



**kasneb**

**CPA PART I SECTION 2**

**CS PART I SECTION 2**

**CIFA PART I SECTION 2**

**CCP PART I SECTION 2**

**PUBLIC FINANCE AND TAXATION**

**WEDNESDAY: 19 May 2021.**

**Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Any assumptions made must be clearly and concisely stated.

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

**Year of income 2020.**

Assume that the following rates of tax applied throughout the year of income 2020:

Monthly taxable pay (Sh.)	Annual taxable pay (Sh.)	Rate of tax % in each Sh.
1 - 24,000	1 - 288,000	10%
24,001 - 40,667	288,001 - 488,000	15%
40,668 - 57,334	488,001 - 688,000	20%
Excess over 57,334	Excess over 688,000	25%

**Personal relief Sh.2,400 per month (Sh.28,800 per annum).**

Investment allowance: Capital expenditure incurred on:	Rate of investment allowance	Residual value (per year on reducing balance)	Prescribed benefit rates of motor vehicles provided by employer			
			(i) Saloons, Hatch Backs and Estates			
				Monthly rates (Sh.)	Annual rates (Sh.)	
(a) <b>Buildings:</b>			Up to	1200 cc	3,600	43,200
• Hotel building	50% in the first year of use	25%	1201 -	1500 cc	4,200	50,400
• Building used for manufacture	50% in the first year of use	25%	1501 -	1750 cc	5,800	69,600
• Hospital buildings	50% in the first year of use	25%	1751 -	2000 cc	7,200	86,400
• Petroleum or gas storage facilities	50% in the first year of use	25%	2001 -	3000 cc	8,600	103,200
• Educational/hostels building	10% per year on reducing balance		Over	3000 cc	14,400	172,800
• Commercial building	10% per year on reducing balance					
(b) <b>Machinery:</b>			(ii) Pick-ups, Panel Vans (unconverted)			
• Machinery used for manufacture	50% in the first year of use	25%	Up to	1750 cc	3,600	43,200
• Hospital equipment	50% in the first year of use	25%	Over	1750 cc	4,200	50,400
• Ships or aircraft	50% in the first year of use	25%				
• Motor vehicles and heavy earth moving equipment	25% per year on reducing balance					
• Computer software, calculators, copiers and duplicating machines	25% per year on reducing balance					
• Furniture and fittings	10% per year on reducing balance					
• Telecommunication equipment	10% per year on reducing balance					
• Film equipment by a local producer	25% per year on reducing balance					
• Machinery used to undertake operations under prospecting rights and exploration under mining rights	50% in the first year of use	25%				
• Other machinery	10% per year on reducing balance					
(c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation	10% per year on reducing balance		(iii) Land Rovers/Cruisers			
(d) Farm works	50% in the first year of use	25%		7,200	86,400	

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

### QUESTION ONE

- (a) Summarise four functions of the National Assembly budget committee as per the Public Finance Management Act, 2012. (4 marks)
- (b) In managing the national government public finances, the National Treasury or such state organ in your country enforces certain fiscal responsibility principles in accordance with the Constitution and the Public Finance Management Act.  
In relation to the above statement, explain four fiscal responsibility principles. (8 marks)
- (c) Citing their information needs, identify four users of the Consolidated Fund reports. (4 marks)
- (d) Highlight four responsibilities of a County Treasury with respect to county public funds. (4 marks)
- (Total: 20 marks)**

### QUESTION TWO

- (a) Outline six functions of a disposal committee as provided under the Public Procurement and Asset Disposal Act 2015. (6 marks)
- (b) In a tax seminar, one of the facilitators noted that "Most revenue authorities in developing countries are embarking on tax base expansion programme to raise more revenue through identification of new taxpayers".  
With reference to the above statement, highlight four sources of information in regard to identification of new taxpayers. (4 marks)
- (c) The following summary of transactions were obtained from the books of Zawadi Ltd., a company registered for value added tax (VAT) for the month of October 2020:

	Sh.
Sales at standard rate	1,480,000
Exports to a foreign country	364,000
Audit fees	78,300
Electricity bills	36,400
Imported raw materials	320,000
Purchases at standard rate	624,500
Exempt supplies	700,000
Catering services	94,000
Entertainment services	120,000
Telephone bills	28,000
Car parking services	50,000
Bottled drinking water for staff	64,000
Zero rated supplies (exports)	240,000
Repairs of motor vehicles	76,200

#### Additional information:

- Sales at standard rate include goods valued at Sh.280,000 purchased at standard rate and sold at the same state.
  - Imported raw materials was exclusive of freight charges of Sh.80,000 and insurance premium of Sh.40,000. Import duty rate was at 20%.
  - A debtor was issued with a credit note for goods valued at Sh.48,000 and this had not been passed through the relevant daybook.
  - The company issued debit notes valued at Sh.164,000 in respect to under invoicing of some customers.
  - Repairs of motor vehicles include Sh.20,000 for fuels and oils supplied to the company.
- Transactions are exclusive of VAT at the rate of 14% where applicable.

#### Required:

- The VAT payable by or refundable to Zawadi Ltd. for the month of October 2020. (10 marks)
- (Total: 20 marks)**

### QUESTION THREE

- (a) Propose four measures that the revenue collection agency in your country could employ to reduce instances of tax evasion. (4 marks)
- (b) Explain four grounds under which the commissioner might suspend or cancel a licence to manufacture excisable goods. (4 marks)

c) Benson Kapila is the manager for Daity Ltd., a company incorporated in Kenya. He has approached you to assist him in filing income tax returns for the year of income 2020. He has provided the following details relating to his income during the year:

1. Basic salary per month (Net of PAYE of Sh.18,600 per month) Sh.61,400.
2. He was provided with a house by the employer which was furnished at a cost of Sh.200,000.
3. He is a member of a registered retirement pension scheme. His monthly contribution was Sh.30,000. The employer contributed Sh.32,000 per month.
4. He was provided with a company car of 2000 cc whose cost as at 1 January 2019 was Sh.800,000.
5. He was given per diem of Sh.10,000 for five days he was out of work station on official duties in the month of June 2020.
6. He is a pensioner and received a monthly pension of Sh.35,000.
7. He is a member of home ownership savings plan (HOSP) where he contributed Sh.16,000 per month up to 30 September 2020.
8. On 1 October 2020, he moved to his own house which he acquired through a 12% mortgage loan of Sh.3,600,000.
9. He has an education insurance policy for his children where he pays premiums of Sh.7,000 per month.
10. He enjoyed free company products during the year whose value was estimated at Sh.56,000.
11. The company gave him a 5% loan of Sh.2,000,000 on 1 December 2020 to assist in off-setting the mortgage loan. The market interest rate was at 12% per annum.
12. The company paid him monthly telephone allowance of Sh.5,000.
13. His other incomes included:
  - Farming loss of Sh.140,000.
  - Rental income (commercial building) Sh.96,000.
  - Dividends (net of tax) of Sh.47,600 from Hazita Cooperative Society.
  - Professional fees Sh.78,000.

**Required:**

- (i) Total taxable income for Benson Kapila for the year ended 31 December 2020. (10 marks)
- (ii) Tax payable (if any) from the income computed under (c) (i) above. (2 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

(a) Excel Communications Ltd. is the regional dealer and distributor of communications equipment. They have provided you with the following statement of profit or loss for the year ended 31 December 2020:

	Sh.	Sh.
Sales		15,300,000
Closing inventory		2,000,000
Disposal gain on asset sold		180,000
Discount received		300,000
Compensation from insurance		<u>105,000</u>
		17,885,000
<b>Less: Expenses:</b>		
Purchases	9,000,000	
Opening inventory	1,500,000	
Repairs and maintenance	528,750	
Rent and rates	93,750	
Bad debts	311,250	
Subscriptions and donations	37,500	
Permits and licences	150,000	
Depreciation	670,000	
Office and distribution expenses	360,000	
Travelling and transport	252,000	
Legal fees	327,000	
Accountancy fees	97,500	
Disposal loss on assets	180,000	
Discount allowed	200,000	
Salaries and wages	1,500,000	
Bank ledger fees	<u>67,500</u>	
		<u>(15,275,250)</u>
Net profit		<u>2,609,750</u>

**Additional information:**

1. Insurance compensation is in relation to communications equipment stolen during the year while being shipped to a client.
2. Office and distribution expenses comprise of the following:
 

	<b>Sh.</b>
Club membership fee subscriptions for employees	135,000
Private expenditure of directors	102,000
3. 10% of the rent and rates relates to directors' private residences.
4. Subscriptions and donations include:
 

	<b>Sh.</b>
To the communications equipment traders association	22,500
To the Kenya Red Cross-donations	5,500
To the street children feeding program	<u>9,500</u>
	<u>37,500</u>
5. Legal fees include the following:
 

	<b>Sh.</b>
Renewal of lease – 100 years	45,000
Staff employment contracts	60,000
Counterfeit equipment suit in the High Court	87,000
Debt collection	50,000
6. Capital deductions have been agreed at Sh.645,000 with the Commissioner of Domestic Taxes.
7. Bad debts include an increase in general provision for bad debts of Sh.21,250.
8. Salaries and wages include directors emoluments of Sh.500,000.
9. Repairs and maintenance includes the cost of erecting a signboard outside the dealership shop of Sh.28,750.

**Required:**

- (i) Excel Communications Ltd. taxable profit or loss for the year ended 31 December 2020. (9 marks)
  - (ii) The tax payable (if any) on the profit or loss computed in (a) (i) above. (1 mark)
- (b) Plasticom Ltd. is a company established in year 2020 to manufacture plastic products. Before commencing its operations on 1 May 2020, the company incurred a total of Sh.8,760,000 in construction of a factory building which included:

	Cost (Sh.)	Date of first use
Godown	320,000	1 July 2020
Showroom	240,000	1 September 2020
Administration offices	680,000	1 October 2020

**Additional information:**

1. The following assets were constructed or purchased and utilised with effect from 1 July 2020:

	Cost (Sh.)
Water pump	540,000
Labour quarters	920,000
Processing machinery	2,600,000
Tractor	1,800,000
Scanners	320,000
Two saloon cars	7,000,000
Mobile forklift	1,500,000
Computers	250,000
Power transformer	820,000
Office cabinets	180,000
Boilers	960,000
Bridge (connecting the factory to main road)	1,200,000

2. The following costs were incurred by the company on 1 September 2020:

	Cost (Sh.)
Sinking a borehole	720,000
Construction of a parking bay	630,000

3. One of the computers traded in on 10 November 2020 for a new one costing Sh.68,000. The trade in value was Sh.40,000 and the balance was settled in cash.
4. The company constructed a Sports Pavilion and additional staff quarters during the year at the cost of Sh.890,000 and Sh.1,200,000 respectively. These structures were utilised from 1 October 2020.

**Required:**

- Investment allowances due to Plasticom Ltd. for the year ended 31 December 2020. (10 marks)
- (Total: 20 marks)**

**QUESTION FIVE**

- (a) Explain four reasons for the declining trend in tax revenue in most developing countries. (4 marks)
- (b) Summarise four objectives of fiscal policies in your country. (4 marks)
- (c) Mark and Wanguh are in a trading partnership operating as Mawah Enterprises and sharing profits or losses in the ratio of 2:3 respectively.

The following statement of profit or loss was prepared by the business for the year ended 31 December 2020:

**Mawah Enterprises**  
**Statement of profit or loss for the year ended 31 December 2020**

	Sh.	Sh.
Gross sales		2,736,000
Unrealised foreign exchange gain		16,000
Insurance recovery on stolen good		300,000
Overprovision for bad debts		34,000
Dividends from Haki Cooperative Society		42,500
Interest on drawings		<u>45,000</u>
		3,173,500
<b>Less expenses:</b>		
General expenses	324,000	
Legal expenses	678,600	
Salaries to partners	450,000	
Drawings by partners	100,000	
Commission to partners	180,000	
Interest on partners' capital	250,000	
Purchase of furniture	96,000	
Donations to poverty commission	64,000	
Construction of fire exit	<u>36,400</u>	<u>(2,179,000)</u>
Net profit		<u>994,500</u>

**Additional information:**

1. Gross sales include VAT at 14%. In addition, 10% of sales before VAT represents closing stock. The stock had been overstated by 20%.
2. The amounts due to partners are to be apportioned according to profit or loss sharing ratios.
3. General expenses comprise:
 

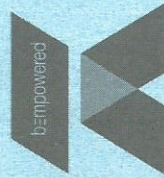
	Sh.
• Partition of business premises	64,000
• Debt collection expenses	36,000
• Purchase of office stationery	14,000
• Cash embezzled by partner's wife	48,000
• Bad debts written off	24,800
• Business premises rent	31,200
• Salaries to employees	<u>106,000</u>
	<u>324,000</u>
4. Legal expenses include:
 

	Sh.
• Acquisition of patent rights	24,800
• Drafting of sales agreement	34,200
• Negotiating sales contract	60,000
• Defending the business against trade dispute	42,600
• Mortgage interest for Mark	140,000
• Defending partners against wrong tax assessment	94,600
• Conveyance fees for business premises	125,800
• Tax consultancy fees	<u>72,500</u>
5. The purchases represent 40% of the gross sales figure Sh.2,736,000. The purchases had been understated by 25% and were omitted from the income statement.

