

KASNEB REVISION KIT

0728 776 317

ADVANCED PUBLIC
FINANCE AND
TAXATION
REVISION KIT

MASOMO MSINGI PUBLISHERS

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2021

UPDATED WITH NOVEMBER 2020 PAST PAPER

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CPA

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ADVANCED PUBLIC FINANCE AND TAXATION

PART III CPA SECTION 6

REVISION KIT

PAST EXAMINATION PAST PAPERS WITH SUGGESTED ANSWERS

TOPICALLY ARRANGED

Updated with November 2020 Examination Past paper

INTRODUCTION

Following our continued effort to provide quality study and revision materials at an affordable price for the private students who study on their own, full time and part time students, we partnered with other team of professionals to make this possible.

This Revision kit (Questions and Answers) contains kasneb past examination past papers and their suggested answers as provided by a team of lecturers who are experts in their area of training. The book is intended to help the learner do enough practice on how to handle exam questions and this makes it easy to pass kasneb exams.

Special appreciation and recognition to the lecturers who have helped in the development of our materials, These are: FA Kegicha William Momanyi (MBA Accounting, CPA, CISA and CCP), FA Bramwel Omogo (B.sc Actuarial Science, CIFA, CIIA, CFA (Continuing) and ICIFA member) Johnmark Mwangi (MSc Finance, CPAK, BCom Finance), CPA Gregory Mailu (Bsc. Economics) CPA Dominc Rasungu and CPA Lawrence Ambunya among others.

KASNEB SYLLABUS

16.1 External resource financing

- Establishment of External Resource Department in the National Treasury
- Role played by External Resource Department in raising of external finances
- Book keeping and management of donor funds
- Regulation of grants administration
- Monitoring of public projects through clients connections and EPROMIS
- Development partners and contractual agreements

16.2 Public Investments

- Establishment of government investment departments
- Mandate of government investment departments
- Establishment of State Corporations (State Corporation Act Cap 446)
- Role of Public Investments Board; KenInvest
- Other players in public investment

16.3 Public Private Partnerships arrangements

- PPP models
- PPP parties, (PPP committee, PPP unit, contracting authority, PPP nodes, transactional advisor)
- Contract/project agreements, guidelines and standards
- Composition and role of PPP petition committee
- Establishment and role of PPP project facilitation fund
- PPP projects in the country- case study

16.4 Public debt management

- Establishment of debt management office
- Objectives of debt management in public sector
- Sources of public debt in Kenya
- Debt management strategy paper
- Relationship between debt management and budget process
- Debt sustainability analysis
- Comparative study of debt management strategy in East Africa Community
- Management of debts by county governments and other public entities
- Role of Cabinet Secretary of the National Treasury in public debt management

16.5 Advanced aspects of the taxation of business income

- Conversion of partnerships into liability companies, and incorporation of incoming and retiring partners during the year
- Limited companies, including holding companies, taxation of related parties
- Charitable institutions
- Leasing entities
- Co-operative societies
- Trade associations and clubs

Taxation of extractive industries

- Banking, insurance, sea and air transport undertakings
- Unit trusts
- Real estate investment trusts (REITS)
- Property developers and contractors
- Application of relevant case law

16.6 Tax administration and investigations and enforcement department

- Tax fraud
- Events which may trigger an investigation
- Tax investigation
- Back duty and in-depth examinations
- VAT computation, imported services, VAT withholding agents, restriction on input tax claim submission of VAT documents, VAT documentation refunds, false claims and accountant's certificate
- Compensating tax
- Incorrect and fraudulent returns
- Customs and excise investigations
- Negotiation for settlement
- Tax audit
- Appellant bodies and appeal procedures
- Alternative dispute resolution mechanism
- Application of relevant case law
- 16.7 Taxation of cross border activities
- Distinction between trading in and trading with a country; double taxation agreements; theory, design and application

- Regional perspective with reference to the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA)
- Most favoured nation status
- Generalised system of preference and AGOA
- Withholding tax provisions
- Tax havens and treaty shopping
- Tax information exchange agreements OECD
- Transfer pricing
- Application of relevant case law

16.8 Tax planning

- Tax planning for individuals
- Identifying opportunities to alleviate, mitigate or defer the impact of direct or indirect taxation
- Evaluating remuneration packages
- Tax avoidance and anti-avoidance provisions
- Uses of tax incentives
- Disposal of business operations and restructuring of activities
- SEZA
- Tax risks

16.9 Tax systems and policies

- Types of tax systems
- Role of taxation in economic development
- Design of a tax policy
- Criteria for evaluation of a tax system
- Tax reforms and modernisation of tax systems under various Acts
- KRA structure – LTO, MTO

16.10 Professional practice in taxation

- Forms of tax practice and matters relating thereto
- Matters relating to new clients
- Handling of client work
- Disclosures in tax returns, computations and correspondence with the Revenue Authority
- Moral and ethical issues in taxation
- Tax agents, appointment, obligations, professional liability

- Cancellation of tax agents licence
- Role of tax agents in appeals procedure
- Tax health check

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16.11 Current developments in public finance and taxation

- Legislative/Policy changes in public financial management
- Large and medium taxpayers units
- Tax information exchange arrangements
- Capital gains tax, other taxes

16.12 Emerging issues and trends

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RATES OF TAX (Including wife's employment, self-employment and professional income rates of tax)

Year of income 2019.

Monthly taxable pay Sh.		Annual taxable pay Sh.		Rate of tax % in each Sh.
1	- 12,298	1	- 147,580	10%
12,298	- 23,885	147,580	- 286,623	15%
23,885	- 35,472	286,623	- 425,666	20%
35,472	- 47,059	425,666	- 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
Capital allowance:	i) Saloons, Hatch Backs and Estates		
Wear and tear allowance:	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 100% (ii) Pick-ups, Panel Vans (unconverted)

Investment deduction allowance 100%	Up to 1750 cc	3,600	43,200
	Over 1750 cc	4,200	50,400

Shipping investment deduction 100%

(Ships over 125 tonnes) (iii) Land Rovers/Cruisers 7,200 86,400

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

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PART A:

PAST PAPERS QUESTIONS

(RE-ARRANGED TOPICALLY)

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TOPIC 1**EXTERNAL RESOURCE FINANCING****QUESTION 1****November 2019 Question Two A**

A number of countries have external resources departments as part of stimulating economic growth.

Explain four roles of such departments.

(4 marks)

QUESTION 2**November 2019 Question Five C**

Discuss four fiscal responsibility principles that the National Treasury and Planning must enforce when managing the national government public finance in your country.

(8 marks)

QUESTION 3**November 2018 Question One A**

Country Y has a fast growing economy. Various government ministries and state corporations in the country are currently engaged in a number of capital projects. The country recently developed an electronic project monitoring information system (e-ProMIS) to capture information on projects implemented by the ministries, state corporations and counties. As a result, all government organisations were required to upload their projects in the system and update them regularly.

Required:

Discuss four specific objectives that Country Y might realise from the e-ProMIS.

(8 marks)

QUESTION 4**November 2015 Question One C**

In the context of monitoring of public projects by public entities, outline three objectives of electronic project monitoring information systems (e-PROMIS). (3 marks)

QUESTION 5**November 2015 Question Two A**

In recent times, public financial management has generated a lot of interest from governments, the public, donors among other stakeholders.

Required:

Discuss four distinctive features of financial management in the public sector as compared to the private sector. (8 marks)

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TOPIC 2**PUBLIC INVESTMENTS**

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QUESTION 1**November 2019 Question Five A**

The Cabinet Secretary responsible for matters relating to public investments should prepare and submit a consolidated report to the National Assembly at the end of each financial year.

Evaluate the significance of any four information contained in the consolidated report. (8 marks)

QUESTION 2**May 2019 Question One B**

With regard to the government's responsibilities in public finance management:

- (i) Discuss three roles of the Cabinet Secretary for the National Treasury and Planning or equivalent office in your country, with regard to public debt management. (6 marks)
- (ii) Summarise three responsibilities of the State Corporations Advisory Committee (SCAC) or equivalent body in your country. (3 marks)

QUESTION 3**May 2018 Question One B**

The Project Facilitation Fund (PFF) was established under the Public Private Partnership (PPP) framework to meet certain objectives.

Required:

- (i) Describe the broad objective of establishing the Project Facilitation Fund (PFF). (2 marks)
- (ii) Summarise four areas in which the PFF could be applied. (4 marks)

QUESTION 4**May 2018 Question One C**

The Public Investments Committee (PIC) of the National Assembly undertakes an oversight role over public projects.

Required:

Identify two projects or activities in which the PIC is specifically excluded from overseeing. (2 marks)

QUESTION 5**May 2018 Question Five B**

Discuss two roles of the Directorate of Portfolio Management under the National Treasury or equivalent ministry in your country. (4 marks)

QUESTION 6**November 2017 Question Two B**

Various governments have established agencies to broadly enhance efficiency and effectiveness of state corporations.

In some countries, this agency is called the State Corporations Advisory Committee (SCAC).

Required:

Summarise four specific responsibilities of SCAC or its equivalent body in your country. (4 marks)

QUESTION 7**November 2016 Question Five B**

With reference to the operations of the Public Investments Committee (PIC) in your country:

- (i) Describe three functions of the PIC. (3 marks)
- (ii) Explain two matters which the PIC is specifically excluded from dealing with. (2 marks)

QUESTION 8

May 2016 Question One B

Citing four reasons assess the importance of public investment reports as prepared by the National Treasury or equivalent ministry in your country. (4 marks)

QUESTION 9

November 2015 Question Two B

According to legislation on investment promotion, an applicant may apply for an investment certificate from a public investment board.

Required:

In the context of the above statement

- (i) Outline three conditions that an applicant is required to fulfill in order to obtain an investment certificate. (3 marks)
- (ii) Describe five areas that could be considered by the public investment board before grant of an investment certificate. (5 marks)

QUESTION 10

November 2015 Question Two C

Citing two examples, discuss the relevance of the international financial market in the context of public financial management in your country. (4 marks)

TOPIC 3**PUBLIC PRIVATE PARTNERSHIPS ARRANGEMENTS****QUESTION 1****November 2020 Question One B**

With reference to public-private partnerships (PPPs):

- (i) Explain the role and composition of a petitions committee. (4 marks)
- (ii) Describe the moneys that are required to be paid into the public private partnership project facilitation fund. (3 marks)

QUESTION 2**November 2019 Question Two B**

Discuss three reasons for the failure of a number of projects under public private partnerships (PPPs). (6 marks)

QUESTION 3**May 2019 Question One C**

Describe three ways in which monies paid into the Public Private Partnership Project Facilitation Fund may be applied. (3 marks)

QUESTION 4**November 2018 Question Five C**

In certain circumstances, a contracting authority may consider a privately initiated investment proposal for a project without subjecting the proposal to a competitive procurement process.

Describe four such circumstances.

(8 marks)

QUESTION 5

May 2017 Question Three A

Your country has been experiencing growth in the number of projects initiated through public-private partnerships (PPPs). However, this growth appears to be declining in the last few years.

Required:

Evaluate three possible factors that could have contributed to the above trend.

(6 marks)

QUESTION 6

November 2016 Question Four C

Summarise four uses of funds deposited in the public private partnership (PPP) project facilitation fund.

(4 marks)

QUESTION 7

May 2016 Question One C

In the context of the Public Private Partnerships Act, 2013 or equivalent legislation in your country:

- (i) Explain the nature of public private partnerships (PPPs) (2 marks)
- (ii) Discuss three factors that have motivated the growth of PPPs. (6 marks)

QUESTION 8

November 2015 Question One A

A recent study on public financial management in developing countries identified a growing interest by governments to establish and enhance public private partnerships

(PPPs) as one of the ways of achieving sustainable development. In some of the countries covered by the study, a public private partnership (PPP) unit had been established within the mainstream government structure.

Required:

- (i) Explore three possible reasons for the growing interest in public private partnerships particularly among developing countries. (3 marks)
- (ii) Explain three functions of a public private partnership unit as established by a government. (3 marks)
- (iii) Summarise three challenges likely to face the implementation of public private partnerships in your country. (3 marks)

QUESTION 9

September 2015 Question Two A

Outline the information that is required to be provided by a contracting authority within the framework of the public private partnership (PPP) when preparing a project proposal. (8 marks)

QUESTION 10

September 2015 Question Two B

Explain six functions of the Public Private Partnership Unit (PPPU) as established under the Public Private Partnership Act 2013 or equivalent legislation in your country. (12 marks)

TOPIC 4**PUBLIC DEBT MANAGEMENT**

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QUESTION 1**November 2020 Question One C**

Summarise five functions of the Directorate of Public Debt Management. (5 marks)

QUESTION 2**November 2019 Question Five B**

Explain four ways through which the Public Debt Management office may enhance the functions of the commission on revenue allocation in your country. (4 marks)

QUESTION 3**November 2018 Question One B**

Over the last few years, Country Z's rising public debt has been a point of discussion in most macroeconomic outlook discussions, with organisations such as the World Bank and global rating agencies raising concerns.

Required:

Discuss three measures that the government of Country Z could take to reverse the above trend. (6 marks)

QUESTION 4**May 2018 Question One A**

The following was an extract of a speech delivered by a county Governor during a recent National Devolution Conference in your country.

"Today, a number of counties are heavily indebted with loans most of which were inherited from the defunct local authorities. This state of affairs threatens the long term financial sustainability of such counties".

Required:

Discuss three strategies that county governments could put in place to manage long outstanding debts. (6 marks)

QUESTION 5

November 2017 Question Three A

Describe three ways through which the government might redeem public debt. (6 marks)

QUESTION 6

May 2017 Question One A

A government's debt portfolio is usually the largest financial portfolio in a country. It often contains complex and risky financial structures and can generate substantial risk to the government's balance sheet.

Required:

In the context of the above statement:

- (i) Explain the term "public debt management". (2 marks)
- (ii) Discuss five guidelines for effective public debt management. (10 marks)

QUESTION 7

May 2016 Question One A

Country Y has recently introduced a number of reforms with regard to public sector financial management. One of the reforms involved the establishment of a debt management office (DMO).

Required:

Discuss four possible roles of the DMO as established in Country Y. (8 marks)

QUESTION 8**November 2015 Question One B**

Country X has undertaken a number of infrastructural projects as part of its long-term development initiatives. This has however resulted in the government borrowing heavily from both the domestic market and the foreign market. As a result, interest rates have risen significantly, a situation that has affected other critical sectors of the country's economy.

Required:

In the context of the above scenario, advise the government of Country X on four approaches that it could use to manage its public debt. (8 marks)

QUESTION 9**September 2015 Question One A**

Describe the stages involved in the National Government budget process as provided in the Public Finance Management Act 2012 or equivalent legislation in your country. (10 marks)

QUESTION 10**September 2015 Question One B**

- (i) Explain the relevance of transparency and accountability in the context of public debt management in your country. (4 marks)
- (ii) Discuss the importance of sound public debt management. (6 marks)

TOPIC 5**ADVANCED ASPECTS OF THE TAXATION OF
BUSINESS INCOME****QUESTION 1****November 2020 Question Two A**

The following financial information was extracted from the books of Oil Drillers and Exporters Ltd. for the year ended 31 December 2019:

Income	Sh.
Proceeds of oil sold to foreign subsidiary company (30,000 barrels of crude oil at Sh.500 per barrel)	25,000,000
Value of oil disposed of to local refineries	125,000
Freight charges received from other oil companies for transporting their crude oils to neighbouring country	190,000
Sale of natural gas	160,000
Expenditure	
Staff accommodation expenses	60,000
Wages and salaries for employees	15,000
Annual compensation paid to local people for disturbance during petroleum exploration	75,000
Royalties incurred in respect to crude oil exported	42,000
Interest on loan from a foreign subsidiary company	31,250
Specific bad debts written off	8,500
Depreciation of non-current assets (Class IV)	45,100
Exploration and drilling costs in respect to cement and casing of oil wells	24,500,000
Contribution to approved provident fund	65,000
Custom duties on imported equipment	21,500
General expenses	65,000

Additional information:

1. Non-current assets comprised; drilling machines Sh.900,000, Furniture Sh.240,000 and saloon car Sh.2,800,000 acquired during the year.

