



**CAMS LEVEL II**

**ELEMENTS OF PUBLIC FINANCE AND ADMINISTRATION**

**MONDAY: 20 May 2019.**

**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 2018.**

Monthly taxable pay (Sh.)		Annual taxable pay (Sh.)		Rate of tax % in each Sh.
1	- 12,298	1	- 147,580	10%
12,299	- 23,885	147,581	- 286,623	15%
23,886	- 35,472	286,624	- 425,666	20%
35,473	- 47,059	425,667	- 564,709	25%
Excess over	- 47,059	Excess over	- 564,709	30%

**Personal relief Sh.1,408 per month (Sh.16,896 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	3,6004	3,200
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) Recurrent expenditure. (2 marks)
  - (ii) Wasteful expenditure. (2 marks)
- (b) Outline eight functions of the Public Service Commission (PSC) or equivalent body in your country. (8 marks)
- (c) Describe the stages of the annual budget process for the national government. (8 marks)
- (Total: 20 marks)**

### QUESTION TWO

- (a) Explain four reasons why a country might prefer a multiple tax system over a single tax system. (4 marks)
- (b) Outline six roles of the Council of Governors in public finance management. (6 marks)
- (c) Discuss five reasons why the government in your country levies taxes. (10 marks)
- (Total: 20 marks)**

### QUESTION THREE

- (a) Highlight six methods of procuring goods, works or services as provided for under the Public Procurement and Asset Disposal Act, 2015. (6 marks)
- (b) Charles Yakoh is employed by Fedha Bank Ltd. as an accountant. He has provided the following information relating to his employment income for the year ended 31 December 2018:
1. Basic salary of Sh.50,000 per month (PAYE 14,800 per month).
  2. He was provided with a monthly travelling allowance of Sh.12,000.
  3. He received leave allowance equivalent to one month's basic pay.
  4. He was provided with a saloon car of 2000cc. The car had been purchased at a cost of Sh.1,200,000.
  5. The company paid Sh.90,000 for his wife's medical bills. The medical scheme covered senior managers only.
  6. The company provided him with a fully furnished house. The cost of furniture was Sh.240,000.
  7. He was provided with a watchman and a cook at a monthly salary of Sh.9,000 and Sh.12,000 respectively which was catered for by the company.
  8. He contributed Sh.5,000 per month to a registered Home Ownership Savings Plan (HOSP).
  9. He is a member of a registered pension scheme and he contributed Sh.28,000 per month towards the scheme.
  10. He worked for 7 days out of his duty station during the year, for which he was paid Sh.5,000 per day.
  11. The company paid Sh.180,000 for his daughter's school fees. This amount was deducted as an expense in the books of Fedha Bank Ltd.

#### Required:

- (i) Taxable income for Charles Yakoh for the year ended 31 December 2018. (10 marks)
- (ii) Tax payable (if any) from the income computed in (b)(i) above. (4 marks)
- (Total: 20 marks)**

### QUESTION FOUR

- (a) Explain the following types of tax assessments as provided under the Tax Procedures Act, 2015:
- (i) Self-assessment. (2 marks)
  - (ii) Default assessment. (2 marks)
  - (iii) Advance assessment. (2 marks)
  - (iv) Amendment of assessment. (2 marks)
- (b) Suresh and Naresh started a pastry shop as partners sharing profits and losses equally.

The income statement of the partnership for the year ended 31 December 2018 was as follows:

	Sh.	Sh.
Gross profit		1,740,000
Discount received		<u>180,000</u>
		1,920,000

	Sh.	Sh.
<b>Less: expenses</b>		
Rent paid to Naresh	120,000	
Salaries and wages	360,000	
Printing and stationery	18,000	
Interest on capital	150,000	
Advertising	42,000	
General reserve	36,000	
Legal fees	132,000	
Depreciation	20,000	
Commission to Naresh	140,000	
Electricity	16,000	
Provision for bad debts	22,000	
Partner's medical insurance	<u>180,000</u>	<u>(1,236,000)</u>
Net profit		<u>684,000</u>

**Additional information**

1. Interest on capital relates to the amount paid to the partners on their capital contribution, with each partner receiving Sh.75,000.
2. Legal fees include Sh.72,000 paid as stamp duty.
3. Capital allowances for the year was agreed with the tax authorities at Sh.48,000.
4. Salaries and wages include Sh.192,000 and Sh.80,000 paid to Suresh and Naresh respectively during the year.

**Required:**

- (i) The adjusted partnership profit or loss for the year ended 31 December 2018. (8 marks)
  - (ii) Allocation of the profits or losses in (b)(i) above to the partners. (4 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Explain the following terms as used in the context of value added tax (VAT):
  - (i) Rebate of VAT. (2 marks)
  - (ii) Remission of VAT. (2 marks)
- (b) Suggest four measures that the revenue authority of your country could employ in order to improve tax collection. (4 marks)
- (c) The following transactions were extracted from the books of Zawadi Ltd., a VAT registered company for the month of December 2018:
  - 2 December: Purchased goods from Hekima Enterprises on credit worth Sh.2,204,000.
  - 3 December: Purchased computers from Plannetech for Sh.348,000.
  - 3 December: Made cash sales of Sh.6,960,000.
  - 4 December: Returned goods worth Sh.139,200 to Hekima Enterprises.
  - 5 December: Paid electricity bills of Sh.17,400.
  - 9 December: Exported goods worth Sh.580,000 to Uganda and was paid by cheque.
  - 10 December: Bought energy saving bulbs to be used in the warehouse for Sh.12,000.
  - 12 December: Sold goods worth Sh.870,000 to Summit Communication Ltd. and received half of the payment in cash.
  - 15 December: Bought office stationery for Sh.27,840.
  - 18 December: Hired a taxi to transport staff and paid Sh.4,760.
  - 21 December: Made purchases from Zumah Suppliers worth Sh.626,400.
  - 24 December: Paid rent of Sh.238,000.
  - 25 December: Paid for catering expenses worth Sh.116,000.

The above transactions are stated inclusive of VAT at the rate of 16% where applicable.

**Required:**

- The VAT payable by or refundable to Zawadi Ltd. for the month of December 2018. (12 marks)
- (Total: 20 marks)**
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