya football club	18,000	
Purchase of chicks	52,000	

	Sh.	Sh.
Value of sheep killed by hyenas	12,000	
Depreciation of motor vehicles	15,000	
Life insurance cover	22,000	
Bad debts written off	8,000	
Repairs on daily sheds and fences	3,000	
Loan interest (Mkulima SACCO)	8,000	
Loan repayment (Mkopo Bank)	120,000	
Construction of dogs kennels	15,000	
Construction of water tank	<u>17,200</u>	<u>(731,200)</u>
Net profit for the year		<u>2,408,000</u>

Additional information:

1. James Bekele is a member of Wakulima Cooperative Society in which he received a dividend of Sh.85,000 (net) during the year.
2. Insurance for the farm includes James Bekele's wife personal cover of Sh.8,000.
3. Salaries and wages includes Sh.35,000 paid to James Bekele's househelp.
4. Capital allowance has been agreed with the Commissioner of Income Tax to be Sh.86,000.

Required:

- (i) Taxable income for James Bekele for the year ended 31 December 2015. (10 marks)
 - (ii) Tax payable or refundable on the income computed in (c)(i) above. (3 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) The following information was obtained from the books of Betatech Ltd., a manufacturing company for the year ended 31 December 2015:

1. The written down values of the various assets as at 1 January 2015 were as follows:

	Sh.
Motor vehicles (Pick-ups)	1,720,000
Fax machine	140,000
Office curtains	38,000
Tractor	2,800,000
Wheelbarrows	120,000
Cellphones	82,000
Computers	158,000
Furniture and fittings	246,000
Combine harvester	1,380,000

2. The following assets were purchased and utilised with effect from 1 July 2015:

	Sh.
Processing machinery	400,000
Trailer for tractor	380,000
Saloon car	2,800,000
Sewerage treatment plant	1,200,000

3. The company disposed of the following assets on 1 July 2015:

Asset	Disposal proceed
	Sh.
Fax machine	48,000
Furniture and fittings	124,000
Computers	82,500

4. The company constructed the following structures during the year which were utilised from 1 October 2015:

	Sh.
Factory building	4,600,000
Staff canteen	1,800,000
Sports pavilion	680,000
Parking bay	420,000

5. The factory building includes a showroom and an office block constructed at a cost of Sh.600,000 and Sh.420,000 respectively.
6. The company sunk a borehole at a cost of Sh.1,280,000 which was put in use on 1 November 2015.

Required:

Capital allowances due to Betatech Ltd. for the year ended 31 December 2015.

(10 marks)

- (b) The following information was extracted from the books of Juakali Ltd. for the month of February 2016:

Cash book Extract

Date	Details	Sh.	Date	Details	Sh.
1/2/16	Balance brought forward	120,000	3/2/16	Cash purchases	200,000
2/2/16	Cash sales	560,000	6/2/16	Cash purchases	120,000
6/2/16	Cash sales	750,000	8/2/16	Cash purchases	240,000
15/2/16	Cash sales	420,000	9/2/16	Electricity bill	34,000
23/2/16	Cash sales	360,000	15/2/16	Payment – January purchases	45,000
25/2/16	Refund from customer	240,000	19/2/16	Salary and wages	520,000
28/2/16	Cash sales	280,000	27/2/16	Sales Commission	50,000
			27/2/16	Audit fees	80,000
			28/2/16	Balance carried down	1,441,000
		<u>2,730,000</u>			<u>2,730,000</u>

Additional information:

- Sales were made up of standard, zero-rated and exempt sales in the ratio of 3:2:1 respectively.
- Sales invoices omitted for goods sold at standard rate for the month of February 2016 amount to Sh.1,500,000.
- Refund from customers included bad debts recovery of Sh.72,000 which was previously written off and VAT refund claimed and Sh.168,000 being an amount deposited to a customer bank account erroneously.
- Electricity bill paid relates to months of January and February 2016 and were incurred equally. 25% of the bill relates to domestic use.
- Credit notes of Sh.35,000 were sent to customers. This relates to goods sold at standard rate.
- Bad debts written off during the month amount to Sh.24,000.
- Sales return by customers of goods sold at standard rate amount to Sh.450,000.

The above transactions are stated exclusive of VAT unless otherwise stated.

Required:

A value added tax (VAT) account for the month of February 2016 for Juakali Ltd.

(10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Outline four reasons why the incidence of tax is important to policy makers in your country. (4 marks)
- (b) List four documents that must accompany an application for a bad debt relief or a refund in the case of VAT. (4 marks)
- (c) The management of Hekima Ltd. has presented the following statement of comprehensive income for the year ended 31 December 2015:

	Sh.	Sh.
Gross profit		3,980,000
Other income		
Discount received		120,000
Gain on sale of equipment		82,000
Interest from Biashara Bank Ltd. (net)		51,000
Refund of import duty		28,000
Gain on foreign exchange transactions (realised)		<u>49,200</u>
Total revenue		4,310,200

	Sh.	Sh.
Expenses:		
Property rates	112,000	
Insurance	48,600	
NSSF Contributions	150,000	
Depreciation	132,500	
Salaries and wages	240,000	
Goodwill amortisation	122,300	
Advertising	342,000	
Legal fees	142,000	
Travelling expenses	180,600	
Donations	156,200	
General expenses	426,000	
Bad debts	176,800	
Furniture	280,000	
Corporation tax	<u>242,800</u>	<u>(2,751,800)</u>
Net profit		<u>1,558,400</u>

Additional information:

- Donations relate to the amounts donated to a trade association.
- Legal fees comprised the following:

	Sh.
Acquisition of a bank loan	42,000
Settling customer disputes	34,000
Conveyance fee for purchase of land	60,000
Preparation of a Memorandum of Association	<u>6,000</u>
	<u>142,000</u>

- General expenses include:

	Sh.
Golden handshake to a retiring director	220,000
Directors emoluments	172,000
Christmas gifts to staff	<u>34,000</u>
	<u>426,000</u>

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

- Bad debts comprised the following:

	Sh.
General provisions for bad debt	32,800
Embezzlement by the cashier	117,600
Specific provisions for bad debt	<u>26,400</u>
	<u>176,800</u>

- It is estimated that 15% of the travelling expenses relate to private usage of company motor vehicles by the directors.

Required:

- Adjusted taxable profit or loss for Hekima Ltd. for the year ended 31 December 2015. (10 marks)
- Tax payable by Hekima Ltd. (if any) for the year ended 31 December 2015 from the adjusted income in (c)(i) above. (2 marks)

(Total: 20 marks)

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