2. Staff accommodation expenses include management fees of Sh.18,000 for a director from a foreign subsidiary company.

3. Lorries for transporting crude oil comprised:

7.5 tonnes lorry Sh.2,400,000.

4.2 tonnes lorry Sh.1,800,000.

Required:

A statement of taxable profit or loss for the year ended 31 December 2019.

(12 marks)

QUESTION 2

November 2020 Question Three A

M and K are in partnership trading as MK enterprises. The partners deposited Sh.4,000,000 and Sh.6,000,000 into the business account as their initial capital before commencing trading. They also agreed to share profit and loss in the ratio of their initial capital contribution and interest on capital at 5% per annum on outstanding capital balances.

On 1 January 2018, the firm purchased the following assets for use in the business:

	Sh.
Saloon car	2,400,000
Computers	80,000
Furniture and fittings	96,000
Fax machine	48,000
Switchboard	64,000
Bookshelf	18,000
Office kitchen utensils	9,000
Office television set	54,000
Carpets	36,000
Safe for cash office	45,000

The firm's books were kept in a single entry bookkeeping. The details for the accounting records for the year ended 31 December 2018 obtained were as follows:

1. Sales for the year was Sh.1,860,000 out of which Sh.360,000 was on credit and the balance was cash banked.

2. The following monthly expenses were paid from cash proceeds before banking the proceeds from cash transactions

	Sh.
Transport expenses	6,000
Telephone and postage	5,600
Office meals	5,000
Repairs and maintenance	4,800

3. The bank statements summary for the full year showed payments made during the year as follows:

	Sh.
Rent payment	325,000
Purchase of 3 tonnes lorry	1,800,000
Purchase of motor bike	90,000
Office expenses	1,460,000
Advertising	240,000

4. The office expenses paid in note (3) above included:

	Sh.
Partners' salaries: M	270,000
K	360,000
Employees' pension contribution	420,000
Donations to society for blind	78,000
Tax consultancy fees	32,000
Training of partners' children	28,000
Motor vehicle insurance	24,000

The business failed to file returns for the year of income 2018 and on 1 July 2019, they received an estimated assessment of Sh.78,000 from the revenue authority for each partner.

Required:

- i) Using the above information, prepare a statement that will form the basis of contesting the estimated assessment for the year of income 2018. (14 marks)

ii) Advise the partners on the appeal position.

(2 marks)

QUESTION 3

November 2019 Question One C

Sharon and Primus are partners running a hardware business. They have approached you to assist them prepare the partnership returns for the year ended 31 December 2018. The following information has been presented to you:

The partnership agreement provides that

- Profits and losses will be shared in the ratio of 2:1 for Sharon and Primus respectively.
- Partners will be allowed to withdraw up to Sh.100,000 in cash without being charged interest. Any excess withdrawals will be subject to interest at a rate of 8% per annum.
- Each partner will be entitled to a monthly salary of Sh.60,000 per month. However, no salary would be paid to any partner in the months of January, May and September due to expected low sales based on analysis of past trends. Partners would be entitled to a commission.

2. The balances in the books of account as at 31 December 2018 and 31 December 2017 included the following:

	31 December 2018 Sh.	31 December 2017 Sh.
Accrued commission due to partners	400,000	360,000
Accounts payable (trade)	2,000,000	1,600,000
Accrued advertising expense	610,000	340,000
Prepaid royalty income	160,000	100,000
Accounts receivable (trade)	5,900,000	1,700,000
Accrued salaries and wages (partners excluded)	410,000	130,000
Accumulated depreciation	600,000	340,000

3. Extracts of cash payments during the year were as follows:

	Sh.
Commission paid to partners equally	100,000
Purchases (goods for sale)	1,000,000
Advertising expenses	150,000

Salaries and wages (partners excluded)	1,390,000
Motor vehicle expenses	240,000
Electricity expenses	80,000
Office partitions	60,000
Purchase of office equipment	97,000
Meals to employees	200,000
Loan interest	35,000
Cash withdrawn by partners - Sharon	160,000
- Primus	100,000

4. All receipts were channeled through the account and included the following.

	Sh.
Sales (all were on credit terms)	1,600,000
Royalty income	240,000
Proceeds from sale of office equipment	45,000
Computer leasing charges	6,000

5. The partners withdrew hardware goods for personal use as indicated below: Sh.

Sharon	110,000
Primus	60,000

6. In December 2018, some of the hardware goods which were valued at Sh.60,000 were destroyed by fire. Compensation of Sh.35,000 was received from the insurance company.

Required:

(i) Taxable profit or loss of the partnership for the year ended 31 December 2018.

(8 marks)

(ii) A schedule showing the partners allocation of taxable income or loss.

(2 marks)

Hint: Ignore opening and closing inventory.

QUESTION 4

November 2019 Question Three C

Maisha Mema Insurance Company Limited provided the following information for the year ended 31 December 2018:

	Sh."000"
Gross premiums received	30,000
Claims paid	4,000
Commission ceded	800
Commission accepted	20
Claims recovered on reinsurance	3,000
Foreign exchange gains realised	3,500
Dividends from life assurance fund	2,000
Rental income (commercial building)	1,600
Bad debts provision	500
Investment income	1,200
Reserve for unexpired risks (1 January 2018)	1,000
Legal expenses related to claims	400
Agency fees	400
Management fees	120
Repairs on rental properties	200
Entertainment expenses	400
Purchase of furniture	600
Purchase of computer	300
Reinsurance premiums paid	4,000
Returned premiums	5,000

Additional information:

1. Reserves for unexpired risks on 31 December 2018 were Sh.200,000.
2. Claims outstanding on 1 January 2018 and 31 December 2018 were Sh.600,000 and Sh.900,000 respectively.
3. Premiums outstanding on 1 January 2018 and 31 December 2018 were Sh.6,000,000 and Sh.12,000,000 respectively.
4. Agency fees included Sh.200,000 relating to the life assurance business.
5. Legal fees included Sh.100,000 relating to settlement of a tax dispute.
6. Investment income comprised:

	Sh.
Interest from bank	850,000 (net)
Interest from treasury bonds	350,000 (gross)

Required:

- (i) Taxable profit or loss of Maisha Mema Insurance Company Limited for the year ended 31 December 2018. (8 marks)

(ii) Tax payable (if any) from your computations in (c) (1) above.

(2 marks)

QUESTION 5

November 2019 Question Four C

Benita Contractors Ltd. operates in the construction industry. On 1 November 2016, the company won a tender for the construction of two projects, a hospital and an office complex. Construction of the projects commenced on 1 January 2017. The following details relate to the two projects for the year ended 31 December 2018:

	Hospital project Sh."000"	Office complex Sh."000"
Balance as at 1 January 2018:		
Materials	6,000	4,000
Accrued salaries and wages	1,500	1,200
Plant (written down value)	190,000	150,000
Cost of work done	200,000	200,000
Value of works certified to date	200,000	160,000
Transactions undertaken during the year:		
Material delivered to site		
From store	10,000	14,000
From supplier	100,000	128,000
Plant purchased at cost	-	120,000
Sub contractors fee	-	18,000
Consultancy fees	30,000	29,000
Inspection fee	10,000	5,000
Salaries and wages	120,000	180,000
Head office expenses		2,000
Material transferred out	10,000	17,000
Material sales	-	22,000
Plant lease charges	400	500
Direct expenses	3,000	2,000
Cash received from sub contractor	300,000	600,000
Cumulative value of work certified as at 31 Dec 2018	700,000	860,000
Value of work uncertified in the year	30,000	42,000
Balance carried forward:		
Material on site	40,000	50,000
Accrued wages	1,000	2,000

Additional information:

1. Consultancy fees for the hospital project include Sh.40,000 prepaid for the year 2019.
2. Wear and tear allowance on plant was provided at the rate of 12.5% per annum.
3. Direct expenses accrued and not reflected above were as follows:

	Hospital Sh."000"	Office Sh."000"
As at 1 January 2018	200	-
As at 31 December 2018	1,000	400

Required:

A schedule showing the taxable profit and tax payable (if any) by Benita Contractors Ltd. as at 31 December 2018 (10 marks)

QUESTION 6

May 2019 Question Two B

Dawida, Ltd. is a real estate developer. During the year ended 31 December 2018, the company earned the following incomes from rented properties:

	Sh.
Rental income	19,400,000
Sale of timber used during construction	288,600
Sale of unused paint	92,400

The rented property is a commercial building constructed at a cost of Sh.48,460,000 and was occupied on 1 January 2018 upon completion on 31 December 2017.

The cost of construction of the commercial building comprised the following:

	Sh
Shops (cost)	16,800,000
Offices	17,240,000
Showroom	9,460,000
Sewerage system	1,640,000

The following additional costs and expenses were incurred by the company:

1. A standby generator at a cost of Sh.600,000 and a powerhouse at a cost of Sh.280,000 were acquired.
2. CCTV surveillance cameras were installed at a cost of Sh.720,000.
3. A stone perimeter wall was constructed at a cost of Sh.1,480,000.
4. Electricity expenses incurred during the year amounted to Sh.492,800 while insurance expenses amounted to Sh.360,000.
5. Water tanks costed Sh.540,000 excluding the cost of water pumps of Sh. 248,000.
6. Land Cruiser motor vehicle of 3500cc whose cost was Sh. 2,800,000 was purchased and used for security surveillance purposes.
7. A parking bay for shoppers was constructed at a cost of Sh.4,670,000.
8. Other expenditure comprised purchase of fire extinguishers at Sh.182,000, county rates amounting to Sh.94,800, real estate agents commission amounting to Sh.138,400 and parking metres amounting to Sh.280,000.

Required:

- (i) Statement of taxable rental income for the year ended 31 December 2018. (10 marks)
- (ii) Tax liability, if any, for Dawida Ltd. for the year ended 31 December 2018. (2 marks)
- (iii) Highlight any additional information to be sought from the company to help determine the accuracy of the tax computed. (4 marks)

QUESTION 7**May 2019 Question Four B**

Solomon Omariba started a merchandise business, Solo Traders, on 1 January 2016. He had not filed individual income tax returns for the years of income 2016 and 2017. The revenue authority announced a tax amnesty, where one qualified provided they filed returns for the year of income 2018.

Mr Omariba has provided the following details to you to assist in filing his returns:

1. An analysis of the cash book for the year ended 31 December 2018 is as shown below:

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Cash book — Bank Column

	Sh.		Sh.
1 January 2018 balance b/d	970,000	Fixtures and fittings (acquisition)	183,000
Cash sales	4,408,000	Suppliers of goods	696,000
Cheques from customers	649,600	Bank charges	14,800
Refunds from suppliers	41,760	Motor vehicle (acquisition)	500,000
Rent income	520,000	Salaries and wages	480,000
Sale of fixtures	248,000	Office computers (acquisition)	240,000
		Rent and rates	62,000
		Electricity expenses	58,000
		Telephone and postage	62,640
		Refunds to customers	37,120
		Computer software	60,000
		Balance carried down	<u>4,443,800</u>
	<u>6,837,360</u>		<u>6,837,360</u>

2. Other information obtained from the books of account included:

	1 January 2018	31 December 2018
Inventory	4,320,000	225,000
Suppliers of goods	278,400	139,200
Trade debtors	174,000	487,200
Accrued electricity	66,120	113,680
Prepaid rent income	180,000	240,000
Motor vehicles	1,400,000	1,800,000
Prepaid salaries and wages	320,000	140,000
Fixtures and fittings	450,000	170,000

3. Non-current assets are stated at cost. However, the business had charged depreciation in the income statement.
4. Opening and closing inventories were overvalued and undervalued by 20% and 10% respectively.
5. All operating expenses and non-current assets comprise 40% non-business activities.
6. Total sales and purchases are inclusive of value added tax at the rate of 16%.
7. The business had issued credit notes of Sh.34,800 for goods returned by credit customers.
8. The cost of fixtures disposed of was Sh.220,000.
9. From the accounting records, the accountant had reported a net loss of Sh.186,400.

Required:

A statement showing the corrected adjusted taxable income of Solo Traders for the year of income 2018. (14 marks)

QUESTION 8**May 2019 Question Five B**

The following are the year 2018 records of the Trustees of the late Kalume Tajiri Children Settlement created in favour of his three children; Baraka, Khalifi and Mwanga.

	Sh."000"
Gross rental income	800,000
Trading income	310,000
Dividends (gross)	160,000
Sundry income	90,000

Additional information:

- 1 Each beneficiary is entitled to 1/5 share of the net distributable income.
2. Interest on debt repayment by the settlement is Sh.14,000,000.
3. Fixed annuity to beneficiary is Sh.120,000,000 (gross).
4. Trustees remuneration per "Trust Deed":
 - Fixed salary Sh.80,000,000 each.
 - 2% of total computed income.
5. Under the terms of the Trust Deed, the trustees made the following discretionary payments to Baraka, Khalifi and Mwanga; Sh.120,000,000, Sh.100,000,000 and Sh.60,000,000 respectively.
6. Trading income was before taking into account capital expenditure as follows:

	Sh.
Godown	3,500,000
Staff canteen	750,000
Parking bay	800,000
Sports pavilion	<u>1,950,000</u>
	<u>7,000,000</u>

7. Administrative and other expenses amounted to Sh.160,000,000.
8. The children did not have other income.

Required:

- (i) A statement of income tax payable by the trustees on the trust income for the year of assessment 2018 (8 marks)
(ii) The amount due to each beneficiary for the year of assessment 2018. (4 marks)

QUESTION 9**November 2018 Question Two A**

Maendeleo Ltd. is a manufacturing company operating through a number of branches. 75% of the share capital of Maendeleo Ltd. is held by a foreign company, Export Line Ltd. The following information relates to Maendeleo Ltd.'s operations for the year ended 31 December 2017:

	Sh."000"	Sh."000"
Turnover		1,948,000
Cost of goods sold		<u>(562,000)</u>
Gross profit		1,386,000
Foreign exchange gain		14,840
Goods transferred to a branch		3,000
Insurance recovery for stolen motor vehicle		968
Proceeds from sale of factory extension		<u>4,690</u>
		1,409,498
Less expenses:		
Directors emoluments and staff costs	16,890	
Pension contribution for staff	4,200	
Staff recruitment costs	1,148	
Purchase of furniture	420	
Penalties on overdue VAT	164	
Impairment loss of factory extension	150	
Mortgage interest	364	
Goodwill written off	162	
Loan interest	1,286	
Depreciation	1,480	
General office expenses	<u>1,348</u>	<u>(27,612)</u>
Net profit		<u>1,381,886</u>

Additional information:

1. The cost of construction of the factory extension that was disposed of during the year was Sh.2,800,000. The factory extension was repainted at a cost of Sh.75,000 while the revaluation fee for disposal purposes was Sh.146,800. Impairment loss was due to increased insecurity in the area.
2. The branch sold 80% of the goods transferred from the head office, and 10% of these goods were sold to a customer who was later declared bankrupt.
3. Loan interest related to a loan advanced by Export Line Ltd.
4. Directors emoluments include management fees of Sh.4,840,000 paid to Export Line Ltd.
5. The capital expenditure records obtained from the company's books showed the following as at 1 January 2017:

	Sh. '000'
Factory building	24,800
Perimeter wall around the factory	6,820
Sewerage system	2,400
Staff quarters	7,600
Processing machinery	3,700
Delivery van	1,750
Forklift	980
Parking and loading bay	2,500
Furniture	680

The capital expenditure was incurred on 1 January 2016 when the company commenced operations in Kenya. The cost of the factory building includes a godown Sh.800,000, retail shop Sh.400,000, show room Sh.800,000 and staff canteen Sh.1,900,000.

The capital allowances for year 2016 were claimed as appropriate.

6. Cost of goods sold includes purchases of Sh.174,000,000 inclusive of value added tax at the rate of 16%.

Required:

- (i) A statement of adjusted taxable profit or loss for the year ended 31 December 2017. (12 marks)
- (ii) Tax liability for the year. (2 marks)

(iii) Compute any other tax payable by the company.