**Required:**

- (i) Adjusted partnership statement of profit or loss for the year ended 31 December 2020. (8 marks)
- (ii) The allocation of profit or loss computed in (c) (i) above to each partner. (4 marks)

**(Total: 20 marks)**



**kasneb**

**CPA PART I SECTION 2**

**CS PART I SECTION 2**

**CIFA PART I SECTION 2**

**CCP PART I SECTION 2**

**PUBLIC FINANCE AND TAXATION**

**WEDNESDAY: 25 November 2020.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Any assumptions made must be clearly and concisely stated.**

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

**Year of income 2019.**

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

**Personal relief Sh.1,408 per month (Sh.16,896 per annum).**

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

**Monthly rates Annual rates  
(Sh.) (Sh.)**

**Capital allowance:**

**Wear and tear allowance:**

Class I	37.5%
Class II	30%
Class III	25%
Class IV	12.5%
Software	20%

**Industrial building allowance:**

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

**Farm works allowance**

**Investment deduction allowance**

**Shipping investment deduction (Ships over 125 tonnes)**

**Extraction expenditure:**

Written off over 5 years (20%)

**Commissioner's prescribed benefit rates**

**Services**

(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

(i) Saloons, Hatch Backs and Estates

	Monthly rates (Sh.)	Annual rates (Sh.)
Up to 1200 cc	3,600	43,200
1201 - 1500 cc	4,200	50,400
1501 - 1750 cc	5,800	69,600
1751 - 2000 cc	7,200	86,400
2001 - 3000 cc	8,600	103,200
Over 3000 cc	14,400	172,800

(ii) Pick-ups, Panel Vans (unconverted)

Up to 1750 cc	3,600	43,200
Over 1750 cc	4,200	50,400

(iii) Land Rovers/Cruisers

7,200	86,400
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~~Purchase - Input~~  
~~Sales - Output~~



**QUESTION ONE**

(a) The Public Finance Management Act requires that, not later than 30<sup>th</sup> August in each year, the Cabinet Secretary shall issue to all national government entities a circular setting out guidelines on the budget process to be followed by them.

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

(b) Discuss four responsibilities of the National Treasury in the administration of the Consolidated Fund. (8 marks)

(c) Explain four fiscal responsibility principles enforced by National Treasury in managing national government public finance. (8 marks)

(Total: 20 marks)

Money ↑  
 Input  
 Money ↓ Output  
 Purchases

**QUESTION TWO**

(a) Explain the single source method of procurement in public sector entities, citing two circumstances under which the method could be applied. (4 marks)

(b) One of the functions of the Public Procurement Oversight Authority (PPOA) is to assist in the implementation and operation of the procurement system. In light of this statement, explain three aspects this function entails. (6 marks)

(c) Beltech Ltd., a registered trader for value added tax (VAT) made the following transactions in the month of January 2020:

	Sh.
Local supplies - <i>output</i>	7,586,400
Relief supplies - <i>input</i>	1,740,000
Exports - <i>output</i>	4,408,000
Computers purchased - <i>input</i>	580,000
Electricity (factory) - <i>input</i>	278,400
Office internet (fibre) - <i>input</i>	14,500
Office rent - <i>input</i>	250,560
Raw materials (imported) - <i>input</i>	6,960,000
Hotel bills for the finance manager - <i>input</i>	139,200
Purchases from VAT registered traders - <i>input</i>	1,113,600
Purchases from VAT unregistered persons - <i>input</i>	290,000
Telephone bills - <i>input</i>	17,400

**Additional information:**

- Office rent paid relates to the month of January, February and March 2020.
- The cost of raw materials (imported) is inclusive of insurance and freight charges of Sh.360,000 and import duty amounting to Sh.1,392,000. *25%*
- All transactions are inclusive of value added tax (VAT) at the rate of 16% where applicable.

**Required:**

Prepare the VAT account clearly showing the output tax, input tax and VAT payable (or refundable). (10 marks)

(Total: 20 marks)

**QUESTION THREE**

(a) Propose three administrative challenges that the revenue authority or similar body in your country might face in the taxation of a digital economy. (6 marks)

(b) Shirley Kaniny has been in employment as a domestic servant. Her employer works for an international organisation in the city. He had her registered and issued with a personal identification number (PIN) by the revenue authority.

Details of her earnings for the year ended 31 December 2019 were as follows:

- ✓ 1. She is paid a basic salary of Sh.42,000 net of PAYE Sh.14,000 per month.
- ✓ 2. Owing to the hands-on nature of her job, she is provided with accommodation in the employer's house. The house is a fully furnished five-bedroom bungalow with its own compound and a swimming pool. Similar houses have a rental value of Sh.200,000 per month.
- ✓ 3. The house above was furnished at a cost of Sh.6,000,000.
- ✓ 4. She is paid a house allowance of Sh.15,000 per month even though she is provided with accommodation.
- ✗ 5. Shirley Kaniny contributes Sh.9,000 per month towards a home ownership savings plan (HOSP) with her employer contributing Sh.10,000 per month on her behalf to the same plan.

We have answers to these past papers

- ✓6. She contributes Sh.8,000 per month towards a life assurance policy, with the employer making similar contribution for her towards the life assurance policy.
- ✓7. During the year, she was paid a bonus of Sh.280,000 on account of her diligence.
- ✓8. The employer grants her one day of rest every calendar week and pays her Sh.1,000 that off-day except for the four weeks of February when she proceeds on annual leave with full pay.
- ✓9. The employer agreed to sponsor her to further her education at a business college for six months. He paid the Sh.180,000 tuition fee on her enrolment.
- ✓10. She is provided with a car by the employer to use for her private business and a designated driver. This is a 1500cc saloon car that had cost Sh.1,500,000 when it was purchased in year 2016. The driver is paid Sh.24,000 per month.
- ✗11. She received dividend amounting to Sh.24,000 net from Lucky SACCO.
  - Assume a 52 weeks year.

**Required:**

- (i) Taxable income of Shirley Kaniny for the year ended 31 December 2019. (12 marks)
- (ii) Tax payable (if any) from the income computed in (b) (i) above. (2 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Explain the treatment of the following in taxation:
  - (i) Tax losses. (2 marks)
  - (ii) Capital losses. (2 marks)
- (b) Explain two distinguishing features between “tax evasion” and “tax avoidance”. (4 marks)
- (c) Mafutah PLC commenced a manufacturing operation on 1 October, 2019 having incurred the following capital expenditure:

	Sh.
Factory buildings (Note 1) <sup>ID</sup>	12,800,000
Processing machinery <sup>ID WT</sup>	4,200,000
Billboard <sup>ID</sup>	84,000
Borehole <sup>ID</sup>	1,240,000
Staff canteen <sup>ID</sup>	350,000
Sports pavilion <sup>ID</sup>	470,000
Computers <sup>WT</sup>	140,000
Computer software <sup>WT</sup>	60,000
Lorry (3 tonnes) <sup>WT</sup>	860,000
Saloon car <sup>WT</sup>	2,400,000
Warehouse <sup>ID</sup>	680,000
✓ Weighing machines <sup>ID WT</sup>	28,000
Fax machine <sup>WT</sup>	13,000
Motor bike <sup>WT</sup>	68,000
Trailer <sup>WT</sup>	120,000
✓ Workshop machinery <sup>ID WT</sup>	464,000

**Additional information:**

- 1. Factory buildings include: an office Sh.280,000, showroom Sh.420,000 Godown Sh.800,000 and a retail shop Sh.300,000. <sup>ID</sup>
- ✗2. Processing machinery was imported and includes import duty and value added tax of Sh.400,000 and Sh.160,000 respectively which were waived by the government.
- 3. The borehole was sunk using money borrowed from a bank amounting to Sh.1,000,000 which includes interest in bank loan of Sh.180,000.
- ✓4. The saloon car was disposed of for Sh.2,100,000 on 23 December 2019.
- 5. The company constructed a canopy at the entrance of the factory building at a cost of Sh.570,000 which was completed and utilised from 1 November 2019.
- 6. Purchased a water pump at a cost of Sh.90,000 and a generator Sh.120,000.

**Required:**

- Capital allowances due to Mafutah PLC for the year ended 31 December 2019. (12 marks)

**(Total: 20 marks)**



**QUESTION FIVE**

- (a) Highlight two categories of goods liable for forfeiture under Customs and Excise Duty Act. (2 marks)
- (b) Suggest four measures that a government should put in place to prevent dumping in a country. (4 marks)
- (c) Albert and Philip are in a partnership trading as Alpha Enterprises. They share profits and losses in the ratio of 3:2 for Albert and Philip respectively after charging 10% as interest on this capital contributions.

The partners provided the following income statement for the year ended 31 December 2019:

	Sh. "000"	Sh. "000"
<b>Income</b>		
Gross profits		7,500
Interest and drawings		150
Discount received		112
Rental income		700
Profit on sale of old lorry		<u>390</u>
		8,852
<b>Expenses</b>		
Impairment loss	340	
Insurance and interest	490	
Rent and rates	810	
Depreciation	263	
Commission to Philip	440	
Purchase of saloon car	3,500	
Legal fees	670	
VAT paid	1,200	
Repairs to rental property	510	
Salaries and wages	1,760	
Medical expenses	<u>978</u>	(10,961)
Net loss		<u>(2,109)</u>

**Additional information:**

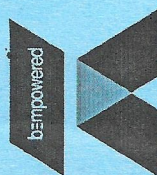
- 1. The partners' capital contributions were Sh.3,000,000 and Sh.1,800,000 for Albert and Philip respectively.
- 2. Salaries and wages include Sh.220,000 and Sh.180,000 paid to Albert and Philip respectively during the year.
- 3. Legal fees is made up of the following:

	Sh.
Renewal of 15 year lease contract	200,000
Securing a bank overdraft	95,000
Defending Philip for breach of contract	180,000
Parking fines	50,000
Handling tax disputes	80,000
Collection of outstanding customers debts	<u>65,000</u>
	670,000

- 4. Partners' interest on capital was included in the insurance and interest expenses.
- 5. Half of the medical expenses relates to the medical bills paid for Albert during the year. The partnership has no medical scheme.
- 6. 40% of rent and rates relates to amount paid to county government as rates in relation to the partner's own residential houses.
- 7. The interest on drawings relates to the partners drawings during the year and should be apportioned according to their profit and loss sharing ratio.

**Required:**

- (i) Adjusted taxable profit or loss of the partnership for the year ended 31 December 2019. (10 marks)
  - (ii) Allocation schedule of profit or loss calculated in (c) (i) above. (4 marks)
- (Total: 20 marks)**
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**CPA PART I SECTION 2**

**CS PART I SECTION 2**

**CIFA PART I SECTION 2**

**CCP PART I SECTION 2**

**PUBLIC FINANCE AND TAXATION**

**THURSDAY: 28 November 2019.**

**Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Any assumptions made must be clearly and concisely stated.

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

**Year of income 2018.**

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

**Personal relief Sh.1,408 per month (Sh.16,896 per annum).**

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

	Monthly rates		Annual rates	
	(Sh.)	(Sh.)	(Sh.)	(Sh.)
<b>Capital allowance:</b>				
<b>Wear and tear allowance:</b>				
Class I	37.5%			
Class II	30%			
Class III	25%			
Class IV	12.5%			
Software	20%			
<b>Industrial building allowance:</b>				
Up to 2009		2.5%		
From 1 January 2010		10%		
Hotels		10%		
Hostels/Education/Film producers buildings		100%		
From 1 January 2010 -				
Commercial building:				
(Shop, office or show room)		25%		
<b>Farm works allowance</b>		100%		
<b>Investment deduction allowance</b>		100%		
<b>Shipping investment deduction (Ships over 125 tonnes)</b>		100%		
<b>Extraction expenditure:</b>				
Written off over 5 years (20%)				
<b>Commissioner's prescribed benefit rates</b>				
<b>Services</b>			<b>Monthly rates (Sh.)</b>	<b>Annual rates (Sh.)</b>
(i) Electricity (Communal or from a generator)			1,500	18,000
(ii) Water (Communal or from a borehole)			500	6,000
<b>Agriculture employees: Reduced rates of benefits</b>				
(i) Water			200	2,400
(ii) Electricity			900	10,800

(i) Saloons, Hatch Backs and Estates

Up to	1200 cc	3,600	43,200
1201	1500 cc	4,200	50,400
1501	1750 cc	5,800	69,600
1751	2000 cc	7,200	86,400
2001	3000 cc	8,600	103,200
Over	3000 cc	14,400	172,800

(ii) Pick-ups, Panel Vans (unconverted)

Up to	1750 cc	3,600	43,200
Over	1750 cc	4,200	50,400

(iii) Land Rovers/Cruisers

7,200	86,400
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**QUESTION ONE**

- (a) Summarise five roles of the County Assembly in public finance management. (5 marks)
  - (b) Propose five sources of revenue for county governments. (5 marks)
  - (c) Outline the stages to be followed in the budget process for the National Government in any financial year. (10 marks)
- (Total: 20 marks)**

**QUESTION TWO**

- (a) Identify three ad hoc committees that a county procuring entity could establish to ensure that procurement and asset disposal is done in accordance with the County Governments Procurement Regulations. (3 marks)
- (b) Discuss five roles of the National Treasury in relation to procurement and asset disposal as outlined in the Public Procurement and Asset Disposal Act. (5 marks)
- (c) The following are summaries of the details of the sales day book, purchases day book and the cash book of Kamata Ltd. for the month of December 2018:

**Sales Day Book**

Date	Details	Folio	Amount (Sh.)
December 4	Mwangaza Ltd.	1002	650,000
7	J. Kamau	1003	520,000
14	Hazina Enterprises (export)	1004	350,000
20	Ministry of Sports	1005	170,000
	<b>Total</b>		<b>1,690,000</b>

**Purchases Day Book**

Date	Details	Folio	Amount (Sh.)
December 1	Jawabu Enterprise	2004	300,000
6	Sonytec Ltd. (imports)	2006	420,000
12	N. Kaluma	2007	200,000
27	B. Salama	2008	180,000
	<b>Total</b>		<b>1,100,000</b>

DR		Cash Book				CR	
Date	Details	Cash	Bank	Date	Details	Cash	Bank
		Sh.	Sh.	December		Sh.	Sh.
December 5	Sales	960,000	450,000	2	Salaries and wages		1,800,000
15	Receipt from debtors	800,000	4,200,000	4	Catering expenses	120,000	
				5	Purchases	580,000	640,000
				7	Furniture		160,000
				9	Electricity	32,000	
				14	Photocopying	24,000	
				22	Refund to customers		176,000
				30	Balance c/d	1,004,000	1,874,000
		<b>1,760,000</b>	<b>4,650,000</b>			<b>1,760,000</b>	<b>4,650,000</b>

**Additional information:**

1. J. Kamau was declared bankrupt on 18 December 2018 after having paid Sh.400,000 for the goods purchased on 7 December 2018.
2. Ten per cent of the purchase from Jawabu Enterprises were returned by the company due to poor quality.
3. Credit notes amounting to Sh.280,000 were issued to customers during the month.
4. Refund to the customers in the cashbook relates to the excess amounts paid on cash sales.
5. A purchase invoice of Sh.220,000 from Dubai Traders was omitted from the purchases daybook.
6. All the above transactions are exclusive of VAT at the standard rate of 16%.

