

KASNEB REVISION KIT

ADVANCED TAXATION REVISION KIT

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2021

UPDATED WITH NOVEMBER 2020 PAST PAPER

CPA

ADVANCED TAXATION

ADVANCED

REVISION KIT

PAST EXAMINATION PAST PAPERS WITH SUGGESTED ANSWERS

TOPICALLY ARRANGED

Updated with November 2020 Examination Past paper

INTRODUCTION

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

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

Special appreciation and recognition to the lecturers who have helped in the development of our materials, These are: FA Kegicha William Momanyi (MBA Accounting, CPA, CISA and CCP), Johnmark Mwangi (MSc Finance, CPAK, BCom Finance), CPA Gregory Mailu (Bsc. Economics) CPA Dominc Rasungu and CPA Lawrence Ambunya among others.

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KASNEB SYLLABUS**16.1 Taxation of business income and specialized business activities**

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

16.2, 3,4 &5 Limited Companies, Value Added Tax administration, Tax investigations and Tax Dispute Resolution Mechanism

- Banking, insurance, sea and air transport undertakings
- Unit trusts
- Real estate investment trusts (REITS)
- Property developers and contractors
- Application of relevant case law
- Tax fraud
- Events which may trigger an investigation
- Tax investigation
- Back duty and in-depth examinations
- VAT computation, imported services, VAT withholding agents, restriction on input tax claim submission of VAT documents, VAT documentation refunds, false claims and accountant's certificate
- Compensating tax
- Incorrect and fraudulent returns
- Customs and excise investigations
- Negotiation for settlement
- Tax audit
- Appellant bodies and appeal procedures
- Alternative dispute resolution mechanism
- Application of relevant case law

16.6 Taxation of cross border activities

- Distinction between trading in and trading with a country; double taxation agreements; theory, design and application
- Regional perspective with reference to the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA)
- Most favoured nation status
- Generalised system of preference and AGOA
- Withholding tax provisions
- Tax havens and treaty shopping
- Tax information exchange agreements OECD
- Transfer pricing
- Application of relevant case law

16.7 Tax planning

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

16.8 Tax systems and policies

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

16.9 Professional practice in taxation

- Forms of tax practice and matters relating thereto
- Matters relating to new clients
- Handling of client work

- Disclosures in tax returns, computations and correspondence with the Revenue Authority
- Moral and ethical issues in taxation
- Tax agents, appointment, obligations, professional liability
- Cancellation of tax agents licence
- Role of tax agents in appeals procedure
- Tax health check

16.10 Current developments in public finance and taxation

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

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

Year of income 2019.

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

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

Prescribed benefit rates of motor vehicles provided by employer

		Monthly rates		Annual rates
Capital allowance:		(Sh.)		
Wear and tear allowance:				
Class I	37.5%	Up to	1200 cc	3,600
Class II	30%	1201	1500 cc	4,200
Class III	25%	1501	1750 cc	5,800
Class IV	12.5%	1751	2000 cc	7,200
Software	20%	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	100%
Buildings	
From 1 January 2010 Commercial building:(Shop, office or show room)	25%

Farm works allowance 100% (ii) Pick-ups, Panel Vans (unconverted)

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

Shipping investment deduction 100%

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

Written off over 5 years (20%)

Commissioner's prescribed benefit rates

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

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PART A:

PAST PAPERS QUESTIONS

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(RE-ARRANGED TOPICALLY)