(2 marks)

QUESTION 10

November 2018 Question Four A

Mafuta Petroleum Company Ltd. has provided the following details for the year ended 31 December 2017:

	Sh."000"
Sale of crude oil – export	834,900
Sale of natural gas	43,375
Other incidental income	4, 537.5
Production expenses	217,800
Administration costs	290,400
Intangible drilling costs	45,375
Non-productive rentals	18,150
Royalties on export	4, 537.5
Royalties on local sales	1,815
Provision for restoration of wells	136,125
Custom duties on plant and machinery	27,225

The following additional information is provided:

1. Memorandum of Understanding (MOU) credit Sh.18,150,000.
2. Petroleum investment allowance has been agreed at Sh.13,612,500.
3. Depreciation included in production expenses amounted to Sh.36,300,000.
4. Capital allowances agreed with the Revenue Authority amounted to Sh.54,450,000.

Required:

- (i) A statement of taxable profit or loss for the year ended 31 December 2017. (8 marks)
- (ii) Tax liability. (2 marks)
- (iii) Explain the significance of "Memorandum of Understanding (MOU)" in the petroleum industry. (2 marks)

QUESTION 11**May 2018 Question Two A**

Mafuta international Ltd a petroleum exploration company provided the following financial information for the year ended 31 December 2017:

Crude oil exported	1,400,000 barrels
Crude oil sold locally for further refining	750,000 barrels
Exploration costs	Sh.16,000,000
Incidental income from petroleum operations	Sh.1,250,000
Management and administration expenses	Sh.14,000,000
Depreciation	Sh.750,000
Provision for bad debts (specific debts Sh.1,250,000)	Sh.2,450,000
Non-productive rent	Sh.1,156,000

The schedule of qualifying capital expenditure was provided as follows:

Capital expenditure item	Date of acquisition	Location	Amount Sh.
Plant and machinery	July 2015	Offshore	6,000,000
Fixtures and fittings	July 2015	Onshore	2,000,000
Building	February 2016	Onshore	4,000,000
Pipeline and storage tank	February 2017	Offshore	4,000,000

Additional information:

1. The international market price of crude oil during the year was US\$12 per barrel. The average exchange rate of the US\$ to the shilling (Sh.) was \$1 = Sh.105.
2. The crude oil sold locally was disposed of at Sh.35 per barrel.

Required:

Tax liability (or refund) for Mafuta International Ltd. for the year ended 31 December 2017. (12 marks)

QUESTION 12**May 2018 Question Two B**

One of the tax incentives provided to oil and gas exploration companies is the capital allowance on extraction expenditure.

Discuss four other tax incentives provided to oil and gas exploration companies in your country. (8 marks)

QUESTION 13

May 2018 Question Three A

Jua and Kali have been trading as partners under a trade name Juakali Enterprises since 1 January 2016. They have not filed individual income tax returns for the year ended 31 December 2017. The Commissioner of Domestic Taxes has issued an estimated assessment of Sh.784,000 to each of the partners for the year ended 31 December 2017. They share profits and losses in the ratio of 2:3 to Jua and Kali respectively. They are preparing to appeal against the assessment and have approached you for tax advice with the following details:

Cash book summary			
Dr.	Sh.	Cr.	Sh.
Balance b/f (1 Jan 2017)	760,000	Payments to creditors	880,000
Capital: Jua	600,000	Purchase of furniture	200,000
Kali	960,000	Motor vehicle expenses	140,000
Receipts from debtors	1,700,000	Electricity expenses	78,000
Cash sales	1,000,000	Rent expenses	394,000
Rent income	580,000	Purchase of motor vehicle	600,000
Sale of furniture	170,000	Salaries and wages	480,000
		Office partitions	180,000
		General expenses	440,000
		Balance carried forward	<u>2,318,000</u>
	<u>5,710,000</u>		<u>5,710,000</u>

Additional Information:

- The cost of furniture sold was Sh. 160,000 and had accumulated depreciation of Sh.14,000 as at 1 January 2017. Profit on disposal was credited to the income statement for the year ended 31 December 2017.
- All the cash sales were paid into the bank with the exception of Sh.440,000 which was debited in the income statement as general expenses, but related to the following items: partners' children school fees, Sh.80,000, purchase of goods Sh.200,000, tax

appeal expenses Sh.40,000, insurance policy for partners' life Sh.70,000 and computer software Sh.50,000.

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3. Other information provided was as follows:

	31 December 2016	31 December 2017
	Sh.	Sh.
Inventories	248,000	362,000
Creditors for goods	400,000	280,000
Debtors for goods	240,000	360,000
Electricity expenses prepaid	472,000	30,000
Rent owing	78,000	44,000
Salaries and wages owing	20,000	60,000
Furniture	160,000	200,000

4. The business reported a net loss of Sh.424,500 for the year after deducting the following expenses:

- Salaries and wages for the year ended 31 December 2017 which included partners' salaries for Jua Sh.100,000 and Kali Sh.80,000.
- Rent expense for the year included 20% for private residence for Jua while electricity included 30% electricity bills paid on behalf of Kali's private house.
- Capital allowances in respect of the business had not been considered. However, depreciation had been debited in the income statement. The depreciation was at the rate of 20%.

5. Sales and purchases for the year were understated and overstated respectively by 20%.

6. The partners are entitled to interest on capital at the rate of 10% per annum on their capital contributions.

The interest on capital was included in the figure for purchases for the year.

Required:

- (i) With supporting computations, advise the partners on the accuracy of the estimated assessment issued for the year of income 2017. (9 marks)
- (ii) Prepare a schedule of total taxable income for each partner for the year of income 2017. (5 marks)

Hint: Start with the adjusted net loss.

QUESTION 14**May 2018 Question Four A**

Jakes Air Safaris Ltd. is a foreign company operating a fleet of passenger and cargo aircrafts in Kenya, Middle East and Far East. The operating results for the year ended 30 September 2017 are as follows:

	Sh."000"
Income from cargo freight (Kenya/China)	1,567,720
Income from passengers and freight (Kenya/Middle East)	1,765,000
Income from passengers and freight (South Korea to Kenya)	1,001,880
Income from cargo loaded into aircraft on all routes	630,000
Salaries and other expenses	1,548,000
Accumulated depreciation on aircraft	88,000
General provision for bad debts	72,000

Additional information:

1. Salaries and other expenses include:

	Sh."000"
Purchase of plane engines	117,000
Use of airport facilities	32,400
Hotel bills for first class passengers	37,800
Accommodation for airline crew	9,000
Gifts to airport staff	10,800

2. The airline has a fleet of four aircrafts whose total cost before accumulated depreciation was Sh.360,000,000.

Required:

- (i) A statement of total taxable profit of Jakes Air Safaris Ltd. for the year ended 30 September 2017. (8 marks)
 - (ii) Tax liability, if any, for the airline for the year ended 30 September 2017. (2 marks)
- (b) The revenue authority in your country recently established a Medium Taxpayers Office (MTO) as part of the tax reforms.

Required:

Discuss five objectives of the MTO.

(10 marks)

QUESTION 15

May 2018 Question Five A

The following is the income statement of Savanna Ltd., a manufacturing company for the year ended 31 December 2017:

	Sh.	Sh.
Gross profit		11,520,000
Foreign exchange gain		148,000
Dividends from Hazina Cooperative (net)		68,000
Dividends from subsidiary company		244,000
		11,980,000
Less expenses		
Directors emoluments	6,480,000	
Provision for depreciation	250,000	
Office furniture	360,000	
Computer software	90,000	
Donations	25,500	
Legal expenses	648,000	
Dividends paid	120,000	
Corporation tax	375,000	
Salaries and wages	674,000	9,022,500
Net profit		<u>2,957,500</u>

Additional information:

- The company operates in a factory building whose construction cost at the time of first operation on 1 January 2003 was Sh.4,800,000. The cost of this building is included in the directors emoluments. The company installed processing machinery costing Sh.2,800,000 in year 2003.
- On 1 July 2017, the company acquired portable packaging machine at a cost of Sh.420,000, computers Sh.240,000 and weighing scale machine Sh.48,000.

3. On 1 October 2017, the company put into use a staff canteen constructed at a cost of Sh.780,000 and a godown whose cost was Sh.600,000.
4. Legal expenses include:
- Costs for disposal of banned packaging material Sh.27,000.
 - Negotiating a loan agreement Sh.36,000.
 - Processing legal documents for a new factory plant Sh.19,800.
 - Defending a company against a law suit for smuggled goods by a director Sh.94,000.
 - Preparing patent documents for registration Sh.52,800.
5. Gross profit was overstated by 20% and includes a figure for purchases of Sh.340,000 which had been understated by 15%.
6. Directors allowance include management fees of Sh.495,000 from a director of one of the subsidiary companies.
7. Interest on a loan of Sh.96,000 from head office was included in the directors emoluments. The interest was to be treated as received from a thinly capitalised company.

Required:

- (i) A statement of adjusted taxable profit or loss for the year ended 31 December 2017. (12 marks)
- (ii) Tax liability, if any for the year ended 31 December 2017. (2 marks)
- (iii) Comment on payment of tax for the year ended 31 December 2017, assuming that tax had been paid during the year 2017 based on previous year's tax of Sh.2,400,000. (2 marks)

Note: Use capital allowance rates applicable in the year of asset acquisition.

QUESTION 16**November 2017 Question Two A**

Masai Traders commenced trading on 1 January 2014. The following are the financial statements and supporting records for the years ended 31 December 2016 and 2015:

Statement of comprehensive income for the year ended 31 December 2016

	Sh. "000"	Sh. "000"
Sales		82,600
Less cost of goods sold		<u>(36,200)</u>
Gross profit		46,400
Less expenses:		
Legal expenses	7,700	
Impairment loss on business premises	4,800	
Depreciation on plant and equipment	1,600	
Interest expense	478	
Salaries and wages	<u>1,394</u>	<u>(15,972)</u>
Net profit		<u>30,428</u>

Statement of financial position as at 31 December:

	2016 Sh. "000"	2015 Sh. "000"
Non-current assets:		
Business premises	3,200	3,500
Plant and equipment	26,400	28,000
Saloon car	<u>800</u>	<u>860</u>
	30,400	32,360
Current assets:		
Inventories	11,600	11,200
Debtors	12,800	15,200
Cash and cash equivalents	<u>14,200</u>	<u>8,600</u>
	<u>69,000</u>	<u>67,360</u>
Financed by:		
Capital	30,000	30,000
Add: net profit	30,428	24,240
	60,428	54,240
Current liabilities:		
Creditors	4,572	3,120
Bank overdraft	<u>4,000</u>	<u>10,000</u>
	<u>69,000</u>	<u>67,360</u>

Additional information:

1. During the year 2016, payments through the bank comprised the following Sh. "000"

	Sh. "000"
Conveyance fees for business land title deed	128
Payments to creditors	2,488
Salary to wife	260
Mortgage interest: personal residence	184
Defending business against illegal trade	160
Revenue stamps	16

2. The credit purchases figure was overstated by 60%.
3. Receipts from debtors amounted to Sh.9,600,000. A debtor owing goods valued at Sh.85,840 inclusive of 16% VAT was declared bankrupt during the year and the debt written off. The write off was included in the interest expense.
4. The figure for sales was understated by 20%.
5. Business premises included:
- A factory building at a cost of Sh.960,000.
 - Warehouse Sh.540,000.
 - Staff canteen Sh.600,000.
- All these were put into use on 1 January 2014.
6. There were no acquisitions or disposals of fixed assets during the year 2016.
7. Plant and equipment acquired in the year 2015 includes:
- Weighing scale Sh.14,000.
 - Furniture Sh.240,000.
 - Computers Sh.324,000.
 - Forklift Sh.400,000.
 - Lorry (2 tonnes) Sh.960,000.

The rest of the assets were categorised under Class IV for purposes of wear and tear allowance.

Required:

- (i) A statement of adjusted taxable profit or loss for the year ended 31 December 2016.

(13 marks)

- (ii) State three areas or items that you might require further clarification on from Masai Traders for accurate computation of any tax due. (3 marks)

QUESTION 17**November 2017 Question Five A**

Mawela Property Developers Ltd. purchased a residential house on 1 January 2015 through a 12% per annum mortgage loan of Sh.4,000,000. The company incurred the following expenses in obtaining the loan:

- Audit fees Sh.48,400.
- Valuation of the house Sh.120,000.
- Legal fees for conveyance Sh.80,000.

Additional information:

1. The company replaced all doors in the residential house with metallic doors at a cost of Sh.96,000.
2. On 31 December 2016, the company sold the house at a price of Sh.8,000,000 after incurring the following expenses:
 - Repairs of the house Sh.78,000.
 - Advertisement Sh.24,200.
 - Agent's commission Sh.12,000.
 - Valuation fee Sh.148,000.
 - Legal fees Sh.42,800.

Required:

Compute the capital gain or loss arising from the sale of the above house. (6 marks)

QUESTION 18**November 2017 Question Five B**

Dawa Ltd. provided the following income statement for the year ended 31 December 2016:

	Sh. "000"	Sh. "000"
Turnover		27,400
Less cost of goods sold		(11,000)
Gross profit		16,400
Add other income:		
Capital gain on sale of assets		468
Insurance recovery on motor vehicle		450
Dividends from subsidiary company		942
Foreign exchange gain		124
Interest on fixed deposit		<u>300</u>
		18,684
Less expenditure:		
General expenses	4,840	
Impairment loss	390	
Bad debts	485	
Advertising	248	
Donations to disaster fund	150	
Property tax	136	
Branch closure costs	178	
Legal expenses	1,240	
Staff costs	3,496	(11,163)
Net profit		<u><u>7,521</u></u>

Additional information:

- The cost of goods sold includes opening stock valued at Sh.2,200,000, while closing stock was stated at Sh.2,800,000. The opening stock was overcast by 10% and closing stock was undercast by 30%.
- Legal expenses comprised:

	Sh. "000"
Acquisition of bank loan	90
Settling customers disputes	42
Preparation of memorandum of association	260
Liquidation costs	468

Patent rights	340
Notices to defaulting debtors	40

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3. General expenses comprised:

	Sh. "000"
Purchase of processing machinery	800
Purchase of factory building	1,280
Provision for corporation tax	394
Purchase of furniture	360
Directors allowances	480
VAT appeal	120
Credit notes received	135
Delivery van	720
Debenture interest	<u>551</u>
	<u>4,840</u>

4. Bad debts analysis: Bad debts account

	Sh. "000"		Sh. "000"
Bad debts	178	Balance brought down:	240
		Specific provision	
Balance carried down:		General provision	180
Specific provision	560	Profit and loss account	<u>485</u>
General provision	<u>167</u>		<u>905</u>
	<u>905</u>		

5. Staff costs include: staff development cost Sh.96,000, staff welfare expenses Sh.200,000, pension contribution Sh.1,480,000 and personal computers Sh.360,000.
6. Advertising include: neon sign Sh.129,000, depreciation of delivery van Sh.24,000, carriage outwards Sh.9,000 and hire of billboards Sh.86,000.

Required:

- (i) A statement of adjusted taxable profit or loss for the year ended 31 December 2016. (12 marks)
- (ii) Corporation tax payable, if any, by Dawa Ltd. (2 marks)

QUESTION 19**May 2017 Question Two B**

The following information was obtained from the financial records of Mali Commercial Bank Ltd. for the year ended 31 December 2016:

	Sh."000"
Interest on advances	464,800
Contribution to deposit protection fund	98,000
Operating lease rentals	6,480
Interest on government securities	14,600
Interest paid on deposits	4,740
Interest on placement and bank balances	2,660
Loss on disposal of collaterals	840
Fees and commission expenses	1,420
Losses from investment in securities	790
Purchase of equipment	1,200
Depreciation	496
Transfer to statutory reserves	626
Losses on stock brokerage dealings	348
Gain on foreign exchange dealings	1,470
Discounts on bills purchased	329
Auditor's remuneration	786
Provision for bad and doubtful debts	540
Investment in government securities	1,850
Bills receivable and for collection	314
Guarantees and performance bonds	378
Interest accrued and paid	1,974
Bills for collection, acceptance and endorsement	470
Rebate on bills discounted	292
Provision for taxation	400
General charges recovered	250
Commission on exchange and brokerage	784

Additional information:

1. Contribution to deposit protection fund includes investment revaluation surplus of Sh.648,000.
2. Included in transfer to statutory reserves is an amount paid for exchange and commission of Sh.48,000.