**Required:**

Prepare a VAT account for the month of December 2018 showing the VAT payable or refundable, if any. (12 marks)  
(Total: 20 marks)

**QUESTION THREE**

- (a) In a tax seminar one of the facilitators noted that, "The Tax Procedures Act 2015, specifies on information that the Commissioner should include in the default assessment to a taxpayer".

With reference to the above statement, outline five categories of such information. (5 marks)

- (b) Suleiman Kombo is employed as the Managing Director of Utamu Distributors Ltd., a tax exempt company. During the year ended 31 December 2018, he presented the following information:

1. His basic salary was Sh.120,000 per month (PAYE Sh. 48,000 per month).
2. He was provided with lunch by the employer from 1 August 2018 of Sh.4,800 per month.
3. He was provided with a fully furnished house fitted with water and electricity. The employer paid a monthly rent of Sh.45,000. He was deducted 10% of his basic monthly salary for rent. The cost of furniture was Sh.300,000 while the monthly electricity and water bills was Sh.3,500 and Sh.2,800 respectively.
4. The company paid for him life insurance premiums of Sh.6,000 per month for each member of his household from 1 September 2018. He had included himself, his wife and their son in the insurance policy.
5. He contributed 10% of his monthly pay towards a registered pension scheme while the employer contributed 15% of his basic pay towards the same scheme.
6. He enjoyed free medical treatment under a medical scheme operated by the company for all employees. His medical expenses were assessed at Sh.150,000 during the year.
7. During the year the company paid a total of Sh.35,000 as school fees for his son studying in a County School. This amount was not included in the company's income statement during the year.
8. On 1 August 2018, the company provided him with the following:
  - A Land Rover which was acquired at a cost of Sh.1,800,000 with an engine capacity of 3,000cc.
  - A gardener and a night watchman whose monthly salaries was Sh.12,500 and Sh.15,000 respectively.
9. He invested in real estate and earned a net rental income of Sh.72,000 after deducting the following expenditure:

	Sh.
Caretaker's wages	120,000
Fencing	40,000
Loan repayment	320,000
Insurance rent and rates	48,000
Partitions	60,000
Capital allowances	22,000
Gross rental withholding tax paid	68,200

10. He received net dividends of Sh.42,500 from Maziwa Co-operative Society during the year.

**Required:**

- (i) Total taxable income for Suleiman Kombo for the year ended 31 December 2018. (10 marks)
- (ii) Tax payable (if any) from the income computed in (b) (i) above. (3 marks)
- (iii) Comment on any information not used in your computations under (b) (i) above. (2 marks)

(Total: 20 marks)

**QUESTION FOUR**

- (a) Dalbir Singh is a retired engineer. He set up a factory complex in industrial area on 30 September 2017 to fabricate mechanical and auto spare parts at a cost of Sh.48 million.

However, operations commenced on 1 January 2018.

The cost comprised the following:

	Sh.
Factory building	18,750,000
Office (within the factory building)	6,250,000
Reinforcement of concrete floor to affix machinery	1,650,000
Land	8,000,000
Architect's fee	2,430,000
Packing bay	990,000
Electrical wiring	1,480,000
Conveyer belt	1,200,000
Lifts and escalators	4,000,000
Special shafts for lifts	<u>3,250,000</u>
	<u>48,000,000</u>

Dalbir Singh provided the following additional information:

1. Additional structures and works constructed and utilised from 1 January 2018 were as follows:

	Sh.
- Residential house	960,000
- Workplace nursery	1,200,000
- Drawing and design room	720,000

2. To improve performance in the factory, an Oracle database that provides cloud service was installed at a cost of Sh.450,000. The computers in the drawing and design room had a Computer Aided Design (CAD) application installed at a cost of Sh.270,000.

3. A building that had been constructed at a cost of Sh.12,000,000 was leased from Jalaam Manufacturers Ltd. for five years. The annual lease rentals were agreed at Sh.2,800,000. Dalbir imported processing machinery from China at a cost of Sh.5,200,000 and installed it in the building.

4. Two warehouses were constructed at a cost of Sh.2,250,000 and utilised from 1 September 2018.

5. The following assets were purchased or constructed during the year:

	Sh.
Furniture and fittings (including of Sh.220,000 for the workplace nursery)	620,000
Library display fixtures (stocked with mechanical engineering volumes)	480,000
Computers and electronic adding machines	840,000
Motor vehicle (a second-hand BMW)	2,300,000
Lorry (four tonnes)	1,800,000
Tuktuk for the messenger	180,000
Backhoe loader	3,680,000
Additional processing machinery	9,000,000
Mobile crane	1,900,000

**Required:**

Capital allowances due to Dalbir Singh for the year ended 31 December 2018.

(10 marks)

- (b) The following information has been extracted from the records of LathermanCo. Ltd. who are regional suppliers of electronic equipment and appliances, for the year ended 31 December 2018:

	Sh.
Operating profit before tax and other income	3,800,000
Investment income	849,500
Leasing of electronic equipment	50,000
Rental income	346,000

Additional information is provided as follows:

1. Investment income comprises of the following:

	Sh.
Interest income: Post Bank (K) Ltd.	138,000
Fixed deposit accounts with Luanda Bank	246,500 (Net)
Savings accounts	170,000 (Net)
Dividend income: B and M Co. Ltd.	200,000 (Gross)
Kampuni Sacco Society Ltd.	<u>95,000 (Net)</u>
	<u>849,500</u>

2. Rental income is arrived at after deducting the following expenses among others:

	Sh.
Mortgage interest on property	10,000
Purchase of water meters	28,000
Caretaker's salary	36,000
Replacing iron sheet roofing with the tile roofing	120,000
Withholding tax on rental income	60,000

3. The following expenses were considered before arriving at the operating profit before tax and other income:

	Sh.
Salaries and wages	840,000
Retirement fund contribution (with Sh.80,000 to registered funds)	150,000
Depreciation	400,000
Bank interest	180,000
Provision for bad debts	10,000
Legal and professional fees	108,000
Repairs and maintenance	40,000
Sundry expenses	150,000
Donations	150,000
Compensation	92,000
Instalment tax paid for the previous year	900,000
Construction of the watchmen's booth at the gate	240,000

4. Salaries and wages comprised: Directors allowances Sh.300,000, director's watchmen salary Sh.40,000 and salaries to other staff Sh.500,000.

5. Bank interest includes that of an overdraft taken by a senior manager of Sh.40,000, on the managing director's residential house mortgage Sh.60,000 and the rest on bank loan.

6. Provision for bad debts is made up as follows:

	Sh.		Sh.
Bad debts written off: Customers	10,000	Balance brought forward: 3% of accounts receivable	8,000
Staff	14,000	Balance brought forward: Specific bad debts	30,000
Balance carried down:		Bad debts recovered	5,000
2% of accounts receivable	9,000	Income statement	<u>10,000</u>
Specific bad debts	<u>20,000</u>		<u>53,000</u>
	<u>53,000</u>		

7. Legal and professional fees comprise:

	Sh.
Collection of trade debts	20,000
Renewal of lease (99 years)	3,000
Accounting fee	35,000
Auditing fee	15,000
Tax appeal	30,000
Staff loan collection	<u>5,000</u>
	<u>108,000</u>

Auditing fee relates to an enquiry by the Revenue Authority which revealed discrepancies that led to higher tax liability and penalties.

8. Sundry expenses constitute staff Christmas party Sh.17,000, tax penalty for late filing Sh.3,000, school fees Sh.40,000 and other allowable expenses of Sh.90,000. School fees was for a director's son and the company agreed not to debit it in the income statement.

9. Donations were to the County Governor's political campaign kitty.

10. Compensation was to a staff member who had not been issued with safety equipment and uniform as he carried out work at a client's premise leading to him being badly injured.

**Required:**

The adjusted taxable income of Latherman Co. Ltd. for the year ended 31 December 2018.

(10 marks)

(Total: 20 marks)

**QUESTION FIVE**

- (a) Explain each of the following terms as used under custom taxes:
- (i) Clean report of findings. (2 marks)
  - (ii) Import declaration form. (2 marks)
- (b) Summarise four factors which could influence the extent of tax shifting. (4 marks)
- (c) Teddy, Racheal and Michael are partners trading under the name Teram Enterprises. They share profits and losses in the ratio of 4:3:3. The partners have presented the following income statement for the year ended 31 December 2018:

	Sh.		Sh.
Salaries and wages	280,000	Gross profit	2,300,000
Rent, rates and taxes	150,000	Miscellaneous income	150,000
Office expenses	204,000	Discounts	80,000
Printing and stationery	64,000	Farming income	132,000
Instalment tax paid	45,000	Profit on sale of shares	100,000
Advertising	73,000	Interest on deposits	120,000
<b>Interest on capital:</b>			
Teddy	60,000		
Racheal	70,000		
Michael	80,000		
Legal fees	82,000		
<b>Commission to partners:</b>			
Teddy	45,000		
Michael	35,000		
Depreciation	92,000		
Bad debts	68,000		
General expenses	99,000		
Donation to famine relief	100,000		
General reserve	120,000		
Local taxes on property	12,000		
Electricity	46,000		
Showroom expenses	117,000		
Net profit	<u>1,040,000</u>		
	<u>2,882,000</u>		<u>2,882,000</u>

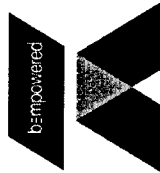
**Additional information:**

1. It has been the firm's practice to value the stocks at the cost price, however, the closing stock amounting to Sh.180,000 was valued based on net realisable value which is 10% less of its cost price.
2. Salaries and wages include salaries amounting to Sh.40,000 paid to Racheal.
3. Advertising includes Sh.10,000 spent on advertising campaign to introduce a new product in the market.
4. Legal fees include a sum of Sh.12,000 paid as parking fine and penalty to the county government.
5. Capital allowances have been agreed with the Commissioner of Income Tax at Sh.90,000.
6. Teddy's other income includes Sh.120,000 consultancy fee. He has brought forward partnership business loss of Sh.135,000 from the assessment of the year of income 2017.
7. Racheal has income of Sh.200,000 from bet winnings. She has brought forward partnership business loss of Sh.135,000 from assessment of the year of income 2017.

**Required:**

- (i) Taxable profit or loss of the partnership for the year ended 31 December 2018. (8 marks)
  - (ii) Allocation schedule of profit or loss calculated in (a) (i) above. (2 marks)
  - (iii) Total taxable income of each of the partners for the year of income 2018. (2 marks)
- (Total: 20 marks)**

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CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

WEDNESDAY: 22 May 2019.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Any assumptions made must be clearly and concisely stated.

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

Year of income 2018.

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

Personal relief Sh.1,408 per month (Sh.16,896 per annum).

Prescribed benefit rates of motor vehicles provided by employer

Monthly rates Annual rates

	Monthly rates (Sh.)	Annual rates (Sh.)
<b>Capital allowance:</b>		
<b>Wear and tear allowance:</b>		
Class I	37.5%	
Class II	30%	
Class III	25%	
Class IV	12.5%	
Software	20%	
(i) Saloons, Hatch Backs and Estates		
Up to 1200 cc	3,600	43,200
1201 - 1500 cc	4,200	50,400
1501 - 1750 cc	5,800	69,600
1751 - 2000 cc	7,200	86,400
2001 - 3000 cc	8,600	103,200
Over 3000 cc	14,400	172,800

**Industrial building allowance:**

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

**Farm works allowance** 100%

**Investment deduction allowance** 100%

**Shipping investment deduction** 100%

(Ships over 125 tonnes)

**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

CA23, CS23, CF23 & CP23 Page 1  
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### QUESTION ONE

- (a) Budgetary rules exercise effective control over government entities in public spending and accountability.

With reference to the above statement, identify four ways used by the national government to demand budgetary accountability by the government entities. (4 marks)

- (b) Outline four purposes of Public Finance Management Equalization Fund Regulations, 2015. (4 marks)
- (c) Citing three reasons, justify the importance of information contained in the circulars guiding the budget processes for county governments. (6 marks)
- (d) Describe three functions performed by the Internal Auditor-General Department of the National Treasury in conducting internal auditing of government entities. (6 marks)

**(Total: 20 marks)**

### QUESTION TWO

- (a) Outline four contents of information that the National Treasury should include in the financial statements in respect to the Contingencies Fund submitted to the Auditor-General. (4 marks)
- (b) Summarise six benefits of applying e-procurement in the public sector. (6 marks)
- (c) The following transactions were extracted from the ledger balances of Sitima Traders, a registered business for value added tax (VAT) purposes for the month of September 2018:

	Sh.
Purchases at standard rate	487,200
Audit fees	41,760
Exports to Malawi	400,000
Sales at standard rate	1,136,800
Purchases of printing materials	29,000
Fuel for delivery van	78,880
Exempt supplies	280,000
Catering for firm employees	81,200
Entertainment expenses	24,360
Telephone expenses	58,000
Payment of water bill	21,000

#### Additional information:

1. The firm received debit notes valued at Sh.23,200 in respect to erroneous invoices issued by suppliers.
2. The firm issued credit notes of Sh.20,880 to credit customers because of price adjustments.
3. Goods imported valued at a cost of Sh.500,000 were not recorded; Freight charges was Sh.40,000 and insurance Sh.20,000. Import duty was charged at 25%.
4. A debtor of goods valued at Sh.32,480 was declared bankrupt, and the debt written off.
5. The firm did not keep proper records for sales and purchases, therefore it was not possible to identify the state of goods sold as exempt.
6. All transactions are inclusive of VAT at a rate of 16% where applicable.

#### Required:

The value added tax (VAT) payable by (or refundable to) Sitima Traders for the month of September 2018. (10 marks)  
**(Total: 20 marks)**

### QUESTION THREE

- (a) Outline four categories of goods which are subject to customs control under the Customs and Excise Act. (4 marks)
- (b) Loki Marete purchased an old building for Sh.2,400,000. The legal cost incurred on transfer was Sh.180,000 and the cost of valuation was Sh.160,000. Other costs included replacement of roof of the building at a cost of Sh.360,000 and cost of sewerage system Sh.78,000. The commissioner accepted accumulated industrial building deduction at Sh.282,000. The building was later sold for Sh.5,840,000 after advertising several times in the newspaper at a cost of Sh.246,000.

#### Required:

The capital gain tax payable by Loki Marete in respect to disposal of the building. (4 marks)

(c) Halima Ali is a resident individual employed as a finance manager at Motech International Ltd.

She provided the following information relating to her income for the year ended 31 December 2018:

1. Her employment contract indicated the following:
 

	Sh.
Basic monthly salary	250,000
Monthly hardship allowance	45,000
Monthly responsibility allowance	50,000
Monthly commuter allowance	25,000
2. During the year, she received Sh.90,000 as a bonus for the previous years' reported profits.
3. She made a donation of Sh.50,000 to the National Kidney Fund during the year.
4. She was provided with a fully furnished apartment by the employer. The employer paid a monthly rent of Sh.80,000 and the cost of furniture was Sh.320,000.
5. The employer paid her monthly medical insurance premiums of Sh.5,000 during the year.
6. PAYE deducted from her monthly salary was Sh.68,000.
7. The company provided her with a 2,500cc saloon car on 1 October 2018 for official and private use. The car had been purchased for Sh.1,800,000.
8. She contributed Sh.15,000 per month towards a registered pension scheme.
9. She obtained a mortgage loan for the purpose of constructing her residential house from the National Savings Bank. The loan amount was Sh.4,000,000 with a monthly repayment of Sh.232,000. During the year, the total interest paid on the loan was Sh.144,000.
10. The company has a medical scheme for its managers. She was reimbursed Sh.380,000 during the year in respect of medical bills.
11. During the year, she was voted as the best employee and the company rewarded her with a cash of Sh.60,000.
12. The company paid her son's college fees amounting to Sh.120,000 during the year. This amount was treated as an allowable expense in the company's books of account.

**Required:**

(i) Taxable income of Halima Ali for the year ended 31 December 2018. (10 marks)

(ii) Tax liability (if any) from the income computed in (c)(i) above. (2 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

(a) Pareto Ltd. has provided the following income statement for the year ended 31 December 2018:

	Sh.	Sh.
<b>Income:</b>		
Gross profit		6,290,000
Dividends (net)	675,000	
Foreign exchange gain	175,000	
Rent received (commercial building)	580,000	
Interest received from Fahari Bank Ltd. (net)	289,000	
Bad debts recovered	370,000	
Insurance claim	785,000	
Profit on sale of equipment	88,000	
Sale of debentures	<u>4,200,000</u>	<u>7,162,000</u>
		13,452,000
<b>Less expenses:</b>		
Salaries and wages	1,450,000	
Increase in provision for bad and doubtful debts	145,000	
Contribution to N.S.S.F.	78,000	
Advertising	710,000	
Stationery	400,000	
Depreciation	280,000	
Subscriptions	1,140,000	
Trading loss	390,000	
Interest	760,000	
Transport	150,000	
Legal costs	<u>365,000</u>	<u>(5,868,000)</u>
		<u>7,584,000</u>

**Additional information:**

	Sh.	Sh.
1. Dividends comprise:		
Dividends from Beta Ltd.	505,000	
Dividends from Bona Cooperative Society	170,000	
2. Foreign exchange gain comprise:		
Amount of realised foreign exchange gain	125,000	
Amount of unrealised foreign exchange gain	50,000	
3. Bad debts recovered related to:		
Bad debts on sale of furniture	130,000	
Bad debts on credit sale of goods	240,000	
4. Insurance claim related to:		
Insurance compensation on loss of profit	380,000	
Insurance claim on loss of motor vehicle	405,000	
5. Advertising comprise:		
Advertising through daily newspapers	280,000	
Advertising on passenger sheds at bus stops	430,000	
6. Subscriptions related to:		
Annual subscription fee to chamber of commerce and industry		530,000
Subscriptions to employees' sports club		610,000
7. Interest comprise:		
Interest on debentures		580,000
Interest on loan acquired to build commercial rental houses		110,000
Interest on money borrowed to pay tax and penalties		70,000
8. Legal costs comprise:		
Appeal to tax tribunal		155,000
Defending business property rights		120,000
Registration of lease agreement (100 years)		90,000
9. Capital allowances were agreed with the commissioner of revenue authority at Sh.960,000.		

**Required:**

Adjusted taxable income or loss for Pareto Ltd. for the year ended 31 December 2018. (10 marks)

- (b) Sawa Industries Ltd. manufactures personal hygiene soaps and related products. The company started operations on 1 April 2018 after incurring the following expenditure:

	Sh.
Factory building	5,200,000
Processing machinery	2,400,000
Furniture and fittings	980,000
Godown	1,800,000
Water pump	360,000
Motor vehicle (saloon)	1,600,000
Computers	450,000
Drainage system	320,000
Staff canteen	960,000

**Additional information:**

- On 1 May 2018, the company imported a forklift for Sh.1,200,000 before VAT at the rate of 16% and import duty at 25%.
- A sports pavilion was constructed and utilised with effect from 1 October 2018. The total construction cost was Sh.650,000.
- A borehole was drilled at a cost of Sh.680,000 and utilised with effect from 1 November 2018.
- On 2 December 2018, the company acquired the following additional assets:

	Sh.
Photocopier	180,000
Pick-up	1,900,000
Cash registers	120,000
Conveyor belts	780,000
Fax machine	200,000
Office cabinets (wooden)	160,000
Boilers	920,000

5. The saloon car was disposed of for Sh.1,200,000 in October 2018 and replaced with a delivery van costing Sh.1,500,000.
6. Labour quarters were constructed at a cost of Sh.2,600,000 and the employees moved in the houses on 1 October 2018.

**Required:**

Capital allowances due to Sawa Industries Ltd. for the year ended 31 December 2018.

(10 marks)

**(Total: 20 marks)**

**QUESTION FIVE**

- (a) The Excisable Goods Management System Regulations require for affixing of excise stamps on every package of excisable goods.

Identify two purposes of these stamps.

(2 marks)

- (b) Discuss three measures that the government has undertaken to help reduce the number of tax appeals proceeding to court.

(6 marks)

- (c) Soi and Timothy are brothers engaged in commercial farming. They have been running Mazao Farm as a partnership sharing profits and losses equally.

The following is Mazao Farm's income statement for the year ended 31 December 2018:

	Sh.	Sh.
<b>Income:</b>		
Sale of fruits		1,050,000
Sale of livestock		1,550,000
Profit on sale of tractor		45,000
Sale of milk		480,000
Insurance claim		510,000
Discount received		80,000
Sale of manure		170,000
Interest received		90,000
Rental income		<u>200,000</u>
		<u>4,175,000</u>
<b>Less expenses:</b>		
Salaries	540,000	
Transport	70,000	
Drawings: Soi	350,000	
Timothy	460,000	
Fertilizers	510,000	
Construction of gabion	120,000	
Purchase of milking machine	200,000	
Subscriptions to agricultural research institute	155,000	
Interest	480,000	
Mulching	60,000	
Fuel	140,000	
Rates	30,000	
Presumptive tax	45,000	
Legal costs	80,000	
Wages	620,000	
Clearing land for planting fruits	210,000	
Depreciation	15,000	
Repairs and maintenance	<u>54,000</u>	<u>(4,139,000)</u>
		<u>36,000</u>

**Additional information:**

1. Sale of fruits and sale of milk include own consumption of Sh.30,000 and Sh.50,000 for Soi and Timothy respectively.
2. Interest received relates to interest earned from Kenya Post Office Savings Bank (Postbank).
3. Insurance claim is in connection with a partial destruction of the farm house.
4. Salaries relate to salaries paid to partners as follows:

	Sh.
Soi	240,000
Timothy	300,000

- 5. Rates relate to the rental income from commercial building.
- 6. Interest expense include interest on capital to partners as follows:

	<b>Sh.</b>
Soi	105,000
Timothy	125,000

- 7. Legal costs related to:

	<b>Sh.</b>
Tax appeal	35,000
Recovery of bad debts	22,000
Defending Soi for breach of contract	23,000

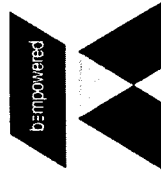
- 8. The following farm works were constructed and put to use on 1 July 2018:

	<b>Sh.</b>
Silo	40,000
Irrigation network	75,000
Cattle dip	150,000

- 9. Interest on drawings was charged at the rate of 10%.

**Required:**

- (i) Adjusted taxable profit or loss for the year ended 31 December 2018. (8 marks)
  - (ii) A schedule showing the distribution of the partner's profit or loss computed in (c)(i) above. (4 marks)
- (Total: 20 marks)**
- .....



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**CPA PART I SECTION 2**

**CS PART I SECTION 2**

**CIFA PART I SECTION 2**

**CCP PART I SECTION 2**

**PUBLIC FINANCE AND TAXATION**

**WEDNESDAY: 28 November 2018.**

**Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Any assumptions made must be clearly and concisely stated.

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

**Year of income 2017.**

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

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

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

		Monthly rates (Sh.)	Annual rates (Sh.)
<b>Capital allowance:</b>	(i) Saloons, Hatch Backs and Estates		
<b>Wear and tear allowance:</b>	Up to 1200 cc	3,600	43,200
Class I 37.5%	1201 1500 cc	4,200	50,400
Class II 30%	1501 1750 cc	5,800	69,600
Class III 25%	1751 2000 cc	7,200	86,400
Class IV 12.5%	2001 3000 cc	8,600	103,200
Software 20%	Over 3000 cc	14,400	172,800

**Industrial building allowance:**

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

**Farm works allowance**

**Investment deduction allowance**

**Shipping investment deduction**

(Ships over 125 tonnes)

**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

**CA23, CS23, CF23 & CP23 Page 1  
Out of 5**

### QUESTION ONE

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

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

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

- (i) With reference to the above statement:

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

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

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

**(Total: 20 marks)**

### QUESTION TWO

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

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

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

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

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

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

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

Assume the rate of import duty is 20%.

#### Required:

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

**(Total: 20 marks)**

### QUESTION THREE

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

#### Required:

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

CA23, CS23, CF23 & CP23 Page 2  
Out of 5

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

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

1. Basic salary and other allowances:

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

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

**Required:**

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

**QUESTION FOUR**

- (a) Highlight two reasons why an importer is required to fill in an import declaration form. (2 marks)
- (b) Morris Kwachu applied for a licence to commence manufacturing business dealing in excisable goods. The Commissioner refused to issue him with a licence.  
  
Advise him on four grounds under which the Commissioner might refuse to issue the applicant with a licence as provided under the Excise Duty Act. (4 marks)
- (c) Benard, Cosmas and Korrir are partners, operating a chain of retail shops. They share profits or losses in the ratio 2:2:1 respectively. During the year ended 31 December 2017, the partners reported a loss of Sh.2,542,000 after deducting the following:

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



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

**Additional information:**

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

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

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

**Required:**

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

**(Total: 20 marks)**

**QUESTION FIVE**

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

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

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

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

**Additional information:**

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

**Required:**

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

(12 marks)

**(Total: 20 marks)**

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**CPA PART I SECTION 2**

**CS PART I SECTION 2**

**CIFA PART I SECTION 2**

**CCP PART I SECTION 2**

**PUBLIC FINANCE AND TAXATION**

**WEDNESDAY: 23 May 2018.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Any assumptions made must be clearly and concisely stated.**

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

**Year of income 2017.**

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

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

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

	Monthly rates (Sh.)	Annual rates (Sh.)
<b>Capital allowance:</b>		
<b>Wear and tear allowance:</b>		
Class I	37.5%	
Class II	30%	
Class III	25%	
Class IV	12.5%	
Software	20%	
(i) Saloons, Hatch Backs and Estates		
Up to 1200 cc	3,600	43,200
1201 - 1500 cc	4,200	50,400
1501 - 1750 cc	5,800	69,600
1751 - 2000 cc	7,200	86,400
2001 - 3000 cc	8,600	103,200
Over 3000 cc	14,400	172,800

**Industrial building allowance:**

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

**Farm works allowance** 100%

**Investment deduction allowance** 100%

**Shipping investment deduction (Ships over 125 tonnes)** 100%

**Extraction expenditure:**

Written off over 5 years (20%)

**Commissioner's prescribed benefit rates**

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

**CA23, CS23, CF23 & CP23 Page 1  
Out of 5**

### QUESTION ONE

- (a) When the Cabinet Secretary for the National Treasury or equivalent ministry presents the Division of Revenue Bill to Parliament, it should be accompanied by a memorandum explaining various matters.

With reference to the above statement, identify four such matters. (4 marks)

- (b) Outline six functions performed by the Controller of Budget in relation to public finance management. (6 marks)

- (c) Summarise the steps that each public entity should follow under the e-procurement process. (10 marks)

(Total: 20 marks)

### QUESTION TWO

- (a) Identify four factors that are considered by the Commission on Revenue Allocation (CRA) or equivalent body while selecting marginalised counties for purposes of allocating the equalisation funds. (4 marks)

- (b) Discuss three functions of the Council of Governors in county financial management. (6 marks)

- (c) Mwanahawa Hamisi is a trader dealing in fast moving consumer goods and electronics. She is duly registered for value added tax (VAT). Details of her business transactions for the month of October 2017 were as follows:

1. Sales during the month:

	Sh.
Standard rate	1,900,000
Zero rated	418,000
Exempt	342,000

2. Customers for the sales at standard rate are offered a 15% discount if they settle within the same month. From past experience, 40% of the customers take advantage of the discount facility.

3. Purchases of goods constituted Sh.1,200,000 made at the standard rate and Sh.500,000 exempt. All the purchases are made in cash.

4. The exempt sales were all from the batch of exempt purchases with some remaining in inventory at the end of the month.

5. During the month, she paid rent for the business premises for the month of October and the remaining portion of the year. The landlord charges Sh.80,000 per month.

6. The business accountant wrote off debts amounting to Sh.280,000 as irrecoverable and made an allowance for specific irrecoverable debts of Sh.11,600 as the portion for that month.

7. During the month, a supplier from whom the business had made purchases of goods worth Sh.292,000 and a customer to whom goods were sold at standard rate in July 2017 and still owed Sh.325,000 were declared bankrupt.

8. A pick-up vehicle was acquired at a cost of Sh.870,000 (inclusive of VAT) for business purposes.

9. At the end of every month, Mwanahawa prepays the electricity for the following month using prepaid meter tokens. This is done by establishing her standard usage for the following month. During the month, she paid Sh.42,500 whereas in the previous month she had paid Sh.38,500.