3. Discounts on bills purchased include interest and discount paid of Sh.39,000.
4. Provision for bad and doubtful debts include specific bad debts at the beginning and end of the year amounting to Sh.68,000 and Sh.140,000 respectively.

Required:

- (i) A statement showing the taxable profit or loss for Mali Commercial Bank Ltd. for the year ended 31 December 2016. (10 marks)
- (ii) Tax payable by (or refundable to) the bank (2 marks)

QUESTION 20**May 2017 Question Three B**

Wema and Nenda have been running Wenda Enterprises as a partnership, sharing profits and losses in the ratio of 2:3 respectively. The following is the statement of comprehensive income for the firm for the year ended 31 December 2016:

	Sh.	Sh.
Sales		5,220,000
Less: Cost of goods sold		<u>(2,047,000)</u>
Gross profit		3,173,000
Rental income		148,800
Foreign exchange gain		120,200
interest on fixed deposit account		<u>80,000</u>
		3,522,000
Less: Expenses		
Purchase of CCTV cameras	96,000	
Impairment loss on godown	124,600	
Website development	130,000	
Debt interest	56,000	
Audit fees	48,400	
Salaries and wages	300,000	
Directors' allowances	280,000	
Legal expenses	250,000	
Loss on rented property	36,200	
Purchase of foreign currency	344,900	
Advertising expenses	224,200	
Purchase of computers	180,000	
Insurance	94,200	

Medical expenses	49,600	
Bank charges	82,400	
Purchase and installation of computer programs	<u>120,000</u>	<u>(2,416,500)</u>
Net profit		<u>1,105,500</u>

Additional information:

I. The business was converted into a limited liability company trading as Dawadu Ltd. with effect from

1 October 2016 and retaining the partners as directors of the new company.

2. The cost of goods sold included opening stock of Sh.576,000 which was overcast by 20%, purchases of Sh.2,146,000 inclusive of 16% VAT and closing stock of Sh.675,000 which was undercast by 10%.

3. All revenues and expenses accrued evenly throughout the year except for specific expenses relating to Dawadu Ltd. as a company.

4. Salaries and wages included partners' salaries of Sh. 120,000.

5. Legal expenses comprised:

Acquisition of company's title deed	50,000
Negotiating debenture stock	100,000
Demand letters to customers	40,000
Drafting Memorandum of Association	<u>60,000</u>
	<u>250,000</u>

6. Wema was paid consultancy fees of Sh.54,000 for installing CCTV cameras in the premises.

7. Advertising expenses include a neon sign costing Sh.92,000.

8. The sales figure was inclusive of VAT at the rate of 16%.

9. Directors' allowances include commission paid to Nenda of Sh.60,000 for negotiating a business contract.

Required:

- (i) Separate statements of adjusted taxable profit or loss for Wenda Enterprises and Dawadu Ltd. for the year ended 31 December 2016. (Hint: Start with the net profit).
(12 marks)

(ii) Tax payable by (or refundable to) Dawadu Ltd. for the year ended 31 December 2016.

(2 marks)

QUESTION 21

May 2017 Question Five B

A and B are partners trading as AR Enterprises, sharing profits and losses equally.

The following is the statement of comprehensive income for the partnership for the year ended 31 December 2016:

	Sh."000"	Sh."000"
Sales		40,450
<i>Less:</i> Sales returns		<u>(1,200)</u>
		39,250
<i>Less:</i> Cost of goods sold		<u>(19,550)</u>
Gross profit		19,700
Discount received		<u>350</u>
		20,050
Less: Expenses		
Rent	1,850	
Bad debts	400	
Wages and salaries	6,100	
Loan interest	400	
Depreciation	4,200	
Insurance	1,450	
Repairs	300	
Electricity	<u>750</u>	<u>(15,450)</u>
Net profit		<u>4,600</u>

The partnership is under tax investigation and the assessor obtained the following details from the firm's records for the year ended 31 December 2016:

1. Balances of assets and liabilities:

	1 January 2016 Sh."000"	31 December 2016 Sh."000"
Inventory	6,100	4,200
Machinery	84,600	97,000
Rent prepaid	800	-
Rent owing	-	950

Debtors	9,300	7,500
Loan from bank at 8% interest per annum	6,000	6,000
Loan interest owing	-	300

2. Receipts and payments were as follows:

	Sh. "000"
Receipts:	
Receipts from debtors	26,400
Cash sales	72,400
Payments:	
Loan interest paid	400
Electricity	750
Rent	240
Purchase of machinery	16,400

3. Rent expense related to A's private residence. In addition, electricity paid includes Sh.50,000 for A's private residence.
4. The firm issued credit notes amounting to Sh.200,000 which was erroneously posted as Sh.200,000 to the relevant ledgers.
5. Included in the sales figure is Sh.30,000 for interest on drawings by B and proceeds on disposal of machinery Sh.1,450,000. The machinery had cost Sh.4,000,000 with an accumulated depreciation of Sh.200,000.
6. Receipts from debtors include Sh.440,000 contributed by a new partner C as his capital on 1 October 2016. The profit and loss sharing ratio changed to 2:2:1 for A, B and C respectively.
7. Purchases amounted to Sh.19,250,000 which included goods withdrawn by B valued at Sh.300,000.
8. Salaries and wages include accrued salaries to the partners of Sh.2,400,000 shared equally among all the three partners per month as applicable.

Required:

As a tax assessor, compute the net profit for tax purposes for the year ended 31 December 2016 indicating the taxable income for each partner. (14 marks)

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QUESTION 22

November 2016 Question One B

Ali and Baba are partners in a small firm trading as Alibaba Enterprises. They share profits and losses in the ratio of 2:3 respectively.

The following extracts were obtained from the records of the firm for the year ended 31 December 2015:

1. Partners' current account extracts:

	Debit			Credit	
	Ali Sh.	Baba Sh.		Ali Sh.	Baba Sh.
Drawings	40,000	60,000	Balance brought down	100,000	200,000
			Salaries to partners	70,000	120,000
			Interest on capital	50,000	40,000

2. Assets and liabilities:

	1 January 2015 Sh.	31 December 2015 Sh.
Saloon car (cost)	2,400,000	2,160,000
Trade receivables	1,800,000	960,000
Donations	-	140,000
Salaries and wages accrued	840,000	1,600,000
Electricity prepaid	170,000	200,000
Furniture	200,000	180,000
Inventories	360,000	500,000
Trade payables	1,500,000	1,200,000

3. Extracts from the bank statement:

	Sh.
Payments to suppliers for goods	840,000
Receipts from customers	2,200,000
Payments for computers (hardware)	600,000
Payments for computer software	120,000
Catering fees	90,000
Electricity	60,000
Salaries and wages	700,000
Legal fees	160,000

4. Legal fees amounting to Sh.48,000 relate to costs of negotiating purchase of business premises while electricity paid included a deposit of Sh.15,000 to the power company.
5. Each partner had obtained a 10% loan of Sh.200,000 from the partnership for acquiring their private assets. The interest on loan was included in their share of interest on capital.

Required:

- (i) A statement of adjusted taxable profit or loss of the partnership for the year ended 31 December 2015. (7 marks)
- (ii) Total taxable income (loss) for each partner. (2 marks)

QUESTION 23**November 2016 Question Two B**

The following information was extracted from the books of Michezo Sporting Members Club for the year ended 31 December 2015. The club's manager did not submit income tax returns as he argued that the club was exempted from taxation. He has consulted you for professional advice.

Additional information:

1. The club received gross income during the year ended 31 December 2015 amounting to Sh.35 million which was analysed as follows:

	Sh.
Entrance fees	4,770,000
Members subscriptions	15,900,000
Interest on late subscriptions	795,000
Interest income (fixed deposit)	2,544,000
Dividend income	1,272,000
Royalties	1,908,000
Rent income	6,360,000
Gain on property transfers	<u>1,451,000</u>
	<u>35,000,000</u>

2. Operating expenses amounted to Sh.6,360,000.

3. Interest and dividend income were stated gross of tax.

Required:

- (i) Advise the club's manager on the circumstances under which members clubs are taxed in your country. (2 marks)
- (ii) Assess whether Michezo Sporting Members Club is subject to taxation for the year ended 31 December 2015 and the applicable tax liability (if any). (6 marks)

QUESTION 24

November 2016 Question Three A

Jamboree Sacco Society Ltd. reported the following income and expenditure for the year ended 31 December 2015:

Income	Sh.	Sh.
Gross rental income		840,000
Interest on savings account		160,000
Interest on members loans		1,840,000
Interest on fixed deposit account		560,000
Interest on treasury bills		<u>435,000</u>
		3,835,000
Less expenses:		
• Repainting of rented property	156,000	
• Interest on loans for money invested in treasury bills	114,000	
• Administration expenses	496,000	
• Legal expenses relating to rented property	72,000	(838,000)
		<u>2,997,000</u>

Additional information:

- The Sacco declared dividends and bonuses of Sh.980,000.
- Corporation tax is at a rate of 30%.

Required:

- (i) Total taxable profit for the Sacco for the year ended 31 December 2015. (6 marks)
- (ii) Tax payable by the Sacco for the year ended 31 December 2015. (2 marks)

QUESTION 25**November 2016 Question Three B**

Ms Avril Chemu constructed a house in a high class residential estate. The following details relate to the building costs as at the date of completion, 31 December 2012:

	Sh.
• Cost of acquiring a half acre plot	8,000,000
• Obtained a fixed 15% mortgage loan (1 January 2011)	10,000,000
• Conveyance fees	200,000
• Valuation fees	650,000
• Building materials (including government subsidy)	4,600,000
• Labour for construction workers	560,000
• Painting	300,000
• Stamp duty	320,000
• Received government subsidy on building materials	600,000

The house was completed on 31 December 2012 and Ms Chemu moved in with her family.

Additional information:

1. After two years of stay, Ms Chemu opted to sell the house. On 1 March 2015, she secured a buyer at a purchase price of Sh. 20,000,000.
2. The following expenses were incurred in the process of finding a buyer:

	Sh.
Agent's commission	400,000
Advertising expenses	48,000
Valuation fees	240,000
Repairing of the house	80,000
Legal fees	160,000

3. The capital deductions accumulated for the two years (2013 and 2014) in respect of wear and tear and industrial building deduction amounted to Sh.420,000.
4. The construction of the house was financed through the mortgage loan, with the balance from the mortgage loan used to buy a motor vehicle (saloon). She repaid the full mortgage on 31 December 2014.

Required:

The capital gain and tax payable (if any) by Ms Chemu from the sale of the house.

(12 marks)

QUESTION 26**November 2016 Question Five C**

Msanifu Insurance Company Ltd. is a resident insurance firm carrying on both general and life assurance businesses.

The following information relates to the insurance company's business for the year ended 31 December 2015:

	General insurance Sh. "000"	Life assurance Sh. "000"
Investment income	13,780	
Insurance premium received	15,450	100,000
Insurance and management fees	-	25,000
Premium returned	374	
Reinsurance commission received	1,360	-
Premiums paid to reinsurance company	4,680	
Agency expenses	1,350	1,960
Management expenses	1,934	-
Travelling expenses	1,800	2,400
Advertising	364	820
General expenses	8,490	4,640
Bad debts (specific)	368	1,080
Income from exercise of subrogation rights	1,250	-
Recoveries of reinsurance	150	-

Additional information:

1. Investment income comprised:
 - Fixed deposit account Sh.780,000.
 - Dividend received from qualifying company Sh.3,000,000 (net).
 - Rental income Sh.10,000,000.
2. General expenses include cost of computers Sh.800,000 and furniture and fittings Sh.1,260,000.
3. Reserves for unexpired risk for general insurance business were as follows:

As at 1 January 2015 Sh.3,240,000.

As at 31 December 2015 Sh.6,200,000.

4. Claims paid during the year ended 31 December 2015 amounted to Sh.7,600,000 for general business.
5. Life assurance fund balance was valued by an actuary at Sh.300,000,000 as at 31 December 2015. 25% of this fund balance was recommended to be transferred for the benefit of shareholders.
6. Claims outstanding for general business were as follows:
As at 1 January 2015 Sh.5,640,000.
As at 31 December 2015 Sh.6,000,000.

Required:

The taxable income or loss for Msanifu Insurance Company Ltd. for the year ended 31 December 2015. (12 marks)

QUESTION 27

May 2016 Question Two

Weka Enterprises is a small retail business dealing in fast moving consumer products. The Revenue Authority suspects that the business has been filing fraudulent returns and has requested for financial statements from the business. The business provided the following details for the years ended 31 December 2015 and 31 December 2014:

Income statement for the year ended 31 December 2015

	Sh.	Sh.
Turnover		27,840,000
Less cost of goods sold		(15,354,000)
Gross profit		12,486,000
Proceeds from sale of furniture		240,000
Capital gain on sale of plot		156,400
		12,882,400
Less expenses:		
Purchase of furniture	360,000	
General expenses	2,367,800	
Rent and rates	160,000	
Depreciation on motor vehicle	94,600	
Customs duty	124,200	
Hire purchase cost	226,000	

Salaries and wages	<u>1,680,000</u>	<u>(5,012,600)</u>
Net profit		7,869,800

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Statement of financial position as at 31 December 2015

	2015	2016
	Sh.	Sh.
Non-current assets:		
Furniture at cost	348,000	460,000
Motor vehicle at cost	<u>1,660,000</u>	<u>1,565,400</u>
	2,008,000	2,025,400
Current assets:		
Inventories	4,389,600	2,881,000
Accounts receivable	740,400	1,640,000
Prepaid general expenses	178,200	98,000
Prepaid rent and rates	72,800	24,600
Cash and cash equivalent	<u>300,000</u>	<u>183,000</u>
Total assets	<u>7,689,000</u>	<u>6,852,000</u>
Financed by:		
Capital	1,000,000	800,000
Add net profit	<u>7,869,800</u>	<u>5,780,000</u>
	8,869,800	6,580,000
Less drawings	<u>(2,200,000)</u>	<u>(1,320,000)</u>
	6,669,800	5,260,000
Current liabilities:		
Accounts payable	979,200	1,528,000
Accrued rent and rates	24,000	36,000
Interest due on higher purchase	<u>16,000</u>	<u>28,000</u>
Total capital and liabilities	<u>7,689,000</u>	<u>6,852,000</u>

Additional information:

1. Turnover and purchases were inclusive of VAT at the rate of 16%.
2. The turnover excludes cash sales. During the year ended 31 December 2015, the business paid the following expenses out of cash sales:

	Sh.
Telephone and postage	48,000
School fees	142,800
Repairs and maintenance	94,600
Insurance	36,600

3. The bank balance is included in the cash and cash equivalents. The following details were included in the bank statement:

	Sh.
Personal expenses	294,000
General expenses	792,800
Rent and rates	68,400
Hire purchase interest	29,600
Payments to creditors	2,460,000
Receipts from debtors	5,890,000

4. The following assets used by the business were not included in the assets register: Sh.

Computers	368,000
Fax machine	120,000
Saloon car	2,800,000
Delivery van	720,000
Computer software	150,000

The revenue authority has established that the statement of financial position forms a good basis for recomputing the taxable profit. All expenses are to be adjusted on the basis of the statement of financial position.

Required:

- (a) Using suitable computations, confirm the accuracy or otherwise of the taxable profit of enterprises for the year ended 31 December 2015. (15 marks)
- (b) Summarise five types of preliminary information that you might require from the business in order to further ascertain the accuracy of the taxable profit. (5 marks)

QUESTION 28

May 2016 Question Four B

Salama Insurance Company Ltd. provided the following financial records for the year ended 31 December 2015:

	Sh.
Gross premium	14,890,000
Reserves for unexpired risk (1 January 2015)	486,000
Re-insurance premiums paid	384,000
Claims paid	9,364,000
Claims due: 1 January 2015	670,000
31 December 2015	800,000
Life assurance fund	1,240,800
Commission on reinsurance ceded	760,200
Commission on reinsurance accepted	1,940,000
Foreign exchange loss	342,500
Rent income	678,300
Purchase of computers	300,000
Cost of computer software	150,000
Claims recovered on reinsurance	562,800
Agency expenses	1,280,700
Investment income	1,824,300
Management salaries	948,200
Repair of rented property	28,800
Neon signs	48,000
Depreciation	150,400
Legal expenses relating to claims	64,800
Rent and rates	760,400

Additional information:

1. The company operates both general insurance business and life insurance business in the same building where rent and rates are shared in the ratio of 2:3 respectively.
2. Agency expenses include general manager's salary of Sh.280,000 working in the life insurance business.
3. Investment income includes dividends of Sh.114,000 net of tax from a subsidiary company and Sh.78,400 from proceeds of sale of a car involved in an accident.
4. Gross premium includes sale of insurance policies to life insurance company amounting to Sh.748,400.
5. The company constructed a commercial building with shops, offices and showroom at a cost of Sh.6,400,000 on 1 January 2015. Rent income from the property amounted to Sh.5,536,400 before deducting capital allowances and expenses amounting to Sh.84,600.

Required:

- (i) A statement of taxable profit or loss for the year ended 31 December 2015 (10 marks)
- (ii) Tax payable (if any). (2 marks)

QUESTION 29**May 2016 Question Five B**

Mjengo Ltd. is a real estate development company. In the year ended 31 December 2015, the company provided the following information:

- Bought 100 acres at Sh.6,000.000 each for building low cost houses in an approved development area.
- Cost of surveying was Sh.4,600,000 and conveyance fees amounted to Sh.6,960.000.
- The cost of constructing each unit was Sh.1,450,000. The company constructed 240 units on a 20 acre piece of land.
- All the units were sold at a price of Sh. 1;600,000 in the year 202 5.
- Building materials for constructing each unit amounted to Sh.742.400 inclusive of VAT at the rate of 16%.
- Professional fees paid to quantity surveyors inclusive of VAT was Sh.417,600 and for civil engineers was Sh.243.600.
- Drainage system and sewerage line cost Sh.960,000 for connecting all units built and to be built on 100 acres.
- The interest on loan to acquire the 100 acres was Sh.7,800,000.
- Hire expenses for bulldozers used in the construction was Sh.600,000 for each of the three months used for the construction.
- Charges paid to the government in respect of approval of plans were Sh.678,000.
- Cost of constructing a site office was Sh.800,000.
- Hire cost for a saloon car for the site manager was Sh.40,000 per month.
- A commercial building was also constructed at a cost of Sh.5.600.000 in a part of the land. The building was rented at a monthly rent of Sh.480.000 with effect from 1 May 2015.
- The costs relating to the total 100 acres are to be apportioned according to the acreage used.

Required:

- (i) Statement of adjusted taxable profit or loss for Mjengo Ltd. for the year ended 31 December 2015. (10 marks)
- (ii) Tax payable by Mjengo Ltd. (if any) for the year ended 31 December 2015. (2 marks)

QUESTION 30**November 2015 Question Three**

James and Katana established a partnership business, sharing profits and losses in the ratio of 3:2 respectively. The following is the income statement of the partnership for the year ended 31 December 2014:

	Sh.	Sh.
Sales		6,728,000
Unrealised foreign exchange gain		150,000
Capital gain on sale of shares		352,000
Recovery from insurance on stock stolen		480,000
Goods transferred to a branch at cost		184,000
Dividends from Kali Cooperative Society		51,000
		7,945,000
Less expenses:		
Purchases	2,842,000	
Purchase of computers	180,000	
Partners salaries	720,000	
Legal fees	680,000	
Repairs and maintenance	568,400	
Rent and rates	244,600	
Interest on loan	166,200	
General expenses	964,000	
Motor vehicle expenses	840,000	
Insurance	156,000	
Preliminary expenses	262,800	
Directors fees	600,000	
Audit fees	148,200	
Debenture interest	360,000	
Travelling expenses	96,000	8,828,200
Net loss		<u>(383,200)</u>

Additional information:

- The partnership was converted into a limited liability company by the name Kaka Ltd. on 1 October 2014. Incomes and expenses accrued evenly throughout the year unless otherwise stated.
- Purchases and sales were inclusive of value added tax at a rate of 16%.
- Closing stock was valued at Sh.1.840,000 while opening stock was at 10% of sales net of value added tax.
- Legal fees comprised:

	Sh.
Petition to Association of Manufacturers	80,000
Notice for change of business name	64,800
Conveyance fees of business premises	72,400
Stamp duty	36,600
Negotiating a business loan	20,800
Recovery of bad debts	45,000
Signing a 100-year lease agreement	128,400
Purchase of partner's private residence James	150,000
Appeal against tax arrears	<u>82,000</u>
	<u>680,000</u>

- Repairs and maintenance comprised:

	Sh.
Purchases of furniture	96,000
Installation of neon sign	60,000
Designing an office block	140,000
Cost of partitioning office block	250,000
Repainting of business premises	<u>22,400</u>
	<u>568,400</u>

- General expenses included; registering of patent rights Sh.64,000, floatation costs Sh.48,000 and negotiating costs for an additional piece of land for business expansion at Sh.56,000.
- Interest on loan includes interest on partners' capital of Sh.100.000 which was shared according to profit and loss sharing ratio.

Required

- (a) A statement of adjusted taxable profit or loss for the business for the year ended 31 December 2014. (4 marks)

Hint: Start with gross profit.

- (b) Comment on the tax position of James Katana and the company. (4 marks)
- (c) Citing examples, advise James and Katana on two areas of tax avoidance that they could explore for the business. (2 marks)

QUESTION 31

November 2015 Question Four B

Mjengo Ltd. is in the real estate business. During the year ended 31 December 2014, the company acquired ten houses each at Sh.4,000,000 before incurring the following expenses:

- 100/0 interest on mortgage loan of Sh.10,000.000,
- Conveyance fees for each house Sh.40,000.
- Estate agent's valuation fees per house Sh.28,000.
- Repairs undertaken for two houses Sh.44,000.
- Cost of repainting the houses Sh.84,000.
- The impairment loss of the houses was estimated at Sh.150,000.
- Legal expenses amounting to Sh.36.000 were incurred in defending a title for a house with defective ownership documents.

Mjengo Ltd. sold each house at Sh.5.800.000. The cost for advertising the houses was Sh.160,000, estate agent's commission Sh.180,000 insurance Sh.72,000. valuation fees Sh.150.000 and legal fees Sh.148,000.

Required:

Determine the following:

- (i) Transfer value. (3 marks)
- (ii) Adjusted cost. (3 marks)
- (iii) Capital gains tax. (1 mark)

(iv) Due date for filing of capital gains tax.

(1 mark)

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QUESTION 32

November 2015 Question Four C

Rigs Drilling Ltd. is a mining company dealing with petroleum products. During the year ended 31 December 2014, the following details were extracted from the company's financial statements:

	Sh''000''
Geological costs	84,680
Exploratory drilling costs	146,400
Acquisition costs	19,800
Lifting costs	12,600
Lease operating costs	64,780
Costs of refining crude oil	18,240
Oil and natural gas revenue	9,840,000
Depletion and depreciation	34,980
Share based compensation	24,670
General and administrative expenses	78,340
Reversal of litigation expenses	9,680
Finance expenses	6,400
Decommissioning costs	4,280
Drilling machines	18,300
Investment income	464,000
Impairment losses	5,680
Intangible drilling costs	3,420
Professional fees	2,600
Loan repayment	840
Tractor	1,500
Derivatives oil losses	480
Restructuring expenses	848
Forklift	1,800

Additional information:

1. Intangible drilling costs include Sh.420.000 for a well which failed to yield crude oil and was abandoned.

2. Restructuring expenses include Sh.582,000 paid to a consultancy firm that restructured the capital structure of the company.
3. Exploratory drilling costs include:
 - Plant and machinery Sh.4,800,000.
 - Erection of rigs and tankage Sh.1,600,000.
 - Pipes and storage tanks Sh.9,480,000.
 - Factory building Sh.48,400,000.
4. Professional fees include Sh.800,000 for services provided by the general manager of the parent company.

Required:

A statement showing the taxable profit or loss for the year ended 31 December 2014.

(8 marks)

QUESTION 33**November 2015 Question Five B**

Lima Ltd. is a company incorporated in your country. The company controls 80% of the share capital of Shamba Ltd. which is also incorporated in your country. The following is a statement of comprehensive income of Lima Ltd. for the year ended 31 December 2014:

	Sh. "000"	Sh. "000"
Gross profit		59,220
Less:		
Depreciation	4,872	
Legal expenses	508	
Loan interest	819	
Electricity	378	
Salaries and wages	9,387	
Telephone	357	
Patent royalties paid	756	
Travel expenses	<u>785</u>	<u>17,862</u>
		41,358
Other income		
Patent royalties received	2,772	
Loan interest received	193	
Dividend received from Shamba Ltd.	<u>5,628</u>	<u>8,593</u>
Net income		<u>49,951</u>

Additional information:

1. The loan interest paid included the following:
 - Interest of Sh.285,000 relating to a loan acquired to purchase office equipment.
 - Interest of Sh.258,000 relating to a loan used to acquire shares of Shamba Ltd.
2. Salaries and wages include passages of Sh.1,008,000 paid to a director who relocated to another country.
3. Travel expenses include Sh.155,000 paid to a new employee hired from a foreign country.
4. The loan interest received relates to a loan issued to an employee of the company to purchase a residential house.
5. Not included in other income was rent received of Sh.1,638,000 from one lease, gross of a loss of Sh.397,000 made on another lease.
6. An operating loss of Sh.189,000 had been carried forward for the previous eight years. This loss was included in salaries and wages expense as at 31 December 2014.
7. Royalties of Sh.145,000 were due for receipt as at 31 December 2014 but had not been recorded in the books.
8. Legal expenses included:
 - Sh.176,000 paid on disposal of some property and equipment.
 - Sh.48,000 incurred on debt collection.
 - Sh.78,000 incurred on defending the company against a claim for breach of contract.
9. Patent royalties received were from Shamba Ltd. while those paid were to a Ugandan company.
10. Capital allowances for the year ended 31 December 2014 were agreed with the commissioner at Sh.1,932,000.

Required:

A statement of adjusted taxable profit or loss for the year ended 31 December 2014.

(10 marks)

QUESTION 34**May 2015 Question One B**

Fundi Contractors Ltd is a company engaged in real estate development. On 1 January 2012, the company commenced the construction of 20 residential houses for sale and a shopping mall for lease. The construction was on a five acre piece of land, with the residential houses occupying four acres and the shopping mall one acre.

The residential houses and shopping mall were completed on 31 December 2013.

Additional information;-

1. Selling price per house was Sh. 18, 500,000.
2. Cost of acquisition of land was Sh. 45, 000,000 per acre.
3. Materials used in building one house cost Sh. 3,480,000 inclusive of value added tax (VAT) of 16%.
4. Drawings for the houses and related architectural design fees were a total of Sh. 450,000 net of VAT.
5. Fees for quantity surveyors, civil engineers and electrical engineers for the houses amounted to Sh. 1,740,000 inclusive of VAT.
6. Cost of sewerage and drainage system amounted to Sh. 4, 480,000 for the entire development in the five acre land.
7. A second-hand bulldozer was purchased for Sh. 800,000 and used in land excavation within the entire land.
8. A salon car used by the site manager was valued at Sh. 900,000 as at 31 December 2013. The car had been purchased in year 2012 at Sh. 1,500,000. The car was used in the maintenance of the estate and shopping mall.
9. The labour wages for the construction workers on the entire site were Sh. 600,000 per month up to 31 December 2013.
10. The entire project was financed by ACDC Bank with a loan of Sh. 80,000,000 at an interest rate of 10% per annum. The loan was to be repaid in full on the completion and sale of the houses. The loan was however repaid in full on 1 July 2014.

11. Pavement and roads within the whole estate were built at a cost of Sh. 6,000,000. A playground was also constructed at a cost of Sh. 840,000 but for use by house owners only.
12. The shopping mall comprised shops whose construction cost was Sh. 1,200,000, gymnasium Sh. 450,000 and offices Sh. 600,000. The shopping mall was leased on 1 January 2014 at a monthly rent of Sh. 1,400,000. Maintenance expenses per month amounted to Sh. 400,000. The company incurred costs of advertising Sh. 400,000, water metres Sh. 180,000 and electricity deposits of Sh. 360,000 before leasing.
13. Estate power lines cost Sh. 800,000 and covered the residential estate and shopping mall.
14. The interest on loan is to be apportioned between the housing units and shopping mall in proportion to acreage.
15. All the houses were sold during the year ended 31 December 2014.

Assume that deductible costs and allowances were to be carried forward to the year 2014.

Required:

A schedule for the year ended 31 December 2014 showing:

- i) Total taxable profit or loss from sale of houses. (10 marks)
- ii) Total taxable rental income or loss for the shopping mall. (4 marks)

QUESTION 35

May 2015 Question Two A

Your country has recently introduced capital gains tax. A group of foreign investors, keen to tap in the growing property and investment sector in your country, have approached you for advice on the impact of capital gains tax.

Required;-

Advise the investors on the following in the context of capital gains tax:

- i) Meaning of the term "property" (3 marks)
- ii) What constitutes "transfer of property". (3 marks)
- iii) Three examples of transaction that are not deemed to be transfers for tax purposes. (3 marks)

QUESTION 36**May 2015 Question Three B**

Deka Ltd has been operating in our country since 1 January 2012. The company is a subsidiary of Mega Ltd which is based in the United Kingdom (UK). The financial statements of Deka Ltd for the year ended 31 December 2014 are presented below:

Deka Ltd
Statement of income for the year ended 31 December 2014:

	Sh. "000"	Sh. "000"
Sales		97,440
<i>Less: cost of sales</i>		(44,940)
Gross profit		52,500
<i>Less: expenses</i>		
Wages	30,000	
Depreciation	7,500	
Interest	1,500	
General expenses	9,000	(48,000)
Net profit		4,500
Proposed dividend		(600)
Retained profit for the year		<u>3,000</u>

Statement of Financial Position as at 31 December 2014

	Sh. "000"	Sh. "000"
Fixed assets (net)		93,000
Current asset:		
Stock	6,000	
Trade debtors	2,250	
Bank balance	<u>15 000</u>	<u>23,250</u>
Total assets		116,250
Capital and liabilities		
Ordinary share capital		87,000
Debentures		13,500
Retained profits		10,000
Current liabilities		
Trade creditors	4,775	
Accrued wages	375	
Proposed dividend	<u>600</u>	<u>5,750</u>
Total capital and liabilities		<u>116,254</u>

Bank account for the year ended 31 December 2014

	Sh. "000"		Sh. "000"
Balance brought forward	1,500	Wages	30,375
Receipts from customers	98,250	General expenses	9,000
		Payment to suppliers	43,125
		Interest	1,500
		Dividend	750
		Balance carried down	<u>15,000</u>
	<u>99,750</u>		<u>99,750</u>

Additional information;

- Included in sales was Sh. 2,100,000 representing goods sold to the parent company. All sales to the parent company are made at 10% below normal selling price.
- General expenses include:

	Sh.
Floation cost on issue of debentures	1,400,000
Stamp duty on issue of debentures	800,000
Conveyance fees on purchase of land	2,000,000
Foreign exchange losses relating to the parent company's transactions	560,000

3. The written down values of fixed assets extracted as at 1 January 2014 were as follows:

	Sh.
Industrial Wilding	17,100,000
Computers	900,000
Processing machinery (imported from UK)	19,906,250
Office partition	400,000
Lorries (each 3 tonnes)	4,500,000
Delivery vans	3,600,000
Pick ups	2,500,000
Furniture and fittings	600,000
Office equipment	800,000

The company did not claim investment deduction on industrial building and processing machinery in year 2012. However, the company erroneously claimed industrial building deduction and wear and tear (Class IV) allowances on the industrial building and processing machinery respectively for years 2012 and 2013. Other assets were not included in computing the capital deductions.