10. Other expenses paid during the month of October 2017 were as follows:

	Sh.
Telephone	13,200
Audit fee (Tax invoice including VAT)	111,070
Stationery	36,000

11. Mwanahawa made donations to registered charities consisting of Sh.100,000 in cash and Sh.280,000 in form of goods.

12. Closing inventory for the month was valued at Sh.340,000.

(All the above transactions are quoted exclusive of VAT at a rate of 16% where applicable unless otherwise stated).

#### Required:

The value added tax (VAT) payable by (or refundable to) Mwanahawa Hamisi for the month of October 2017.

(10 marks)

(Total: 20 marks)

### QUESTION THREE

- (a) Distinguish between "objection" and "appeal" as used in administration of income tax. (4 marks)

- (b) Outline four disadvantages of a multiple tax system. (4 marks)

- (c) Bonface Huka is a resident individual and a qualified pharmacist who has been employed by Sawa Hospital since his early retirement from the public service in 2016.

The following details were availed to you in respect of his earnings for the year ended 31 December 2017:

1. He received a monthly basic salary of Sh.184,000 from Sawa Hospital. Additional one month's basic salary was paid to him in December 2017 as a bonus. PAYE deducted during the year was Sh.897,600.
2. Pension received from the public service was Sh.540,000 as a lumpsum amount.
3. A commission of Sh.199,000 was paid to him for the promotion of drugs under identified brands during the year.
4. During the year, he was sent to Mombasa for a four day medical conference and was paid daily subsistence allowance of Sh.18,000 by the hospital.
5. He has a fixed deposit account of Sh.1,500,000 at the Broad Bank Ltd. from which he received an interest of Sh.105,000 during the year.
6. He has a life insurance policy where he contributes 40% of the premiums, while the employer contributes 60%. Annual premiums as per the insurance policy during the year was Sh.460,000.
7. He was provided with a saloon car of 2000 cc by the hospital for personal and official duties on 1 July 2017. The saloon car had an initial cost of Sh.2,800,000.
8. The hospital has a medical cover for all staff. He was entitled to a maximum cover of Sh.180,000 per annum while he utilised Sh.74,000 on medical bills during the year.
9. During the year, he was provided with a house. The market value of the house was Sh.120,000 per month and he contributed Sh.20,000 per month as nominal rent.
10. During the year, the hospital settled his bills as follows: telephone Sh.68,000, water Sh.18,200 and electricity Sh.24,600.
11. The hospital contributed 5% of his basic salary towards a registered pension scheme while he contributed an equal amount to the scheme.
12. The hospital paid subscription fees on his behalf to the Pharmacy and Poisons Board amounting to Sh.54,000 during the year.
13. He was reimbursed private entertainment expenses of Sh.120,000 by the hospital during the year.

**Required:**

- (i) Taxable income for Bonface Huka for the year ended 31 December 2017. (10 marks)
- (ii) Tax payable (if any) on the income computed in (c)(i) above. (2 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) The following information was extracted from the books of Fanaka Ltd. for the year ended 31 December 2017:

	<b>Sh.</b>
Sales	4,800,000
Purchases	1,100,000
Bad debts recovered	540,000
Rent received (commercial premises)	280,000
Dividends received (Mkopo Ltd.)	100,000 (net)
Interest received (Hekima Bank Ltd.)	340,000 (net)
Discount allowed	54,000
Discount received	133,000
Salaries	960,000
Electricity	180,000
Advertising	395,000
Provision for bad debts	45,000
Subscriptions to a trade association	65,000
Audit fees	168,000
Legal fees	139,500
Car hire expenses	420,000
Purchase of machinery	1,600,000
Loss of stock	530,000
Installation of machinery	42,000
Foreign exchange gain (realised)	232,000
Donations to a political party	1,050,000
General expenses	52,000

**Additional information:**

1. Opening stock and closing stock were valued at Sh.912,000 and Sh.840,000 respectively.
2. Included in the sales figure was a sale of Sh.928,000 that was inclusive of VAT at the rate of 16%, while the other sales were recorded net of VAT.
3. Advertising includes an amount of Sh.195,000 spent in the erection of a bill board.
4. Loss of stock includes Sh.120,000 relating to insured stock.

5. Two thirds of the bad debts recovered relate to bad debts which were previously written off from the company's books.
6. Legal fees relate to the following:

	Sh.
Conveyance of land	42,000
Trade dispute	27,000
Breach of contract	36,500
Preparation of employment contracts	34,000

**Required:**

Adjusted taxable income for Fanaka Ltd. for the year ended 31 December 2017. (8 marks)

- (b) Zuret Products Ltd. which is engaged in the business of manufacturing and selling of canned fish commenced its operations on 1 January 2014 after incurring the following expenditure:

	Sh.
Land	4,800,000
Processing machinery	3,200,000
Factory buildings	2,800,000
Staff canteen	860,000
Generator	250,000
Labour quarters	3,600,000
Staff clinic	960,000

Details of property, plant and equipment schedule reflected the following as at 31 December 2017:

Assets	Written Down Value 1 January 2017	Additions during the year (at cost)	Depreciation for the year	Disposal proceeds during the year
	Sh.	Sh.	Sh.	Sh.
Computers	525,000	345,400	131,250	250,000
Water pump	-	280,000	56,000	-
Furniture	360,000	140,000	82,000	-
Conveyor belts	-	960,000	-	-
Delivery vans	2,500,000	1,420,000	180,000	620,000
Cash registers	620,000	-	58,000	-
Printers	120,000	60,000	42,000	-
Tractors	2,500,000	1,800,000	360,000	-
Motorcycles	380,000	-	68,000	-
Packaging machine	-	860,000	-	-
Non-processing machinery	960,000	-	62,000	-

**Additional information:**

- A perimeter wall was constructed at a cost of Sh.960,000 during the year ended 31 December 2017.
- A godown and a drainage system were constructed at a cost of Sh.2,860,000 and Sh.1,780,000 respectively and put into use on 1 October 2017.
- The company constructed a borehole at a cost of Sh.1,500,000 during the year which was put in use on 1 July 2017.

**Required:**

Capital allowances due to Zuret Products Ltd. for the year ended 31 December 2017. (12 marks)  
(Total: 20 marks)

**QUESTION FIVE**

- (a) Highlight four circumstances under which duty paid on imported goods may be refunded by the commissioner. (4 marks)
- (b) Argue four cases against capital gains tax or equivalent tax in your country. (4 marks)
- (c) Chege and Telek have been partners trading as Chetel Traders. On 1 September 2017, they admitted Lopez in the business and changed the partnership name to Chetelop Traders. Prior to the admission of Lopez, the profit and loss sharing ratio was 2:3 between Chege and Telek respectively. However, with the admission of Lopez, they revised the profit and loss sharing ratio to 2:3:1 for Chege, Telek and Lopez respectively.

The partners have presented the following income statement for the year ended 31 December 2017:

Income	Sh.	Sh.
Gross profit		4,500,000
Foreign exchange gain		234,000

	Sh.	Sh.
Interest on bank deposit (net)		90,000
Insurance compensation for stolen vehicle		300,000
Profit on disposal of computers		<u>160,000</u>
		5,284,000
<b>Expenditure</b>		
General expenses	2,625,000	
Salaries and wages	1,800,000	
Interest on capital: Chege	120,000	
Telek	105,000	
Lopez	22,500	
Legal expenses	365,625	
Loss on sale of assets	11,400	
Stamp duty on lease agreements	6,120	
Licenses and permits	10,800	
Subscriptions to trade association	42,000	
Conveyance fees	112,500	
Rent and rates	180,000	
Mortgage interest	180,000	
Repairs on computers	45,000	
Furniture purchased (cost)	63,000	
Bank charges	60,000	
Repair and maintenance	560,000	
Bad and doubtful debts	123,750	
Depreciation	<u>193,400</u>	<u>(6,626,095)</u>
Net profit (loss)		<u>(1,342,095)</u>

**Additional information:**

1. General expenses comprise:

	Sh.
Embezzlement by a cashier	900,000
Staff christmas party	600,000
Replacement of car engine	105,000
Partition of an office	450,000
Partners private insurance policy	570,000

2. Salaries and wages include Sh.525,000, Sh.600,000 and Sh.235,000 paid to Chege, Telek and Lopez respectively.
3. Mortgage interest relates to a partner's residential house.
4. Assume that the income accrued evenly throughout the year.
5. Legal expenses comprise:

	Sh.
Parking fines paid to county government	11,400
Legal fees for breach of contract	150,000
Drafting a tender document	13,500
Drafting a lease agreement (100 years)	6,750
Defending a partner in a tax case	9,000
Legal cost of debt collection	174,975

6. Repair and maintenance costs comprise:

	Sh.
Purchase of weighing scale	252,000
Installation of CCTV cameras	224,000
Fixing a leaking roof	84,000

7. Bad and doubtful debts comprise:

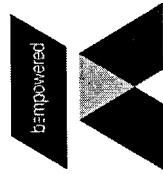
	Sh.
Specific bad debts	74,250
General provision	49,500

8. Capital allowance was agreed with the commissioner of revenue authority at Sh.260,800.

**Required:**

- (i) Adjusted taxable profit or loss for the partnership for the year ended 31 December 2017. (8 marks)
- (ii) Allocation of profit or loss to the partners. (4 marks)

(Total: 20 marks)



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**CPA PART I SECTION 2  
CS PART I SECTION 2  
CIFA PART I SECTION 2  
CCP PART I SECTION 2  
PUBLIC FINANCE AND TAXATION**

**WEDNESDAY: 29 November 2017.**

**Time Allowed: 3 hours.**

**Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Any assumptions made must be clearly and concisely stated.**

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

**Year of income 2016.**

Monthly taxable pay (Sh.)		Annual taxable pay (Sh.)		Rate of tax % in each Sh.
1	- 10,164	1	- 121,968	10%
10,165	- 19,740	121,969	- 236,880	15%
19,741	- 29,316	236,881	- 351,792	20%
29,317	- 38,892	351,793	- 466,704	25%
Excess over	- 38,892	Excess over	- 466,704	30%

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

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

	Monthly rates (Sh.)	Annual rates (Sh.)
<b>Capital allowance:</b>		
<b>Wear and tear allowance:</b>		
Class I	37.5%	
Class II	30%	
Class III	25%	
Class IV	12.5%	
Software	20%	
(i) Saloons, Hatch Backs and Estates		
Up to 1200 cc	3,600	43,200
1201 - 1500 cc	4,200	50,400
1501 - 1750 cc	5,800	69,600
1751 - 2000 cc	7,200	86,400
2001 - 3000 cc	8,600	103,200
Over 3000 cc	14,400	172,800

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

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

<b>Shipping investment deduction (Ships over 125 tonnes)</b>	100%
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**Extraction expenditure:**  
Written off over 5 years (20%)

**Commissioner's prescribed benefit rates**

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



### QUESTION ONE

- (a) The Constitution and the Public Finance Management Act provide for establishment of public funds.

In relation to the above statement, explain the following public funds:

- (i) Revenue funds for county government. (2 marks)
- (ii) Contingencies fund. (2 marks)
- (b) Summarise five functions of the Commission on Revenue Allocation (CRA). (5 marks)
- (c) In order to achieve its objectives, the public finance management regulatory framework or equivalent frameworks contemplate certain principles to guide all aspects of public finance.  
With reference to the above statement, identify five such principles. (5 marks)
- (d) Citing six reasons, justify why an accounting officer of a procuring entity, may, at any time, prior to notification of tender award, terminate or cancel procurement or asset disposal proceedings without entering into a contract. (6 marks)

(Total: 20 marks)

### QUESTION TWO

- (a) Explain four measures that the National Treasury should put in place when administering the Equalisation Fund in accordance with Article 204 of the Constitution. (4 marks)
- (b) Discuss three challenges faced by county governments in public finance management as observed by various oversight institutions. (6 marks)
- (c) Heritage Interiors Ltd. deals in the sale of vatable goods. The company reported the following transactions for the month of May 2017:

		Sh.	
<b>Cash purchases</b>			
1 May 2017	Furniture	174,000	
5 May 2017	Goods for sale	232,000	
10 May 2017	Stationery	58,000	
<b>Purchase invoice transactions</b>		<b>Sh.</b>	<b>Payment date</b>
10 May 2017	Inventory for sale	626,400	10 June 2017
14 May 2017	Audit services	145,000	30 May 2017
16 May 2017	Inventory for sale	696,000	14 July 2017
20 May 2017	Generator fuel	104,400	25 June 2017

The company reported the following sales during the month of May 2017:

	Sh.
Cash sales	348,000
Credit sales	1,102,000

#### Additional information:

- The credit sales include goods exported to Rwanda amounting to Sh.116,000.
- The company returned goods worth Sh.34,800 to the suppliers during the month.
- Transactions are inclusive of VAT at the rate of 16% where applicable.

#### Required:

The value added tax (VAT) payable by (or refundable to) Heritage Interiors Ltd. for the month of May 2017.

(10 marks)

(Total: 20 marks)

### QUESTION THREE

- (a) Outline four instances when the commissioner of domestic taxes or equivalent office holder in your country might cancel a personal identification number (PIN). (4 marks)
- (b) Nelly Zuriya is employed by Chakaranda Limited as the procurement manager. She has provided the following details relating to her income for the year ended 31 December 2016:
- Basic salary Sh.165,000 per month (net of PAYE Sh.35,000 per month).
  - She is a registered member of the National Council for Persons with Disabilities (NCPD) and has been issued with a certificate of exemption by the Commissioner of Domestic Taxes.