4. Included in the cost of processing machinery was import duty Sh. 1,200,000 and freight charges Sh. 400,000.

Required;-

- i) Investment deduction (ID) allowance that was due to Deka Ltd in year 2012. (3 marks)
- ii) Total over or under claimed wear and tear allowance in relation to the processing machinery as at 31 December 2013. (3 marks)
- iii) Corrected capital deductions that were due to Deka Ltd in years 2012, 2013 and 2014. (5 marks)
- iv) Deka Ltd's adjusted taxable profit or loss for the year ended 31 December 2014 reflecting any prior-period adjustments for capital allowances. (5 marks)

QUESTION 37**May 2015 Question Four B**

Samoa Insurance Company Ltd provides two insurance covers to their customers. The following information was obtained from the financial records of the company for the year ended 31 December 2014.

	Fire Insurance	Motor Insurance
	Sh.	Sh.
Gross premiums	9,800,000	7,420,000
Commission on re-insurance accepted	400,000	180,000
Claims recovered on re-insurance	360,400	442,600
Bad debts	46,200	36,800
Investment income	240,000	380,000
Purchase of furniture	150,000	120,000
Returned premiums	840,000	560,000
Re-insurance premium paid	460,000	320,000
Rent income on premises	296,500	-
Unrealised foreign exchange losses	37,400	32,600
Management salaries	472,000	260,000
Agency fees	645,600	284,900
Reserves for unexpired risk 1 January 2014	96,000	74,200
Commission on re-insurance ceded	248,600	384,700
Repairs of rental premises	64,900	
Claims paid	1,640,000	1,200,000
Claims outstanding: 1 January 2014	578,000	384,000
31 December 2014	682,000	470,000
Legal expenses relating to claims	64,000	82,000
Dividends from life assurance fund	167,800	140,800
Purchase of motor cars (Saloon)	2,400,000	2,500,000

Additional information;-

1. Management salaries include Sh. 172,000 paid to suppliers of laptop computer,, to fire insurance business.
2. The agency fees include conveyance fees of Sh. 84,500 paid by motor insurance unit.
3. Investment expenses incurred by both businesses amounted to Sh. 14,000.
4. Investment income includes gain on sale of office equipment of Sh. 240,000 for fire insurance and Sh. 300,000 for motor insurance.

Required;-

A statement of taxable profit or loss for Samoa Insurance Company Ltd. for the year ended 31 December 2014. (12 marks)

QUESTION 38**May 2015 Question Five B**

Kimutai and Wakoli started an accountancy firm on 1 January 2014 under the name Ninuutai. Wakoli and Associates. They deposited Sh. 3,000,000 and Sh. 2,000,000 as capital respectively and agreed that the profits and losses would be shared equally. They also agreed that interest on capital would be paid at the rate of 5% per annum based on the initial capital contributions.

The firm did not maintain the necessary books of account, but provided the following additional information:

- On 5 January 2014, the firm signed a six year lease for an office at an annual lease payment of Sh. 200,000. A deposit equivalent to two years lease was paid on commencement of the lease.
- On 10 January

Assets	Sh.
Motor vehicle	2,500,000
Furniture and fittings	280,000
Computer and printers	120,000
Telephone and fax machines	40,000
Reference books	16,000
Kitchen utensils (for office tea)	3,000
Television set	12,000
Fans (for office ventilation)	6,000
Carpets	22,000
Safe (metallic)	25,000

- Professional fees earned amounted to Sh. 8,200,000. Of this amount Sh. 3,700,000 was received in cash while the balance was deposited directly by clients to the firm's bank account.
- The following monthly payments were made from the funds received in cash before banking the balance at each month end.

Business mileage allowance to partners.

	Sh.
Kimutai	30,000
Wakoli	25,000

Mobile phone airtime (for official use):

	Sh.
Kimutai	3,000
Wakoli	3,000
Staff	2,000
Office tea and snacks	5,000

5. Analysis of the firm's banks statement for the year showed the following summary of payments:

	Sh.
Lease payment	400,000
Purchase of motor vehicle	2,500,000
Purchase of other assets	524,000
Office expenses	2,921,000
Advertisement commission	200,000

6. The office expenses amount shown in note 5 above was further analysed as follows:

	Sh.
Partner's salaries: Kimutai	600,000
Wakoli	400,000
Staff salaries	436,000
Contribution to retirement benefit plan:	
Partners	180,000
Staff	120,000
Contribution to a medical scheme:	
Partners	280,000
Staff	150,000
Premium on partners life assurance policies	210,000
Golf club membership for partners	50,000
Donation:	
Political party	10,000
Red Cross Society of Kenya	60,000

Tax consultancy fees	35,000
Subscription to professional institute	40,000
Training fees:	
Partners' children	140,000
Staff	80,000
Motor vehicle insurance (firm)	30,000
Other office expenses	<u>100,000</u>
	<u>2,921,000</u>

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Required:

Taxable profit (or loss) for the partnership for the year ended 31 December 2014

(14 Marks)

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TOPIC 6**TAX ADMINISTRATION AND INVESTIGATIONS AND ENFORCEMENT DEPARTMENT****QUESTION 1****November 2020 Question Four B**

Anita Warazo has been operating a sole-proprietorship business since 1 January 2015.

The following information was obtained from the books of the business for the past five years:

Year	2015	2016	2017	2018	2019
	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
Current account balance	485 (Dr)	600 (Cr)	960 (Cr)	350 (Dr)	560 (Cr)
Treasury bonds	1,450	940	740	648	780
Pick up (cost)	900	900	1,600	1,600	1,600
Computers (cost)	150	150	200	200	200
Inventory	-	170	240	280	376
Trade receivables	720	600	560	700	840
10% Mortgage loan	-	-	4,000	4,000	4,000
Trade payables	460	640	800	560	720
Bank loan	370	348	400	400	380
Leasehold property	1,400	1,400	1,400	1,400	1,400
Cash in hand	560	840	540	600	760
Furniture and fittings	400	400	300	300	300
Personal saloon car	-	480	480	480	480

Additional information:

- All non-current assets were stated at cost and where the fair value changed was either due to additional asset acquired or disposed of.
- Furniture and fittings whose cost was Sh.100,000 was disposed of on 1 January 2017 for Sh.68,000.
- In the year 2016, the proprietor made drawings of Sh.38,000.

4. Anita Warazo paid school fees for her children from business current account of Sh.138,000 per annum for the years 2016 and 2017.
5. A leasehold property included a property valued at Sh.400,000 inherited from her late father.
6. In the year 2018, she paid insurance premium of Sh.42,000 for her private residence.
7. She contributed to a fundraising in 2019 of Sh.60,000 for supporting a church function.
8. The non-current assets qualified for capital deductions where applicable.
9. Leasehold property comprised a warehouse (cost Sh.1,000,000) while the inherited property was a dwelling house.

Required:

- (i) Prepare a capital statement showing taxable income for the years 2016 to 2019. (10 marks)
- (ii) Comment on the tax position of Anita Warazo for each of the years of income. (2 marks)

QUESTION 2**November 2019 Question Two C**

Xyeng China Company (K) Ltd. has been engaged in the building industry for many years. There has been an ongoing dispute with the revenue authority as to the amount of value added tax (VAT) that the company is liable to pay.

According to the revenue authority's assessment, the company is supposed to pay Sh.5.6 million, whereas the company's assessment of the VAT payable is Sh.3.9 million.

You have been provided with the following additional details relating to the company's transactions during the assessment period:

Purchases	Delivery date	Invoice date	Invoice amount(Sh.)	Payment date
Drilling machines	5 February 2019	10 March 2019	5,220,000	4 April 2019
Mobile crane	20 February 2019	8 March 2019	3,045,000	10 April 2019
Concrete mixer	18 February 2019	26 February 2019	3,770,000	2 May 2019
Poker vibrator	26 February 2019	12 March 2019	906,250	7 April 2019
Photocopying machine	12 March 2019	4 April 2019	174,000	5 May 2019
2 Forklifts	6 April 2019	20 April 2019	1,584,125	6 May 2019
700 Tonnes of cement	26 March 2019	4 April 2019	28,125,565	12 May 2019
Bottled mineral water	12 March 2019	8 April 2019	137,460	30 April 2019
Executive boardroom table	19 March 2019	4 April 2019	145,000	12 May 2019

Postal rental box	2 February 2019	24 February 2019	13,920	15 March 2019
Paint from ABC Ltd.	14 April 2019	20 April 2019	3,117,500	12 May 2019
Petrol for trucks engaged in construction work	12 March 2019	19 March 2019	1,200,960	8 April 2019

Additional information:

1. The company had negotiated a contract of Sh.84 million exclusive of VAT on 1 February 2019, for which it received a progress payment of Sh.52 million on 27 March 2019. The invoice had been raised earlier on 15 March 2019 based on the Architect's certificate for the value of work certified.
2. The company had also on 18 February 2019 secured a tile fixing contract of Sh.18 million exclusive of VAT for which an installment payment of Sh.7.2 million was received on 12 March 2019 ahead of the completion date on 24 May 2019. The invoice was raised for full payment on completion. By the end of May 2019, the balance of the payment had not been received from the client.

The above transactions are inclusive of VAT where applicable unless otherwise stated.

Required:

Advise Xyeng China Construction Company (K) Ltd. on:

- (i) The correct VAT position for the company for the period between February 2019 and May 2019. (8 marks)
- (ii) What action to take based on your analysis in (c) (i) above. (2 marks)

QUESTION 3**May 2019 Question Five A**

Discuss four benefits that could accrue to parties involved in a tax dispute through the use of Alternative Dispute Resolution (ADR) in your country. (8 marks)

QUESTION 4**November 2018 Question Three A**

Tasia Ltd. is a merchandising company operating in Kenya. The following details of transactions were extracted from the company's records during the month of September 2017:

	Sh."000"
Sales at standard rate	6,960,000
Exports to Egypt	1,200,000
Purchases at standard rate	4,060,000
Purchase of delivery van oils and fuels	371,200
Repairs of office furniture	23,200
Audit fees	60,320
Wages	480,000
Purchase of stationery	55,680
Electricity bills not settled	46,400
Exempt supplies/sales	1,500,000
Legal fees	40,600
Purchases from traders not registered for VAT	134,000
Sales at zero rate	400,000

Additional information:

1. The value added tax accountant established that 20% of the standard rate purchases were sold as standard rate sales.
2. Sales at standard rate included goods valued at Sh.139,200 sold to a credit customer who was declared bankrupt during the month.
3. A customer returned goods sold at standard rate valued at Sh.29,000 to the company, and a credit note was issued immediately.
4. Credit suppliers issued debit notes in respect to supplies at standard rate amounting to Sh.580,000.
5. The accountant established that an invoice of Sh.180,000 from a foreign supplier was not recorded in the books. The import duty for these goods was at a rate of 20%.

Transactions are inclusive of VAT at a rate of 16% where applicable.

Required:

- (i) Deductible input tax. (6 marks)
- (ii) Output tax. (4 marks)
- (iii) Value added tax payable (if any). (2 marks)
- (iv) Assuming that you are a VAT auditor, outline additional information that you might seek from the company to help you ascertain the accuracy of the VAT declared. (2 marks)

QUESTION 5**November 2018 Question Three B**

Safari Ltd. imported goods from China with an assessable value of Sh.500,000. Customs duty imposed included basic customs duty at 20% and an additional duty for this category of goods at 15%. Other levies included railway levy at 2%, secondary education cess of 2% and higher education cess at 1% of duty paid.

Required:

- (i) Total value of goods imported. (3 marks)
- (ii) Total duty payable. (3 marks)

QUESTION 6**November 2018 Question Five A**

One of the steps in a tax audit process is the preliminary review of a taxpayer's file.

- (i) Outline three reasons for the preliminary review of a taxpayer's file. (3 marks)
- (ii) Summarise three other activities that should be undertaken before the commencement of the tax audit. (3 marks)

QUESTION 7**November 2017 Question Three C**

Sambamba Public Limited Company is in the merchandising business. The Revenue Authority suspects that the company has not been paying the correct amount of tax from business activities over a period of four months.

The following details were obtained from the company's accounting records for the specified period below:

1. During the month of January 2016, the company purchased goods for Sh.754,000 and sold goods for Sh.788,800. The suppliers also issued credit notes of Sh.29,000 and received debit notes of Sh.69,600. The company had filed a nil VAT return for the month of January 2016.
2. In the month of February 2016, the company did not file VAT returns despite making sales of Sh.522,000. The company had charged a profit margin of 20%.
3. To avoid inspection, the company removed their VAT certificate of registration from the business premises and failed to issue tax invoices for goods valued at Sh.417,600 during the month of March 2016 with respect to goods sold.
4. In the month of April 2016, the company secured a huge supply contract with the government after successfully obtaining a tax compliance certificate through fraudulent accounting records.

Transactions are inclusive of value added tax (VAT) at the rate of 16% where applicable.

Required:

- (i) The amount of tax payable, if any, by the company plus any interest and penalties arising from the above transactions for the four months to April 2016. (6 marks)
- (ii) Comment on the information you might require from the company to determine the accuracy of the VAT payable, if any. (2 marks)

QUESTION 8

November 2017 Question Four B

Peter Chawawa started a retail business on 1 January 2011. He has not been filing income tax returns for the six years to 31 December 2016.

An investigation of his affairs revealed the following.

1. The balance sheet of the retail business as at 31 December 2011 was as shown below:

	Sh. "000"	Sh. "000"
Fixed assets:		
Premises		2,000
Furniture and fittings		1,000
Motor vehicles		500
		<u>3,500</u>
Current assets:		
Stock	250	
Debtors	160	
Bank balance	81	
Cash in hand	9	<u>500</u>
Total assets		<u>4,000</u>
Capital: 1 January 2011	3,000	
Net profit for the year	300	
Drawings	(500)	2,800
Mortgage loan		1,000
Creditors		<u>200</u>
		<u>4,400</u>

2. He constructed an extension to the premises in year 2015 at a cost of Sh.625,000.
3. The following account balances were outstanding in the respective years as shown below:

	2012	2013	2014	2015	2016
	Sh.	Sh.	Sh.	Sh.	Sh.
Trade debtors	173,000	190,000	208,000	230,500	253,000
Bank balance	109,000	194,000	281,000	409,500	(32,000)
Trade creditors	230,000	241,000	253,000	272,000	291,500
Cash in hand	10,000	10,000	10,000	10,000	10,000
Stock	255,000	302,500	332,500	366,000	402,500

4. He withdrew goods worth Sh.5,000 per annum from the business for his personal use.
5. The principal repayments on each mortgage loan amounted to Sh.250,000 per annum from 31 December 2012. The mortgage interest paid in each of the four years ended 31 December 2012, 2013, 2014 and 2015 amounted to Sh.100,000, Sh.75,000, Sh.50,000 and Sh.25,000 respectively.
6. His wife opened a savings account in a commercial bank in year 2012. The balances in this account after crediting the interest earned were as follows:

	2012	2013	2014	2015	2016
	Sh.	Sh.	Sh.	Sh.	Sh.
Savings account	300,000	900,000	100,000	725,000	750,000
Interest earned	25,000	75,000	90,000	70,000	60,000

7. His living expenses and wear and tear allowances were agreed with the revenue authorities as follows:

	2012	2013	2014	2015	2016
	Sh.	Sh.	Sh.	Sh.	Sh.
Living expenses	300,000	400,000	450,000	500,000	600,000
Wear and tear	155,500	130,500	109,000	73,000	157,000

Required:

Compute the annual taxable income of Peter Chawawa from year 2012 to year 2016.

(14 marks)

QUESTION 9

May 2017 Question Four B

The following transactions relate to Sawela Ltd. for the month of April 2017: Sh.