3. The employer pays her a house allowance of Sh.40,000 per month. She utilises this amount to rent a house from Jibril Properties Agency for Sh.30,000 per month.
4. Nelly Zuriya has entered into an agreement with Nyumbani Medical Centre (NMC) for her personalised home care under which she pays Sh.18,000 per month. Under the agreement, NMC sends a therapist two times each week to her home. She provided documentary evidence to the Commissioner's satisfaction.
5. Chakaranda Ltd. pays Sh.28,000 each month to Beta Insurance Ltd. for Nelly's medical policy.
6. She is provided with a 2800cc saloon car leased from Decop Tours and Travel, a car-hire firm, in a chauffeur-inclusive package. The employer pays Sh.35,000 per month lease charges to Decop Tours and Travel. The car had cost Decop Tours and Travel Sh.2,000,000 in the year 2015.
7. During the year, she was sent on official duties outside her usual place of work for ten days, where she was paid subsistence and travelling allowance amounting to Sh.24,000 per day. She proved to the commissioner that Sh.3,000 per day out of the subsistence allowance she had received was reimbursement of expenses.
8. Chakaranda Ltd. paid Sh.26,000 on Nelly's behalf, being entrance fee to the Institute of Supplies Management (ISM) during the year.
9. She was provided with airtime credit of Sh.5,000 per month for her private purpose.
10. Nelly Zuriya's other income during the year comprised:

	Sh.
Dividends : Buzuri (K) Ltd. (net)	28,500
: Zuhury Cooperative Society Ltd. (net)	17,000
: Transpalace Company (Zanzibar) Ltd. (gross)	10,000
Interest : Housing Finance Company housing bonds (gross)	420,000
: Treasury bills (net)	4,250
: Rubicon Bank Ltd. fixed deposit account (gross)	15,000
Capital gain : Sale of private customised landrover at a profit	120,000

**Required:**

- (i) The taxable income of Nelly Zuriya for the year ended 31 December 2016. (12 marks)
- (ii) The tax liability (if any) on the income computed in (b) (i) above. (2 marks)
- (iii) According to the income tax regulations relating to persons with disabilities (PWD), explain the term "home and personal care" citing examples of any two items of expenditure that might be construed as "home and personal care expenses". (2 marks)

**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Superlite Manufacturing Company Ltd. commenced operations on 1 January 2016 after incurring the following expenditure:

	Sh.
Processing machinery	6,200,000
Factory land and buildings	10,500,000
Delivery van	2,600,000
Water pump	420,000
Computers	380,000
Staff canteen construction	960,000
Lorry (4 tonnes)	3,200,000
Furniture	180,000
Digital weighing machines	250,000
Computer software	320,000
Staff clinic construction	1,200,000
Tractor	2,800,000

**Additional information:**

1. Factory land and buildings include factory land purchased at a cost of Sh.5,800,000.
2. A perimeter wall was constructed at a cost of Sh.960,000 during the year.
3. A godown and staff quarters were constructed at a cost of Sh.2,800,000 and Sh.1,600,000 respectively and put into use from 1 October 2016.

**Required:**

- Capital allowances due to Superlite Manufacturing Company Ltd. for the year ended 31 December 2016. (10 marks)

(b) Baraka Ltd. has provided the following income statement for the year ended 31 December 2016:

<b>Income</b>	<b>Sh.</b>	<b>Sh.</b>
Sales		1,920,000
Foreign exchange gain realised		620,000
Proceeds from sale of old machinery		120,000
Discount received		<u>136,000</u>
		2,796,000
<b>Expenditure</b>		
Interest on loan	220,000	
Stationery	180,000	
Loan repayment	460,000	
Legal fees	380,000	
Depreciation	150,000	
Directors emoluments	360,000	
Dividends	980,000	
Audit fees	280,000	
General expenses	840,000	
Bad debts	96,000	
Provision for income tax	<u>120,000</u>	<u>(4,066,000)</u>
Net loss		(1,270,000)

**Additional information:**

1. Audit fees include Sh.100,000 for auditing a subsidiary company and Sh.80,000 for the preparation of revised accounts.
2. Legal fees include:
 

	<b>Sh.</b>
Drafting a lease agreement (99 years)	80,000
Breach of contract	180,000
VAT penalties	64,000
Legal cost of debt collection	56,000
3. General expenses comprise:
 

Office partitions	120,000
Staff Christmas party	250,000
Embezzlement by cashier	60,000
Staff catering costs	220,000
Stamp duty on land transfer	190,000
4. Bad debts represented the general provision as at the end of the year.
5. Capital allowances were agreed with the commissioner of revenue authority at Sh.220,000 for the year.

**Required:**

Adjusted taxable income for Baraka Ltd. for the year ended 31 December 2016.

(10 marks)

(Total: 20 marks)

**QUESTION FIVE**

- (a) Outline four activities specified under the Excise Duty Act that a person should not undertake unless the person is licensed or registered by the commissioner to undertake. (4 marks)
- (b) Summarise four actions that the revenue authority in your country could take against tax payers for recovery of overdue tax. (4 marks)
- (c) Kayla and Lucas are in partnership operating a mini supermarket as Kaylu Traders and sharing profits or losses in the ratio of 2:3 respectively. The following is the income statement of the partnership business for the year ended 31 December 2016:

	<b>Sh."000"</b>	<b>Sh."000"</b>
Sales		31,200
<b>Less: Cost of sales</b>		
Opening stock	9,900	
Purchases	17,100	
Closing stock	<u>(6,200)</u>	<u>(20,800)</u>
Gross profit		10,400
<b>Add: Other income</b>		
VAT refund		110
Dividend income (net)		600
Profit on disposal of furniture		1,576
Discount received		440
Rental income		<u>1,917</u>
		15,043

	Sh."000"	Sh."000"
<b>Less: Expenses</b>		
Insurance premiums	512	
Legal fees	1,660	
Depreciation	614	
Repairs and maintenance	2,400	
VAT paid	250	
Interest on capital: Kayla	435	
Lucas	197	
Sundry expenses	2,883	
Motor vehicles expenses	564	
Custom duty	243	
Auditing expenses	613	
Bad and doubtful debts	165	
Rent and rates	437	
Salaries and wages	<u>1,574</u>	<u>(12,547)</u>
Net income		<u>2,496</u>

**Additional information:**

1. Both opening stock and closing stock were overcasted by 20%.
2. Insurance premiums include Sh.301,000 paid to insure Kayla's private car.
3. Legal fees include:
 

	<b>Sh.</b>
Parking fines	160,000
Settling a dispute with a customer	109,000
Appeal against a tax assessment	67,000
Court expenses for breach of a contract	426,600
Preparation of tender documents	250,700
4. Sundry expenses include:
 

	<b>Sh.</b>
Interest charged on hire purchase	453,000
Cash embezzled by the cashier	602,000
Registration of a trade mark	300,000
5. Repair and maintenance comprised:
 

	<b>Sh.</b>
Fixing a broken door	24,000
Installation of CCTV cameras	867,000
Purchase of furniture	560,000
6. Salaries and wages included salaries to Kayla and Lucas of Sh.640,000 and Sh.480,000 respectively.
7. The partners took goods for personal use which had a cost price of Sh.240,000. The gross profit margin was 20%.
8. Bad and doubtful debts include:
 

	<b>Sh.</b>
Specific provision for bad debts	99,000
Provision for general bad debts	66,000
9. Capital allowances were agreed with the commission of revenue authority at Sh.1,574,000.

**Required:**

- (i) Adjusted taxable profit or loss for the partnership for the year ended 31 December 2016. (10 marks)
- (ii) A schedule showing the distribution of the partner's profit or loss computed in (c) (i) above. (2 marks)

**(Total: 20 marks)**

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# KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

WEDNESDAY: 24 May 2017.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Any assumptions made must be clearly and concisely stated.

**RATES OF TAX (Including wife's employment, self-employment and professional income rates of tax).  
Year of income 2016.**

Monthly taxable pay (Sh.)	Annual taxable pay (Sh.)	Rate of tax % in each Sh.
1 - 10,164	1 - 121,968	10%
10,165 - 19,740	121,969 - 236,880	15%
19,741 - 29,316	236,881 - 351,792	20%
29,317 - 38,892	351,793 - 466,704	25%
Excess over - 38,892	Excess over - 466,704	30%

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

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

		Monthly rates (Sh.)	Annual rates (Sh.)
<b>Capital allowance:</b>	(i) Saloons, Hatch Backs and Estates		
<b>Wear and tear allowance:</b>	Up to 1200 cc	3,600	43,200
Class I 37.5%	1201 - 1500 cc	4,200	50,400
Class II 30%	1501 - 1750 cc	5,800	69,600
Class III 25%	1751 - 2000 cc	7,200	86,400
Class IV 12.5%	2001 - 3000 cc	8,600	103,200
Software 20%	Over 3000 cc	14,400	172,800
<b>Industrial building allowance:</b>			
Up to 2009		2.5%	
From 1 January 2010		10%	
Hotels		10%	
Hostels/Education buildings		50%	
From 1 January 2010-			
Commercial building:			
(Shop, office or show room)		25%	
<b>Farm works allowance</b>	(ii) Pick-ups, Panel Vans (unconverted)		
<b>Investment deduction allowance</b>	Up to 1750 cc	3,600	43,200
	Over 1750 cc	4,200	50,400
	(iii) Land Rovers/Cruisers	7,200	86,400
<b>Shipping investment deduction</b>			
		40%	
<b>Mining allowance:</b>			
Year 1		40%	
Years 2 - 7		10%	

**Commissioner's prescribed benefit rates**

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



**QUESTION THREE**

- (a) Explain the meaning of the term “time of supply” in relation to excisable services. (2 marks)
- (b) Summarise four categories of goods that are subject to customs control as provided in the East African Community Customs Management Act (EACCMA) or equivalent legislation. (4 marks)
- (c) Bakahari and Kamanda trade as Bakar Associates providing accounting and taxation services. They share profits and losses equally after charging an interest of 10% on capital contributions. The capital contributions were Sh.3,000,000 and Sh.2,500,000 for Bakahari and Kamanda respectively.

The firm’s income statement for the year ended 31 December 2016 was as follows:

<b>Income:</b>	<b>Sh.</b>	<b>Sh.</b>
Accounting and advisory fees		2,400,000
Rental property income		380,000
Tax consultancy fee		1,800,000
Profit on sale of old computers		<u>260,000</u>
		4,840,000
<b>Expenses:</b>		
Administrative expenses	420,000	
Partner’s private insurance policies	960,000	
Depreciation	140,000	
Salaries and wages	850,000	
Bad debts written off	260,000	
Legal and audit fees	120,000	
Computer software	60,000	
Rental expenses	90,000	
VAT paid	360,000	
Office stationery	150,000	
General expenses	280,000	
Office partitions	<u>82,000</u>	<u>(3,772,000)</u>
Net profit		<u>1,068,000</u>

**Additional information:**

- Rental expenses relate to the partnership’s rental houses in the city suburb from which the firm earns income.
- Legal and audit fees include Sh.40,000 as fines paid to the county government for negligence of duty.
- Salaries and wages include partner’s salaries as follows:

	<b>Sh.</b>
Bakahari	220,000
Kamanda	130,000

- Bad debts written off comprised:

	<b>Sh.</b>
General provision	82,000
Trade bad debts written off	118,000
Specific provision for bad debts	<u>60,000</u>
	<u>260,000</u>

- General expenses comprise:

	<b>Sh.</b>
Drafting tender documents	50,000
Purchase of computers	140,000
Stamp duty on lease agreements (rental premises)	18,000
Staff catering costs	<u>72,000</u>
	<u>280,000</u>

**Required**

- Adjusted taxable profit or loss for the partnership for the year ended 31 December 2016. (10 marks)
  - A schedule showing the distribution of the partner’s profit or loss calculated in (c)(i) above. (4 marks)
- (Total: 20 marks)**

#### QUESTION FOUR

- (a) During a tax seminar, a facilitator noted that “one of the current challenges facing the revenue authority is failure to collect the targeted revenue set out in the national budget”.

Summarise four measures undertaken by the revenue authority to enhance revenue collection in your country.(4 marks)

- (b) Argue four cases against indirect taxes imposed in your country. (4 marks)
- (c) Philip Kitcher is employed as a sales manager by Salama Company Ltd. He has provided the following information relating to his income for the year ended 31 December 2016:

1. Basic salary Sh.250,000 per month (PAYE Sh.38,500 per month).
2. He is housed by the employer in a fully furnished house (cost of furniture Sh.280,000). The market rental value of the house is Sh.45,000 per month.
3. He was provided with a company car, 2200 cc which cost the company Sh.2,000,000 in 2014. It is estimated that 75% of the mileage covered by the car related to official duties.
4. The employer has a medical scheme for top managers. The employer paid a medical bill of Sh.520,000 for Philip's 10 year old daughter during the year.
5. He received 20,000 shares from the company at a price of Sh.30 per share. The par value per share is Sh.32 while the market price at the time was Sh.39 per share.
6. On 1 July 2016, he received a construction mortgage loan of Sh.3,000,000 at an interest rate of 10% per annum from Mjengo Housing Finance Company to construct a residential house. He constructed the residential house and moved in on 1 September 2016.
7. He received a bonus of 3% of his basic pay during the year for exemplary performance.
8. The company paid his son's school fees amounting to Sh.240,000 for the year. This amount was treated as an allowable expense in the employer's books of account.
9. He contributed Sh.32,000 towards a registered pension scheme.
10. On 1 May 2016, he started an auto spares shop. The shop made a net loss of Sh.200,000 during the year. This was after deducting the cost of fixtures Sh.80,000, salary to his son who operated the shop Sh.60,000 and operating expenses Sh.180,000.
11. He earned professional fees of Sh.95,000 (net) from his part-time practice.

#### Required:

- (i) Taxable income of Philip Kitcher for the year ended 31 December 2016. (10 marks)
- (ii) Tax liability (if any) from the income computed in (c) (i) above. (2 marks)

**(Total: 20 marks)**

#### QUESTION FIVE

- (a) The imposition of penalties under various tax legislation is meant to achieve certain objectives.

In relation to the above statement:

- (i) Identify two objectives of imposing tax penalties. (2 marks)
- (ii) Assess two circumstances under which the imposition of penalties might not achieve the intended objectives. (2 marks)
- (b) Outline four circumstances under which value added tax (VAT) could be refunded. (4 marks)
- (c) Kiwanda Ltd. commenced manufacturing leather bags on 2 January 2015 after incurring the following expenditure:

	Sh.
Factory building	5,800,000
Processing machinery	2,140,000
Computers	480,000
Conveyor belts	300,000
Staff canteen	1,800,000
Delivery vans	5,200,000
Sewerage system	1,600,000
Warehouse	600,000
Heating plant	1,750,000
Sports pavilion	800,000
Loose tools	120,000



The company purchased the following assets on 1 May 2016:

	<b>Sh.</b>
Furniture	280,000
Toyota Land Cruiser (for the Director)	3,200,000
Packaging machine	1,500,000
Saloon car	1,800,000
Boilers	960,000
Yamaha motor cycles	220,000
Scanners	140,000
Wheel barrows	360,000

**Additional information:**

1. A staff clinic was constructed at the cost of Sh.2,600,000 and utilised with effect from 1 October 2016.
2. One of the delivery vans was involved in an accident on 3 February 2016 and was written off. The insurance company paid Sh.1,400,000 as full compensation on 10 December 2016.
3. A borehole was drilled at a cost of Sh.800,000 and utilised with effect from 1 July 2016.
4. The company constructed a factory extension at a cost of Sh.1,200,000. The extension was put in use on 1 March 2016 after a power generator costing Sh.380,000 was installed.

**Required:**

Capital allowances due to Kiwanda Ltd. for the year ended 31 December 2015 and 2016.

(12 marks)

**(Total: 20 marks)**

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# KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

www.masomomosingi.com

WEDNESDAY: 23 November 2016.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Any assumptions made must be clearly and concisely stated.

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

Year of income 2015.

Monthly taxable pay (Sh.)	Annual taxable pay (Sh.)	Rate of tax % in each Sh.
1 - 10,164	1 - 121,968	10%
10,165 - 19,740	121,969 - 236,880	15%
19,741 - 29,316	236,881 - 351,792	20%
29,317 - 38,892	351,793 - 466,704	25%
Excess over - 38,892	Excess over - 466,704	30%

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

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

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

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

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

<b>Shipping investment deduction (Ships over 125 tonnes)</b>	100%
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(ii) Pick-ups, Panel Vans (unconverted)		
Up to 1750 cc	3,600	43,200
Over 1750 cc	4,200	50,400

(iii) Land Rovers/Cruisers	7,200	86,400
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**Extraction expenditure:**  
Written off over 5 years (20%)

**Commissioner's prescribed benefit rates**

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

### QUESTION ONE

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

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

(Total: 20 marks)

### QUESTION TWO

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

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

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

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

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

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

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

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

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

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

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

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

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

**Required:**

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

(10 marks)

**(Total: 20 marks)**

**QUESTION THREE**

(a) Explain the following theories of tax shifting:

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

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

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

**Required:**

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

**QUESTION FOUR**

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

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

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

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

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

**Additional information:**

- Legal fees comprised the following:
 

	Sh.
Parking fines	120,000
Collection of debts from customers	150,000
Stamp duty on land	480,000
Settling a dispute with a customer	<u>210,000</u>
	<u>960,000</u>
- Machines and motor vehicles repairs include Sh.280,000 spent on the purchase of conveyor belts during the year.
- During the year the company acquired the following assets:
 

Asset	Cost	Date of purchase and use
	Sh.	
Computers	820,000	2 March 2015
Water pump	480,000	1 January 2015
Furniture	250,000	2 January 2015
Sugar processing machine	6,200,000	3 January 2015
Tractors	8,900,000	2 February 2015
2 saloon cars	4,800,000	10 May 2015
Heating plant	2,300,000	2 January 2015
Pick-up motor vehicles	8,600,000	5 January 2015
- The tractor disposed of during the year had cost Sh.2,200,000 at the beginning of the year.
- The company constructed a factory building at a cost of Sh.8,600,000 which was utilised with effect from 5 January 2015. The factory building included the showroom and a retail shop constructed at the cost of Sh.1,200,000 and Sh.960,000 respectively.
- A godown and staff quarters were constructed at a cost of Sh.2,860,000 and Sh.1,620,000 respectively and put into use from 1 October 2015.

**Required:**

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

**QUESTION FIVE**

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

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

(4 marks)

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

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

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

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

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

**Additional information:**

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

**Required:**

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

(Total: 20 marks)

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# KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

## PUBLIC FINANCE AND TAXATION

WEDNESDAY: 25 May 2016.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Any assumptions made must be clearly and concisely stated.

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

Year of income 2015.

Monthly taxable pay (Sh.)	Annual taxable pay (Sh.)	Rate of tax % in each Sh.
1 - 10,164	1 - 121,968	10%
10,165 - 19,740	121,969 - 236,880	15%
19,741 - 29,316	236,881 - 351,792	20%
29,317 - 38,892	351,793 - 466,704	25%
Excess over - 38,892	Excess over - 466,704	30%

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

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

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

### Industrial building allowance:

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

### Farm works allowance

100%

### Investment deduction allowance

100%

### Shipping investment deduction (Ships over 125 tonnes)

100%

### (ii) Pick-ups, Panel Vans (unconverted)

Up to 1750 cc	3,600	43,200
Over 1750 cc	4,200	50,400

### (iii) Land Rovers/Cruisers

7,200      86,400

### Extraction expenditure:

Written off over 5 years (20%)

### Commissioner's prescribed benefit rates

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

### QUESTION ONE

- (a) Explain the following terms as used in public finance management:
- (i) Financial regulations. (2 marks)
  - (ii) Treasury circulars. (2 marks)
- (b) Outline eight general responsibilities of a County Treasury with respect to public funds. (8 marks)
- (c) Describe the stages of the annual budget process for the national government. (8 marks)
- (Total: 20 marks)**

### QUESTION TWO

- (a) Section 68 of the Public Procurement and Asset Disposal Act requires an accounting officer of a procuring entity to keep records for each procurement for at least six years after the resulting contract has been completed or, if no contract resulted, after the procurement proceedings were terminated.
- With reference to the above statement, outline six such records that should be maintained. (6 marks)
- (b) Discuss four responsibilities of the National Treasury in the administration of the consolidated fund. (8 marks)
- (c) Summarise six factors that influence taxable capacity in your country. (6 marks)
- (Total: 20 marks)**

### QUESTION THREE

- (a) Highlight four circumstances that might lead to suspension and cancellation of licences by the commissioner as per the Excise Duty Act 2015. (4 marks)
- (b) Identify any four activities that constitute tax evasion in your country. (4 marks)
- (c) Moses Bundi works for Geo-Sat Solution Ltd. as a technical director. During the year ended 31 December 2015 he received the following incomes and emoluments:
1. Basic salary of Sh.160,000 per month (PAYE Sh.42,000 per month).
  2. He was provided with a 2200cc Land Rover which had cost the company Sh.4,600,000 in the year 2010.
  3. In the month of December 2015, he received a sitting allowance of Sh.280,000.
  4. He is a member of a registered retirement benefits scheme of which he makes monthly contributions of Sh.30,000.
  5. He was housed by the company in a rented house with water, telephone and electricity. The house had a market rental value of Sh.64,000 per month and he paid a nominal rent of Sh.25,000 per month.
  6. During the year, the company paid school fees for his son amounting to Sh.280,000. This amount was disallowed for tax purposes on Geo-Sat Solution Ltd.
  7. Geo-Sat Solution Ltd. operates a medical scheme for all staff with Afya Insurance Ltd. In the year 2015, the amount paid for Moses Bundi's cover amounted to Sh.320,000.
  8. The company paid his monthly electricity, water and telephone bills averaging to Sh.18,000, Sh.12,500 and Sh.16,000 respectively.
  9. He earned interest income of Sh.180,000 during the year from his investments in Housing Development Bonds.
  10. The company paid Sh.240,000 to cover for Moses Bundi's family life insurance premiums during the year. The insurance policy covered Moses Bundi, his wife and son.
  11. In December 2015, Moses Bundi received an entertainment allowance of Sh.120,000. Half of this amount was spent on entertaining customers.
  12. Moses Bundi received a net rental income of Sh.1,800,000 from his commercial rental premises during the year. This was after deducting the following expenses:

	Sh.
Caretaker's wages	620,000
Building an extension	840,000
Interest on mortgage	120,000
Fixing metallic doors	320,000
Purchase of a water tank	150,000

#### Required:

- (i) Taxable income of Moses Bundi for the year ended 31 December 2015. (10 marks)
- (ii) Tax liability (if any) from the income computed in (c)(i) above. (2 marks)
- (Total: 20 marks)**



#### QUESTION FOUR

(a) You are provided with the following information relating to Nuts Processing Ltd. from the month of May 2015 to December 2015:

1. Sales for the month of May 2015 were Sh.800,000. The sales increased by 5% in June 2015 and by 10% in each of the following months.
2. Purchases for the month of May 2015 were Sh.550,000 but increased by 5% in each of the following months.
3. The company is registered for value added tax (VAT) purposes.
4. The prices are stated exclusive of VAT at the rate of 16%.
5. The total VAT paid from the month of June 2015 to December 2015 was Sh.580,000.

**Required:**

Using the information provided, confirm whether Nuts Processing Ltd. paid the correct VAT from the month of June 2015 to December 2015. (10 marks)

(b) Nafaka Millers Limited is a maize and wheat flour milling company. The company started its operations on 5 January 2015 after incurring the following expenditure:

	<b>Sh.</b>
Cost of land	1,600,000
Furniture and fittings	250,000
Factory building	4,200,000
Packing machine	960,000
Digital weighing scale	60,000
Processing machine	540,000
Tractor	2,400,000
Computers	620,000
Mobile phones	140,000
Combined harvester	1,800,000

**Additional information:**

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

	<b>Cost of construction (Sh.)</b>
Sports pavilion	624,000
Labour quarters	1,200,000
Recreation facility	480,000
Factory extension	960,000

2. The company disposed of two computers at Sh.30,000 each on 1 August 2015.
3. The cost of processing machines includes the installation cost of Sh.120,000.

**Required:**

Capital allowances due to Nafaka Millers Limited for the year ended 31 December 2015. (10 marks)  
(Total: 20 marks)

#### QUESTION FIVE

(a) Outline four contents of a notice of assessment. (4 marks)

(b) In a tax seminar, one of the facilitators noted that "introduction of information communication technology in taxation, such as the iTax system by the Revenue Authority has benefited both the taxpayer and the Revenue Authority".

Citing four benefits of iTax system or any other tax system used in your country, justify the facilitators' comment. (4 marks)

- (c) Mambo and Kaka are in partnership operating a hardware shop as Maka enterprises and sharing profits or losses equally. The following is the income statement of the partnership business for the year ended 31 December 2015:

	Sh.	Sh.
Sales (inclusive of VAT at the rate of 16%)		9,280,000
Capital gain on sale of property		290,000
Rental income		240,000
Dividends from Waki Cooperative (net)		170,000
Unrealised foreign exchange gain		<u>94,000</u>
		10,074,000
<b>Less expenses:</b>		
Cost of goods sold	4,000,000	
Purchase of computers	160,000	
Salaries and wages	360,000	
General expenses	720,000	
Legal expenses	940,000	
Conveyance fees	92,800	
Farmworks at cost	60,000	
Repairs and maintenance	24,500	
Interest on partners capital	450,000	
Mambo's mortgage interest	65,800	
Donations to Tennis club	34,800	
Commission to Kaka	<u>21,100</u>	
Net profit		<u>(6,929,000)</u> <u>3,145,000</u>

**Additional information:**

1. General expenses include:
 

	Sh.
• Embezzlement by Kaka	24,000
• Partition of staff offices	48,000
• Staff catering expenses	50,000
• Pension contributions	180,000
• Prepaid rent and rates	32,400
• Stamp duty on land transfer	64,000
2. Legal expenses include:
 

	Sh.
• Drafting a partnership deed	42,000
• Negotiating a bank loan	28,400
• Executing a customs bond security	24,600
• Defending the business against breach of contract	38,000
3. Salaries to partners and interest on partners capital is to be shared according to the profit and loss sharing ratio.
4. Salaries and wages include salaries to employees of Sh.160,000 while the balance was paid to partners.
5. Cost of goods sold include purchases valued at Sh.300,000 which had been overstated by 20%.

**Required:**

- (i) Adjusted taxable profit or loss for the partnership for the year ended 31 December 2015. (8 marks)
  - (ii) A schedule showing distribution of partner's taxable income for the year ended 31 December 2015. (4 marks)
- (Total: 20 marks)**
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# KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

## PUBLIC FINANCE AND TAXATION

TUESDAY: 24 November 2015.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Any assumptions made must be clearly and concisely stated.

**RATES OF TAX (Including wife's employment, self-employment and professional income rates of tax).**  
Year of income 2014.

Monthly taxable pay (Sh.)		Annual taxable pay (Sh.)		Rate of tax % in each Sh.
1	- 10,164	1	- 121,968	10%
10,165	- 19,740	121,969	- 236,880	15%
19,741	- 29,316	236,881	- 351,792	20%
29,317	- 38,892	351,793	- 466,704	25%
Excess over	- 38,892	Excess over	- 466,704	30%

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

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

	Monthly rates (Sh.)		Annual rates (Sh.)	
<b>Capital allowance:</b>				
<b>Wear and tear allowance:</b>				
Class I	37.5%			
Class II	30%			
Class III	25%			
Class IV	12.5%			
Software	20%			
<b>Industrial building allowance:</b>				
Up to 2009	2.5%			
From 1 January 2010	10%			
Hotels	10%			
Hostels/Education buildings	50%			
From 1 January 2010-				
Commercial building:				
(Shop, office or show room)	25%			
<b>Farm works allowance</b>	100%			
<b>Investment deduction allowance</b>	100%			
<b>Shipping investment deduction</b>	40%			
<b>Mining allowance:</b>				
Year 1	- 40%			
Years 2 - 7	- 10%			

### (i) Saloons, Hatch Backs and Estates

Up to	1200 cc	3,600	43,200
1201	1500 cc	4,200	50,400
1501	1750 cc	5,800	69,600
1751	2000 cc	7,200	86,400
2001	3000 cc	8,600	103,200
Over	3000 cc	14,400	172,800

### (ii) Pick-ups, Panel Vans (unconverted)

Up to	1750 cc	3,600	43,200
Over	1750 cc	4,200	50,400

### (iii) Land Rovers/Cruisers

		7,200	86,400
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### Commissioner's prescribed benefit rates

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

### QUESTION ONE

- (a) Outline four benefits of an effective tax policy to an economy. (4 marks)
- (b) Discuss four roles played by the Controller of Budget in the budgeting process in your country. (8 marks)
- (c) One of the challenges facing developing countries is how to finance their budget deficits. This problem is further compounded by the fact that some alternatives of financing the deficit might negatively impact on the country's economy.