Purchase of goods at standard rate	626,400
Exported goods to South Africa	380,000
Sales at standard rate	1,113,600
Audit fees	37,120
Purchase of fuel and oil for delivery van	29,000
Telephone bills	17,400
Exempt sales	400,000
Exported goods to Zambia	220,000

Catering services	41,760
Purchase of stationery	20,880
Cost of assigning a debt for consideration	100,000
Car park services provided by county authority	50,000
Treatment and supply of natural water	40,000
Purchase of first aid boxes and kits	30,000

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Additional information:

1. The company issued debit notes and credit notes of Sh 24,360 and Sh.34,800 respectively in respect to taxable supplies at standard rate.
2. The company returned goods invoiced at Sh.29,000 to suppliers because they were of a wrong type. A credit note was received immediately.
3. The company imported goods valued at Sh.320,000 (cost, insurance and freight). These goods were not included in the purchases figure. Import duty was at the rate of 20%.
4. The company transferred a branch as a going concern to another registered company at a cost of Sh.450,000 at the end of April 2017.
5. The company could not identify purchases at standard rate that were sold as exempt and therefore restricted deductible input tax.
6. Transactions are inclusive of VAT at the rate of 16% where applicable.

Required:

Determine the VAT payable by (or refundable to) Sawela Ltd. for the month of April 2017. (14 marks)

QUESTION 10**November 2016 Question Two A**

Mr. S. Bora has been running a retail business since 1 January 2011. He had not been maintaining proper accounting records. The revenue authority provided an estimated tax assessment and penalties of Sh.84,000. He is planning to appeal against the assessment and has availed the following information to you to assist in filing supportive documents for the appeal.

Assets and liabilities:

	Year ended 31 December:				
	2011	2012	2013	2014	2015
	Sh.	Sh.	Sh.	Sh.	Sh.
Household property	480,000	560,000	380,000	400,000	450,000
Computers - office			150,000	105,000	180,000
Inventories	100,000	200,000	280,000	420,000	380,000
Bank overdraft		96,000	80,000	150,000	140,000
Office premises	1,800,000	1,720,000	1,640,000	1,840,000	1,680,000
Personal clothes	20,000	36,000	40,000	28,000	24,000
Creditors	360,000	420,000	280,000	240,000	320,000
Equipment - office	94,000	160,000	120,000	160,000	150,000
Debtors	160,000	260,000	180,000	120,000	194,000
Bank loan	170,000	360,000	100,000	94,000	136,000
Mortgage loan	800,000	800,000	800,000	800,000	800,000

Additional information:

1. Office equipment costing Sh.40,000 was disposed of at Sh.60,000 in 2013. The gain on disposal was not recorded anywhere in the books.
2. Legal expenses of Sh.48,000 on purchase of office equipment on 1 January 2012 was not capitalised.
3. Living expenses for his family from year 2012 was Sh.80,000 per year and increased cumulatively at a rate of 10% per annum.
4. In years 2014 and 2015, he donated Sh.160,000 and Sh.92,000 respectively to a political party registered in his country.
5. Capital allowances agreed with the commissioner of domestic taxes for each year amounted to Sh.56,000.
6. Business expenses allowable by the commissioner for each year were capped at Sh.24,000.
7. The bank statement records reveal that Mr. Bora had paid school fees of Sh.84,000 in 2013 for his children from the business bank account.
8. Household property for 2012 include property that Mr. Bora inherited from his father amounting to Sh.80,000

9. Mortgage loan relates to office premises. The interest on the loan was 10% per annum on the principal amount.

Required:

- (i) A capital statement for each of the years ended 31 December 2012, 2013, 2014 and 2015. (8 marks)
- (ii) Revised taxable income and tax payable by Mr. Bora from tax arrears arising from undeclared income. Note: Use year 2015 tax rates. (2 marks)
- (iii) Advise Mr. Bora on the intended appeal. (2 marks)

QUESTION 11

May 2016 Question Three B

Zawadi Ltd. has been in operation since 1 January 2014. The company is under a tax investigation relating to value added tax (VAT) transactions.

The following details were obtained from the company's records for the month of September 2015:

- Stock in trade brought down in the month of September 2015 was valued at Sh.719,200.
- Sales ledger records in the company's books showed an amount of Sh.1,786,400 while as per VAT returns, it was Sh.1,429,120.
- The company had not claimed input tax on a building put into use on 1 January 2014 at a cost of Sh.2,784,000. However, in September 2015, the company set-off the input tax against the output tax for the month,
- Purchases amounting to Sh.174,000 did not have supporting fiscal receipts. The total purchases amounted to Sh.928,000.
- Since 1 January 2014, the company had not been filing VAT returns on time and all the penalties are outstanding.
- The company had imported goods on cost, insurance and freight (CIF) terms of Sh.450,000. The clearing and transport costs amounted to Sh.80,000 and Sh.60,000 respectively. The goods were later sold at a mark up of 20%. Import duty on these goods was at a rate of 20%.

- Tax officers established that imports were understated by Sh.150,000 as per import documents.
- Input tax on fuels and oils for motor vehicles used in the business amounted to Sh.51,200.
- Returns outward journal was understated by Sh.139,200 while the purchases ledger was overstated by Sh.174,000.
- Debit notes received by the company were overstated by Sh.232,000.
- Credit notes issued to customers were overstated by Sh.162,400.
- Input tax on catering services amounting to Sh.12,800 had been debited in the VAT account.
- Further examination revealed that VAT records needed recomputation to establish the correct VAT position. Transactions are inclusive of VAT at a rate of 16% where applicable.

Required:

Analyse the above records and compute the correct VAT position for Zawadi Ltd. for the month of September 2015. (12 marks)

QUESTION 12**November 2015 Question Five C**

Amos Akida, a businessman, is facing a tax investigation by the revenue authority which suspects that he has been under-declaring income for the four years from year 2011 to year 2014.

You are the head of a team from the revenue authority conducting an investigation on Amos Akida. He has submitted to your team records of his private and business assets and liabilities from 1 January 2011 to 31 December 2014 as shown below:

	1 Jan 2011	31 Dec 2011	31 Dec 2012	31 Dec 2013	31 Dec 2014
Assets and liabilities	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
Factory premises	48,000	54,000	56,000	52,000	54,000
Plant and machinery	24,000	25,000	38,000	34,000	36,000
Motor vehicle (commercial)	12,000	14,000	14,000	15,000	20,000
Inventory	4,600	5,200	9,000	10,000	8,000
Trade receivables	3,950	4,540	3,640	3,530	3,980

Private residence	8,240	14,600	14,600	14,600	14,600
Trade payables	7,280	8,640	9,420	8,360	7,890
Bank loan	10,900	10,000	9,870	7,640	9,840
Loan from a friend	800	700	600	870	640
Mortgage loan	3,780	3,780	3,780	3,780	3,780
Cash balance	3,400	5,400	3,600	3,760	4,670

Additional information:

1. The cash balance on 31 December 2012 included Sh.600,000 inherited from a relative on 30 August 2012.
2. His living expenses for each of the four years were as follows:

	Year ended 31 December:			
	2011	2012	2013	2014
Living expenses (Sh.)	85,000	140,000	90,000	165,000

3. Interest on mortgage is at the rate of 15% per annum.
4. There were no disposals of non-current assets during the period under investigation.

Required:

Taxable income of Amos Akida for each of the four years ended 31 December 2011, 2012, 2013 and 2014.

Ignore capital allowances. (7 marks)

QUESTION 13

September 2015 Question Five C

China Construction Company (K) Ltd. has been engaged in the building and construction industry for many years. There has been an on-going dispute with the revenue authority as to the amount of value added tax (VAT) that the company is liable to pay.

You have been provided with the following details relating to the company's transactions:

	Purchases	Delivery date	Invoice date	Invoice Amount(Sh.)	Payment date
1.	Concrete mixer	10 May 2015	12 June 2015	5,800,000	5 July 2015
2.	Scaffolding pipes	20 May 2015	6 June 2015	1,392,000	10 July 2015
3.	Poker vibrator	6 May 2015	29 May 2015	696,000	2 Augu 2015
4.	Xerox photocopier	30 April 2015	10 May 2015	928,000	22 May 2015
5.	10 trolleys	12 June 2015	13 May 2015	2,552,000	25 May 2015
6.	Executive boardroom table	21 May 2015	8 June 2015	464,000	30 June 2015
7.	200 tons of cement	27 April 2015	3 May 2015	3,712,000	2 Augu 2015
8.	Water dispenser for the office	14 May 2015	4 June 2015	92,800	23 June 2015
9.	Paint from Duracoat (K) Ltd.	10 May 2015	15 May 2015	812,000	28 May 2015
10	Office chairs	1 May 2015	8 May 2015	348,000	26 May 2015

The above amounts are inclusive of VAT at the standard rate of 16% where applicable.

Additional information:

1. The company had negotiated a contract for Sh.45,000,000 for which it received a progress payment of Sh.18,000,000 on 25 June 2015. These amounts are exclusive of VAT. The invoice had been raised earlier on 3 May 2015 based on the Architect's certificate for the value of work certified.
2. The company had also won a labour-only contract for Sh.12,500,000 (exclusive of VAT) for which an installment payment of Sh.4,000,000 was received on 9 May 2015 ahead of the completion on 17 June 2015. The invoice was raised for full payment on completion. By end of August 2015, the balance of the payment had not been received from the client.

Required:

- (i) Advise on the correct VAT position for the company for the period between May 2015 and August 2015. (6 marks)
- (ii) Comment on any information that you have not used in (c) (i) above. (4 marks)

QUESTION 14**May 2015 Question One A**

In the context of tax avoidance schemes, describe how firms might employ the following approaches to avoid tax:

- i) Bankruptcy or liquidation of a firm (2 marks)
- ii) Outsourcing services instead of employing permanent staff. (2 marks)
- iii) Purchasing fixed assets instead of leasing the assets. (2 marks)

QUESTION 15**May 2015 Question Two B**

Mr Shama has been trading as a general merchant since 1 January 2011. The Revenue Authority discovered that Mr Shama had not filed tax returns since commencement of business.

The investigations revealed that Mr Shama had not maintained proper books of account. The following details were obtained for the period from 1 January 2011 to 31 December 2014.

1. Assets and liabilities

	Year ended 31 December			
	2011	2012	2013	2014
	Sh.	Sh.	Sh.	Sh.
Trade receivables	194,000	360,000	320,000	480,000
Trade payables	150,000	180,000	160,000	200,000
Inventories	120,000	196,000	300,000	340,000
Bank overdraft	90,000	48,000	70,000	120,000
Cash in hand	96,000	76,000	84,000	136,000
10% mortgage loan	1,680,000	1,600,000	1,520,000	1,460,000
Motor cars	2,000,000	2,500,000	3,000,000	2,000,000
Buildings	4,000,000	4,000,000	4,000,000	4,000,000
Wife's bank loan	900,000	800,000	700,000	600,000
Private residence	3,400,000	3,400,000	3,400,000	3,400,000

2. He brought into the business a private pick up owned by his son valued at Sh. 500,000 in the year 2013.
3. He has been repaying, together with his wife, the bank loan acquired by the wife. The mortgage loan was in respect to his private residence.
4. His living expenses amounted to Sh. 40,000 in 2011 and have been increasing at a compounded rate of 10% per annum.
5. In the year 2013, he paid school fees of Sh. 184,000 out of the business bank account for his children's education.
6. He disposed of a motor car in 2014 for Sh. 800,000. The motor car had cost Sh. 1,000,000 when it was purchased on 1 January 2011. Capital deductions were agreed at 2.5% on cost per annum on motor vehicles and none on buildings.
7. He donated Sh. 42,000 to a fund raiser in aid of a local church in year 2013.
8. He withdrew Sh. 200,000 from the business bank account in year 2014 to repaint his private residence.

Upon completion of the investigation, the Revenue Authority issued an estimated assessment of Sh. 4,000,000 which Mr Shama disputed.

Required.

- i) A capital statement for Mr Shama for the year ended 31 December 2012, 2013 and 2014. (9 marks)
- ii) Advise Mr Shama on whether he should appeal against the estimated assessment. (2 marks)

TOPIC 7**TAXATION OF CROSS BORDER ACTIVITIES****QUESTION 1****November 2020 Question Five A**

Globalisation, diversification and expansion have forced companies to form groups where a large number of transactions are between related parties.

In light of the above statement:

- (i) Explain the terms “related party transactions” and “transfer pricing”. (4 marks)
- (ii) Evaluate two benefits that may accrue to an entity that applies transfer pricing in transactions between related parties. (4 marks)

QUESTION 2**November 2019 Question One A**

Examine four reasons for the increased importance of information exchange programmes in relation to taxation among various countries. (4 marks)

QUESTION 3**November 2019 Question Four A**

One-stop border posts (OSBPs) are a fairly recent cross-border trade initiative which have significantly changed the way neighbouring countries conduct business with each other.

Required:

- (i) Explain the meaning of OSBPs. (2 marks)

(ii) Summarise four benefits of OSBPs.

(4 marks)

QUESTION 4

May 2019 Question Three A

(i) Explain four factors to be considered when selecting the most appropriate transfer pricing method. (4 marks)

(ii) A Ltd. sold a processing machine to B Ltd., an associate company. B Ltd. sold the same machine to C Ltd., an independent party, for Sh.400,000 at a profit margin of 30%. B Ltd's incidental costs before selling to C Ltd. were Sh.1,000.

Using the resale price method, calculate the arms length price/transfer price of the machine. (4 marks)

QUESTION 5

May 2019 Question Four A

It is important for shareholders to understand the taxation impact of transactions involving mergers or transfers of assets before approving such transactions.

With reference to the above statement, evaluate three tax implications of transactions involving mergers or transfers of assets for consideration to another company.

(6 marks)

QUESTION 6

November 2018 Question Five B

Certain countries have attracted high net worth individuals due to their status as tax havens.

(i) Explain the term "tax haven". (2 marks)

(ii) Summarise four characteristics of a tax haven. (4 marks)

QUESTION 7**May 2018 Question Three B**

Transfer pricing remains a major threat in bridging the tax revenue gap in your country.

In light of the above statement, evaluate three factors to be considered in the selection of an appropriate transfer pricing method. (6 marks)

QUESTION 8**November 2017 Question One A**

The following extract is from a leading global newspaper on matters of taxation and finance:

Avoiding tax may be legal, but can it ever be ethical?

"Rather than hiding behind the business case for tax avoidance, companies need to be transparent about their tax planning. Avoiding tax and bending the rules of the tax system is not illegal unlike tax evasion; it is operating within the letter, but perhaps not the spirit of the law. Businesses may therefore be complying with the law, but are they acting ethically?"

Required:

Citing four areas, discuss the moral and ethical issues against tax avoidance with specific reference to operations of multinational corporations (MNCs). (8 marks)

QUESTION 9**November 2017 Question One C**

The Common Market for Eastern and Southern Africa (COMESA) has played a key role in enhancing trade and integration within its jurisdiction.

Required:

(i) Summarise four specific objectives of COMESA. (4 marks)

- (ii) Some experts have argued that COMESA has been overtaken by globalisation and should be dissolved.

Required:

Citing two reasons, support the above view.

(2 marks)

QUESTION 10

May 2017 Question One B

Assess four factors that might hinder the optimal growth of the East African Community (EAC) or the equivalent trading block in your region. (8 marks)

QUESTION 11

November 2016 Question One A

Tax havens have increasingly been used as avenues for tax avoidance. The Organisation for Economic Co-operation and Development (OECD) specifies three key factors in considering whether a jurisdiction is a tax haven.

Required:

- (i) Citing two examples of countries considered as tax havens, evaluate the three factors referred to in the above statement. (7 marks)
- (ii) Explain the terms "tax arbitrage" and "transfer pricing" in the context of international taxation systems. (4 marks)

QUESTION 12

November 2016 Question Four B

Mr. Sylvanus Jirani was a resident of Kenya in the year of income 2015. During part of the year, he was in United

Kingdom (UK) and earned income amounting to UK £43,500. Taxes paid on UK income amounted to £8,700. His employment income from Kenya was Ksh.950,000 (PAYE deducted Ksh.184,800). Further, he had provided consultancy services at a fee of KSh.190,000 (net of withholding tax).

Other income comprised the following:

1. Rental income of KSh.400,000 after deducting; cost of furniture Ksh.36,000, estate agents fees before letting Ksh.48,000 and caretakers wages Ksh.8,000 per month.
2. Patent rights where he received net royalty income of Ksh.95,000. Expenses relating to patent rights were; registration of patent Ksh.8,900 and operating expenses Ksh.18,000.

Assume the applicable exchange rate was Ksh.100 to £1. Kenya has signed a double taxation agreement with UK.

Required:

- (i) Double taxation relief (if any) due to Mr. Sylvanus Jirani for the year of income 2015. (8 marks)
- (ii) Tax payable (or refundable) by Mr. Jirani for the year of income 2015. (4 marks)

QUESTION 13

May 2016 Question Three A

Tax information exchange agreements (TIEAs) are increasingly forming part of the agenda during bilateral and multilateral trade discussions among various countries.

- (i) Explain the nature of tax information exchange agreements. (2 marks)
- (ii) Citing three reasons, discuss the purpose of PTAs. (6 marks)

QUESTION 14**May 2016 Question Four A**

Evaluate four features that distinguish tax havens from other taxation regimes. (8 marks)

QUESTION 15**May 2016 Question Five A**

Country Z has recently been admitted into a regional economic block. As part of the country's full integration into the economic block, it is required to undertake certain legislative and other reforms.

Required:

Advise Country Z on four fundamental reforms that could be considered in the process of integration into the economic block. (8 marks)

QUESTION 16**November 2015 Question Four A**

Highlight four factors to be considered when selecting an appropriate transfer price. (4 marks)

QUESTION 17**November 2015 Question Five A**

Summarise three legal provisions relating to double taxation relief as applicable in your country. (3 marks)

QUESTION 18**September 2015 Question Four A**

Multi-national corporations (MNCs) that have cross-border inter-company dealings (like purchases and sales) can deliberately move profits from one tax jurisdiction to another by manipulating the transfer price. Such companies, if left unchecked would make inter-

company transactions at prices that may lead to low profits or losses in countries with high tax rates.

Required:

Explain the documentation and disclosure requirements imposed by your country to address the above challenges. (5 marks)

QUESTION 19

September 2015 Question Four B

One major shortcoming of globalisation is that it provides the incentive for tax competition among countries. In the context of the above statement, explain the meaning of the following:

(i) Tax competition (3 marks)

(ii) Tax haven (3 marks)

QUESTION 20

September 2015 Question Four C

Outline five harmful effects of tax havens. (5 marks)

QUESTION 21

September 2015 Question Four D

Explain four circumstances under which goods are deemed to have been dumped in your country. (4 marks)

QUESTION 22**September 2015 Question Five A**

The main focus of bilateral tax treaties is the elimination of double taxation and fiscal evasion.

Explain the meaning of the following as used in the context of tax treaties:

- (i) Double taxation. (2 marks)
- (ii) Fiscal evasion. (2 marks)
- (iii) Treaty shopping. (2 marks)

QUESTION 23**September 2015 Question Five B**

Rahab Tola, who is a Kenyan, was employed in the United Kingdom (UK) for the first 6 months in the year 2014 for which she was paid a total of £12,000. She later moved to Kenya where she was employed at a salary of Sh.2,400,000 for the 6 months to the end of the year 2014.

The UK authorities had charged Rahab Tola a tax on her pay amounting to £2,200.

Assume that the applicable foreign exchange rate was Sh.140/£. Kenya has a double taxation agreement with United Kingdom.

Required:

Calculate the amount of double taxation relief due to Rahab Tola for the year 2014. (4 marks)

QUESTION 24**May 2015 Question Four A**

Citing examples, explain the following terms in the context of the global environment of taxation:

- (i) Tax haven (3 marks)

(ii) Transfer pricing

(3 marks)

(iii) Most favoured nation status

(4 marks)

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TOPIC 8

TAX PLANNING

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QUESTION 1

November 2020 Question Three B

Citing four reasons, argue the case for continued provision of tax incentives by a country that is experiencing budget deficits. (4 marks)

QUESTION 2

November 2020 Question Five B

Albert Kimeli is an employee of Rwaka Ltd. He has provided the following information relating to his come:

1. He earns a basic salary of Sh.60,000 per month.
2. He is paid house rent allowance of Sh.30,000 per month.
3. His wife, Lavena Kimeli is also employed at a salary of Sh.54,000 per month with Tops Lid. where Kimeli holds 20% of the shares.
4. They both live in a house which is owned by the wife. The house was constructed through borrowed funds at an interest rate of 15% per annum.
5. The employer paid school fees for the children of Albert Kimeli.
6. He was a member of an unregistered pension scheme where the employer made contributions towards the scheme on his behalf.
7. The wife runs a farming business where she earned Sh.400,000 from sale of farm produce.
8. He is contemplating securing a bank loan for his children's education or an education msurance policy that will equally cater for children's education.

Required:

Suggest a scheme of tax planning that would minimise the tax liability of the family of Mr and Mrs Kimeli for the year of income and subsequent years. (12 marks)

QUESTION 3**May 2019 Question Two A**

Various legislations provide for penalties on taxpayers who engage in tax avoidance schemes.

In light of the above statement, outline four categories of tax avoidance schemes that a taxpayer might be investigated for in your country. (4 marks)

QUESTION 4**May 2019 Question Three B**

Peter Samoei is an employee of Zawadi Ltd. and earns a salary of Sh.140,000 per month, while his wife Sabina Wanga works in Lindi Ltd., a firm in which Mr Samoei controls 18% of the share capital. Her salary is Sh.60,000 per month. Sabina Wanga owns the house which is occupied by the family, for which the market rental value is Sh.45,000 per month. The house was constructed in year 2017 at a cost of Sh.6,000,000 borrowed from a Sacco at an interest rate of 12% per annum. Sabina Wanga has insured the house and paid insurance premiums of Sh.4,800 per month and city county rates of Sh.6,900 per annum.

Mr Samoei paid insurance premiums for his family of Sh.4,600 with an insurance company incorporated in Uganda, but operating in Kenya. Zawadi Ltd. paid school fees of Sh.80,000 for the couple's children which was expensed in the firm's income statement.

Required:

Suggest four tax planning schemes that could minimise the tax liability of the family. (8 marks)

QUESTION 5**November 2018 Question Two B**

Highlight four reasons why capital allowances as tax incentives might not have achieved their intended objective to the government in your country. (4 marks)

QUESTION 6**November 2017 Question Three B**

Andrew Mole is an employee of Sombea Ltd. He has presented the following information:

1. His salary per month is Sh.80,000 which includes house allowance of Sh.20,000 per month.
2. His wife is employed at a salary of Sh.20,000 per month with Faza Ltd. where Andrew Mole holds 15% of share capital.
3. The house in which the family lives in is owned by his wife. The house was constructed in the year ended 31 December 2016 through an 18% mortgage loan of Sh.5,000,000 repayable over a period of 10 years.
4. Their children attend a nearby primary school. Mole has been saving Sh.12,000 per month for his children's secondary school education and Sh.20,000 per month with his Sacco to be withdrawn upon retirement.
5. His wife has insured the house and pays insurance premiums of Sh.5,000 per month and county government rates of Sh.24,000 per annum.

Required:

Evaluate three possible schemes of tax planning that Andrew Mole and family could use to minimise their tax liability for the year of income 2016. (6 marks)

QUESTION 7**May 2017 Question Four A**

Describe three tax planning opportunities that could be derived from the financial management decisions in a company. (6 marks)

QUESTION 8**September 2015 Question Three A**

Explain how tax planning could be undertaken in the context of:

- (i) Income from investments.
- (ii) Capital structure decisions in corporate entities.

(2 marks)

(2 marks)

QUESTION 9**September 2015 Question Three B**

The promoters of Junefair Company Ltd. are considering the best source of financing for their new company.

The promoters are aware of the two main financing avenues for any company; equity financing and debt financing. They already have raised equity capital amounting to Sh.500 million as their base capital which falls short of their capital requirement of Sh.1 billion. They have approached a consultant to give them advise on how to source the additional Sh.500 million that they require. The consultant has assembled his analysis into two mutually exclusive financing sources based on the promoter's request as follows:

Option - A (Equity only)

	Sh."000"
Base capital - Equity	500,000
Additional capital - All equity	500,000
Total	<u>1,000,000</u>

Option - B (Debt only)

	Sh."000"
Base capital - Equity	500,000
Additional capital - Long term debt	<u>500,000</u>
	<u>1,000,000</u>

It is assumed that both the additional equity and additional debt will require an annual payment of Sh.40 million and Sh.50 million for dividend and interest respectively every year.

Assume that the profit before interest and taxes that the company would post each year is Sh.110 million. The corporate tax rate is 30%.

Required:

Suggest, from a tax planning perspective, the best source of additional financing that the consultant should recommend (4 marks)

QUESTION 10**September 2015 Question Three C**

Violet Auma has been offered a job with Apple Electronics (K) Ltd., a foreign company dealing with distribution of smart phones and computers in the East African region. She is due to report on 1 January 2016.

Her terms of employment provide for the following emoluments:

1. She would get a basic salary of Sh.450,000 per month effective from 1 January 2016.
2. The company would make the following additional payments to her per month:
 - Home to office car allowance of Sh.28,500. However, she would be given the option of using a company car. The car that would be allocated to her would be of 2500cc which the company would purchase at a cost of Sh.3,500,000.
 - House allowance of Sh.80,000 per month. However, the company gives her the option of moving to a company house from the commencement of her employment. The house would be rented by the company at Sh.80,000 per month.
3. She would like all other employees, enjoy the company's pension scheme into which the company would pay Sh.25,000 monthly for her benefit. She would also have to contribute a similar amount into the scheme.
4. An end of the year bonus amounting to Sh.35,500 would be paid to her each year. She however would be given the option of taking a gift of a phone from the company worth the same amount.
5. She would be eligible to be included into the company's attractive medical scheme which only covers management staff. The amount of the benefit is capped at Sh.1,500,000 per year. She however has the option of a free-for-all claim-based medical scheme operated by the employer. The scheme is capped at Sh.1,000,000 per year.

Required:

Recommend the best option for Vilolet Auma based on the above information.

(12 marks)

TOPIC 9**TAX SYSTEMS AND POLICIES**

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QUESTION 1**November 2020 Question One A**

Three countries; X, Y and Z established an economic trading block some years back. One of the key objectives of the trading block was to promote the harmonisation of tax systems and policies among the three countries. However, this objective has not been realised to date.

Required:

Discuss five possible challenges to the harmonisation of tax systems and policies among the three countries above. (5 marks)

QUESTION 2**November 2020 Question One D**

Taxation has generally contributed to economic development and empowerment of the population in most countries. However, taxation may also result in certain negative consequences on the society.

Required:

Discuss three negative impacts of taxation in a country. (3 marks)

QUESTION 3**November 2020 Question Two B**

Evaluate four factors inhibiting efficient administration of value added tax in your country. (8 marks)

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QUESTION 4**November 2019 Question Three A**

Country X has recently proposed to change the regulations on taxation of Savings and Credit Co-operation Societies (Saccos). This change will entail taxing most of the income and exempting only the interest earned from members. The proposed changes will also double the withholding tax rate on dividends paid by Saccos.

Required:

With reference to the above scenario, explain four effects of the proposed legislative changes on Saccos. (4 marks)

QUESTION 5**May 2019 Question One A**

Many governments particularly in developing countries have implemented various taxation policies to achieve fiscal and other objectives. Unfortunately, in some of these countries, the noble objectives of the taxation policies appear not to have been realised.

Required:

Evaluate four reasons which, in your assessment, have contributed to the failure of taxation policies to achieve their intended objectives. (8 marks)

QUESTION 6**May 2019 Question Three C**

Explain four benefits that might accrue from the effective use of information communication technology (ICT) in tax administration. (4 marks)

QUESTION 7**November 2018 Question One C**

Explain, three objectives of tax modernisation programmes which have been recently undertaken in a number of developing economies.

(6 marks)

QUESTION 8

May 2018 Question Four B

The revenue authority in your country recently established a Medium Taxpayers Office (MTO) as part of the tax reforms.

Required:

Discuss five objectives of the MTO.

(10 marks)

QUESTION 9

May 2017 Question Five A

The development of an effective tax policy for a country requires critical consideration of certain factors at macroeconomic level.

Required:

Discuss three such factors.

(6 marks)

QUESTION 10

November 2016 Question Four A

Some scholars have raised concern over the apparent mismatch between taxation policy and the economic agenda of certain countries, where increased tax revenue did not necessarily translate into higher standards of living for the citizenry.

Required:

Explain four factors that could have contributed to the above scenario.

(4 marks)

TOPIC 10**PROFESSIONAL PRACTICE IN TAXATION****QUESTION 1****November 2019 Question Four B**

Describe four functions of tax agents. (4 marks)

QUESTION 2**November 2018 Question Four B**

Fanikisha Ltd. intends to acquire Matatizo Ltd. The nature of the acquisition is such that Matatizo Ltd. will cease to operate with all its assets and liabilities taken over by Fanikisha Ltd.

You are a tax senior with Uwezo Consultants. The management of Fanikisha Ltd. have approached you to undertake a tax due diligence on Matatizo Ltd. prior to the acquisition.

Required:

Discuss four areas you would focus on in your due diligence. (8 marks)

QUESTION 3**May 2018 Question One D**

Summarise six ethical principles that are specifically applicable to a tax practitioner acting on behalf of a client.

(Note: You are not required to discuss the general principles of ethics). (6 marks)

QUESTION 4**November 2016 Question Five A**

The Council of the Institute of Certified Public Accountants of Country X is developing a Code of Ethics to manage the conduct of its Council members.

Required:

Propose three provisions for inclusion in the above referenced Code of Ethics to prevent cases of conflict of interest among Council members. (3 marks)

QUESTION 5**May 2015 Question Three A**

Outline two factors that a tax practitioner should consider in deciding whether to provide oral or written advice to a client. (4 marks)

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TOPIC 11**CURRENT DEVELOPMENTS IN PUBLIC FINANCE
AND TAXATION****QUESTION 1****November 2020 Question Four A**

Describe four tax policy challenges that the government is facing in the taxation of digital economy in your country. (8 marks)

QUESTION 2**November 2019 Question Three B**

Discuss three incentives provided by your country to spur the growth of the housing and construction sector. (6 marks)

QUESTION 3**November 2017 Question One B**

The following statement was made by the Commissioner General of your country's revenue authority during an international conference to discuss the challenges of taxation in the era of electronic commerce (e-commerce) and mobile commerce (m-commerce).

"The rapid growth of electronic commerce and mobile commerce fuelled by the developments in digital technology has shaped a revolution in global retail trade that is opening up markets across borders and continents. The growth in e-commerce and m-commerce has imposed a number of challenges to the government in relation to the tax system-.

Required:

With reference to the above statement, analyse three challenges of taxing businesses and transactions arising from the adoption of e-commerce and m-commerce. (6 marks)

QUESTION 4

November 2017 Question Four A

Discuss three measures that the central government could put in place to enhance financial accountability and transparency at the county level. (6 marks)

QUESTION 5

May 2017 Question Two A

The privatisation of state corporations continues to be witnessed in a number of countries, particularly in the developing world.

Required:

Discuss four benefits likely to be realised from the above trend. (8 marks)

QUESTION 6

May 2015 Question Five A

Discuss for limitations of taxation policy in attaining the macro-economic objectives of a country (12 marks)

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PART B:

SUGGESTED ANSWERS AND SOLUTIONS

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TOPIC 1**EXTERNAL RESOURCE FINANCING**

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QUESTION 1**November 2019 Question Two A****Roles of external resources department**

- Identifying, negotiating and securing source of external funding on behalf of the government.
- Integrate donor commitments into the annual estimates and the budget process.
- Ensure the full involvement in the appraisal of new projects.
- Ensure participatory periodic monitoring and the evaluation of all budgeted projects and programmes.
- Strengthen the co-ordination of bilateral consultative meetings between the government and donors.
- Facilitate the provision of technical assistance from donors to government ministries and departments.
- Ensure the effective management of government and donor financial agreements and follow up on loan utilisation.
- Expedite the authorisation of disbursements of donor funds to the implementing agencies.
- Carrying out continuous forecasting and analysis of resources, inflows and disbursements to all projects and programs

QUESTION 2**November 2019 Question Five C****Responsibilities that the national treasury must enforce when managing the government public finance**

- Ensure that over the medium a minimum of 30% of the national and county government budget is allocated to the development expenditure.