#### Required:

Citing one disadvantage in each case, explain four measures that a government could undertake to finance a budget deficit. (8 marks)

(Total: 20 marks)

### QUESTION TWO

- (a) Distinguish between "consolidated fund" and "contingencies fund". (4 marks)
- (b) Describe six roles of the Commission on Revenue Allocation. (6 marks)
- (c) In the context of the Public Procurement and Disposal Legislation:
- (i) Outline four recognised methods of disposing stores and equipment. (4 marks)
- (ii) Summarise three criteria that a person is required to satisfy in order to qualify for an award of procurement contract. (6 marks)

(Total: 20 marks)

### QUESTION THREE

- (a) List four non taxable benefits that an employee might receive from the employer. (4 marks)
- (b) Suggest four areas that a tax officer should pay attention to in the audit of a pay as you earn (PAYE) system. (4 marks)
- (c) Jorum Bundi is employed as the manager in charge of human resource at Fanaka Limited. He has provided the following information relating to his income for the year ended 31 December 2014:
1. Basic salary of Sh.150,000 per month. (Monthly PAYE was Sh.30,000).
  2. He was given an annual clothing allowance of Sh.91,000 for purchase of office attire appropriate for his position. He also earned a management monthly allowance of Sh.2,500 for attending meetings from 1 April 2014 to the end of the year.
  3. The company provided him with a saloon car of 3,000cc. The car had cost the company Sh.2,500,000 in 2012. Depreciation policy on motor vehicles is at the rate of 10% per annum on cost.
  4. He was provided with a company house leased at Sh.25,000 per month. A nominal rent equivalent to 8% of his monthly basic salary was deducted by the company to cater for the rent.
  5. The education fees for his two daughters amounting to Sh.100,000 were paid by the company during the year. This amount was charged to the company's income statement.
  6. Jorum Bundi has a life insurance policy for self and family for which he pays total annual premiums of Sh.150,000.
  7. He is contemplating purchasing a residential house in the near future. During the year, he invested Sh.250,000 in a registered home ownership savings plan from which he earned an interest of Sh.10,000.
  8. He contributed Sh.25,000 per month towards a registered pension scheme.
  9. His private telephone charges averaging Sh.2,500 per month were paid by the company.
  10. He earned interest income of Sh.150,000 during the year from his investments in housing development bonds.
  11. In the month of November 2014, he received a bonus of Sh.75,000 from the employer for good performance.
  12. Jorum Bundi reported a gross income of Sh.900,000 for the year ended 31 December 2014 from his pig rearing farm. This was before deducting the following expenditure:

	Sh.
Purchase of pig feed	205,000
Wages to farm labourers	80,000
Purchase of a plastic water tank	11,000
Salary for farm manager	150,000
Farmhouse renovation costs	65,000

#### Required

- (i) Taxable income of Jorum Bundi for the year ended 31 December 2014. (10 marks)

(ii) Tax liability (if any) from the income computed in (c) (i) above.

(2 marks)

(Total: 20 marks)

#### QUESTION FOUR

(a) Identify four areas designated as customs areas under the Customs and Excise Act.

(4 marks)

(b) Highlight four qualifying costs for tax purposes under mining business.

(4 marks)

(c) Pesa Ltd., commenced manufacturing on 1 January 2014 after incurring the following capital expenditure:

	Sh.
Factory buildings (note 1)	8,000,000
Processing machinery	2,400,000
Saloon car	2,800,000
Neon advertising sign	48,000
Computers	150,000
Delivery van	960,000
Furniture and fittings	200,000
Water tank	90,000
Water pump	40,000
Computer software	120,000
Lorry (3 tonnes)	2,750,000

#### Additional information:

1. Factory buildings include; a dwelling house of Sh.1,180,000 and a commercial building comprising an office of Sh.1,200,000, a shop of Sh.800,000 and a showroom of Sh.600,000.
2. Processing machinery excludes an interest on loan of Sh.240,000 paid for a loan of Sh.2,000,000 used to acquire the machinery, and installation costs amounting to Sh.60,000.
3. The saloon car was disposed of on 1 December 2014 for Sh.1,800,000.
4. A staff canteen constructed during the year at a cost of Sh.840,000 was put into use on 1 September 2014.
5. A section of workers quarters burned down by fire had been renovated at a cost of Sh.1,500,000. The remaining section which was not affected by the fire had been valued by an insurance company at Sh.1,000,000. The workers quarters were reoccupied on 1 October 2014.

#### Required:

Capital allowances due to Pesa Ltd. for the year ended 31 December 2014.

(12 marks)

(Total: 20 marks)

#### QUESTION FIVE

(a) Propose four benefits that might arise from tax amnesty declared by the revenue authority.

(4 marks)

(b) Summarise six obligations of a registered person for value added tax (VAT) purposes.

(6 marks)

(c) The following transactions were extracted from the books of Info Link Communications Ltd., for the month ended 30 April 2015. The company is registered for VAT.

- 2 April: Purchased goods from Mambo Enterprises on credit worth Sh.1,800,000.
- 2 April: Purchased office furniture for Sh.720,000 from Excel Furniture Mart.
- 3 April: Sold goods worth Sh.860,000 to Ken Link Communications Ltd. on credit.
- 4 April: Purchased spare parts for motor vehicles worth Sh.230,000.
- 5 April: Returned office furniture worth Sh.180,000 to Excel Furniture Mart and was issued with a debit note of the same amount.
- 6 April: Goods worth Sh.120,000 were found to be defective and Ken Link Communications Ltd., returned them.
- 9 April: Purchased goods worth Sh.2,400,000 from Japan, exclusive of import duty of 15% and VAT at the rate of 16%.
- 10 April: Sold goods for cash worth Sh.3,200,000.
- 12 April: Exported goods worth Sh.4,200,000 to Annex Enterprises Ltd., in Rwanda.
- 16 April: Paid catering expenses worth Sh.160,000.
- 18 April: Imported goods worth Sh.1,600,000 from India exclusive of import duty of 25% and VAT at the rate of 16%.
- 20 April: Renovated the existing buildings at a cost of Sh.800,000.
- 22 April: Paid rent and rates amounting to Sh.490,000.
- 24 April: Exported goods worth Sh.2,400,000 to South Africa.
- 28 April: Sold goods worth Sh.980,000 to Vista Communications Ltd. in cash.
- 29 April: Hired a taxi to transport staff and paid Sh.9,000.

30 April: Paid the following expenses for the month of April 2015.

	<b>Sh.</b>
Water bill	30,000
Salaries and wages	2,800,000
Telephone bill	48,000
Electricity bill	180,000

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

**Required:**

The VAT payable by or refundable to Info Link Communications Ltd., for the month of April 2015. (10 marks)  
(Total: 20 marks)

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# KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

PILOT PAPER

September 2015.

Time Allowed: 3 hours.

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Any assumptions made must be clearly and concisely stated.

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

Year of income 2014.

Monthly taxable pay (Sh.)		Annual taxable pay (Sh.)		Rate of tax % in each Sh.
1	- 10,164	1	- 121,968	10%
10,165	- 19,740	121,969	- 236,880	15%
19,741	- 29,316	236,881	- 351,792	20%
29,317	- 38,892	351,793	- 466,704	25%
Excess over	- 38,892	Excess over	- 466,704	30%

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

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

	Monthly rates (Sh.)	Annual rates (Sh.)
<b>Capital allowance:</b>		
<b>Wear and tear allowance:</b>		
Class I	37.5%	
Class II	30%	
Class III	25%	
Class IV	12.5%	
Software	20%	
<b>Industrial building allowance:</b>		
Up to 2009	2.5%	
From 1 January 2010	10%	
Hotels	10%	
Hostels/Education buildings	50%	
From 1 January 2010-		
Commercial building:		
(Shop, office or show room)	25%	
<b>Farm works allowance</b>	100%	
<b>Investment deduction allowance</b>	100%	
<b>Shipping investment deduction</b>	40%	
<b>Mining allowance:</b>		
Year 1	- 40%	
Years 2 - 7	- 10%	
(i) Saloons, Hatch Backs and Estates		
Up to 1200 cc	3,600	43,200
1201 1500 cc	4,200	50,400
1501 1750 cc	5,800	69,600
1751 2000 cc	7,200	86,400
2001 3000 cc	8,600	103,200
Over 3000 cc	14,400	172,800
(ii) Pick-ups, Panel Vans (unconverted)		
Up to 1750 cc	3,600	43,200
Over 1750 cc	4,200	50,400
(iii) Land Rovers/Cruisers	7,200	86,400

**Commissioner's prescribed benefit rates**

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

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Rent and rates	240,000	
Salaries to partners: Carter	180,000	
Mortgage interest	240,000	
Repairs on computers	60,000	
Furniture purchased (cost)	84,000	
Bank charges	80,000	(7,845,260)
Reported loss		<u>(452,660)</u>

**Additional information:**

1. General expenses comprise:

	<b>Sh.</b>
Embezzlement by accountant	1,200,000
Staff Christmas party	800,000
Amount paid to retrenched staff	760,000
Replacement of car engine	140,000
Partition of an office	<u>600,000</u>
	<u>3,500,000</u>

2. Salaries and wages include Sh.700,000 and Sh.800,000 paid to Asafa and Bon respectively during the year.  
 3. Interest on capital was provided at 45% of the capital contributions.  
 4. Legal expenses include:

	<b>Sh.</b>
Parking fines paid to county government	15,200
Legal fees for breach of contract	200,000
Drafting of tender documents	18,000
Drafting of lease agreements (99 years)	9,000
Defending a partner in a tax case	12,000
Legal cost of debt collection	233,300

5. Mortgage interest relates to a partner's residential house.  
 6. Assume that the income accrued evenly throughout the year.  
 7. Ignore capital allowances.

**Required:**

- (i) The adjusted partnership profit or loss for the year ended 31 December 2014. (9 marks)  
 (ii) Allocation of the profits or losses in (c) (i) above to the partners. (4 marks)  
**(Total: 20 marks)**

**QUESTION FOUR**

- (a) Outline any five specified sources of income as detailed in Section 3 (2) of the Income Tax Act. (5 marks)  
 (b) Compare and contrast the provisions of the Income Tax Act as relates to "Wear and Tear" and "Farm Works Deduction".

Your analysis should be guided by the following key aspects:

- (i) Acquisition of items previously used by another person for the same qualifying business.  
 (ii) New items acquired during the year of income. (4 marks)  
 (c) Hal Meat Processing Company (HMPC) was established on 1 January 2014 to process meat products for the local market. The company incurred the following costs in constructing relevant structures which were utilised from 1 January 2014:

	<b>Sh.</b>
Factory building	72,000,000
Labour quarters	24,000,000
Show room	950,000
Staff recreation facility	4,500,000
Retail shop	700,000
Perimeter wall	1,550,000
Administrative offices	1,600,000
Driveway	800,000



Sports pavilion	2,600,000
Drainage system	900,000
Loading bay	1,200,000
Weigh bridge	600,000

**Additional information:**

- A borehole was drilled at a cost of Sh.1,300,000 and utilised with effect from 1 November 2014.
- On 1 December 2014, the company constructed a factory extension at a cost of Sh.2,650,000 and put to use immediately.
- The following items were purchased on 1 December 2014:
 

	Sh:
Pick-up	2,400,000
Conveyor belt	600,000
Scanners	250,000
Mobile phones	260,000
Digital weighing machines	90,000
Computers	300,000
- The following assets were disposed of during the year:

	Disposal Date	Initial Cost (Sh.)	Disposal proceed (Sh.)
Computers	30 December 2014	100,000	60,000
Mobile phones	20 December 2014	60,000	20,000

**Required:**

Capital allowances due to Hal Meat Processing Company (HMPC) for the year ended 31 December 2014. (11 marks)  
(Total: 20 marks)

**QUESTION FIVE**

- Explain any two cases in which a business can close the year with a negative balance in any class of wear and tear elaborating on how such a balance would be treated. (2 marks)
- Regressive taxes present an unmatched opportunity for any developing country to increase its revenue collection from taxes.

Explain the validity or otherwise of this assertion. (5 marks)

- The following is the trading, profit and loss account of Cobalt Ltd. for the year of income 2014. The company is engaged in furniture making both for the local market and the foreign market:

	Sh."000"		Sh."000"
Stock (1 January 2014)	450,000	Sales	3,490,000
Purchases	1,400,500	Stock (31 December 2014)	423,000
Bank charges	30,200	Interest from Post Bank	4,800
Wages to casual workers	588,000	Insurance recovery - van	88,000
Insurances	78,000	Profit on sale of shares	54,000
Salaries to permanent staff	144,000	Dividend (net)	32,000
NSSF contributions - workers	13,000	Income from sale of saw dtst	250,000
NHIF contributions - workers	14,000		
Legal expenses	20,400		
Bad debts	50,600		
Commissions	30,200		
Repairs and maintenance	120,200		
General expenses	53,800		
Listing expenses - NSE	147,600		
Delivery van scrapped	22,400		
Depreciation	193,400		
Donations	8,800		
Rent and rates	83,000		
Electricity and water	28,100		

Travelling expenses	560,300	
Pension paid to retired staff	48,700	
Entertainment	17,100	
Purchase of office calculator	3,600	
Telephone expenses	11,900	
Net profit	<u>224,000</u>	
	<u>4,341,800</u>	<u>4,341,800</u>

**Additional information:**

1. Sales of saw dust require a payment of 20% commission on the income to the hawkers who pick up the items from the company premises and deliver them to the market. Such commission has not yet been included in the company books.
2. Legal expenses analysis:

	<b>Sh. '000'</b>
Preparing a lease for 50 years	1,200
Collection of business debts	2,200
Purchase of directors house	<u>17,000</u>
	<u>20,400</u>
3. Entertainment expenses relate to customers and staff.
4. The company was listed at the Nato Securities Exchange (NSE) at the beginning of the year, a process that led to 42% of the company's shares being offered to the public.
5. The capital allowances were agreed at Sh.2,000,000 for the year.

**Required:**

- (i) Adjusted taxable income for the year ended 31 December 2014. (10 marks)
  - (ii) Compute the tax payable (if any) on the income in (c) (i) above. (3 marks)
- (Total: 20 marks)**
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