TOPIC 1

TAXATION OF BUSINESS INCOME AND SPECIALIZED BUSINESS ACTIVITIES

QUESTION 1

November 2020 Question Two A

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

Income	Sh.
Proceeds of oil sold to foreign subsidiary company (50,000 barrels of crude oil at Sh.500 per barrel)	25,000,000
Value of oil disposed of to local refineries	125,000
Freight charges received from other oil companies for transporting their crude oils to neighbouring country	190,000
Sale of natural gas	160,000
Expenditure	
Staff accommodation expenses	60,000
Wages and salaries for employees	15,000
Annual compensation paid to local people for disturbance during petroleum exploration	75,000
Royalties incurred in respect to crude oil exported	42,000
Interest on loan from a foreign subsidiary company	31,250
Specific bad debts written off	8,500
Depreciation of non-current assets (Class IV)	45,100
Exploration and drilling costs in respect to cement and casing of oil wells	24,500,000
Contribution to approved provident fund	65,000
Custom duties on imported equipment	21,500
General expenses	65,000

Additional information:

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

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

3. Lorries for transporting crude oil comprised:

7.5 tonnes lorry Sh.2,400,000.

4.2 tonnes lorry Sh.1,800,000.

Required:

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

(12 marks)

QUESTION 2

November 2020 Question Three A

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

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

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

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

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

PART B:

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SAMPLE ANSWERS

SUGGESTED ANSWERS AND SOLUTIONS

TOPIC 1

TAXATION OF BUSINESS INCOME AND SPECIALIZED BUSINESS ACTIVITIES

QUESTION 1

November 2020 Question Two A

Oil drillers and exporters ltd. Computation of taxable profit or loss for the year ended 31 Dec 2019

Incomes	Sh.
Sale of oil to foreign subsidiary	25,000,000
Oil disposed to local refineries	125,000
Freight charges received	190,000
Sale of national gas	160,000
Allowable expenditure	
Staff accommodation expenses (60,000-18,000)	(42,000)
Wages and salaries for employees	(15,000)
Royalties incurred in respect to crude oil exported	(42,000)
Interest on loan	(31,250)
Specific bad debt	(8,500)
Exploration and drilling cost	(24,500,000)
Contribution to approved provided fund	(65,000)
General expenses	(65,000)
Capital Allowances	
Drilling machines $20\% \times 900,000$	(180,000)
furniture $12.5\% \times 2,000,000$	(30,000)
Saloon car $25\% \times 2,000,000$	(500,000)
Lorries $37.5\% \times (2,400+1,800)$	(1,575,000)
Exploration and casing of oil wells ($20\% \times 24,500$)	(4,900,000)
Taxable profit	<u>18,021,250</u>

QUESTION 2**November 2020 Question Three A**

MK Enterprise
Computation of taxable profit or loss
For the year ended 31 Dec 2018

	Sh
Sales W1	1,881,400
Expenses	
Transport expenses	(6,000)
Telephone and postage	(5,600)
Office meal	(5,000)
Repair and maintenance	(4,800)
Rent	(325,000)
Advertising	(240,000)
Office expenses (1,460-270-360-32-28)	(770,000)
Capital Allowances	
Wear and tear: Class I	(675,000)
Class II	(24,000)
Class III	(622,500)
Class IV	(46,250)
Loss	<u>(842,750)</u>

Distribution schedule

	M	K	Total
Salaries	270,000	360,000	630,000
Loss share	(589,100)	(883,650)	(1,472,750)
Loss	(319,100)	(523,650)	(842,750)

The partners should appeal the estimated assessment of Sh 78,000 since they made a loss therefore no tax payable during the period.

Working

W1

Total sales

Sales for the year	1,860,000
Cash sales (note 2)	<u>21,400</u>
	<u>1,881,400</u>

W2.

Wear & Tear

	I	II	III	IV
Saloon car			240,000	
Computer		80,000		
Furniture and fittings				96,000
Fax machine				48,000
Switch board				64,000
Book shelf				18,000
Office kitchen utensil				9,000
Television set				54,000
Carpet				36,000
Safe for cash office				45,000
Lorry	1,800,000			
Motorbike			<u>90,000</u>	
Total	1,800,000	80,000	2,490,000	370,000
Allowance	675,000	24,000	622,500	46,250

QUESTION 3**November 2019 Question One C****Workings**

W1 commission to partners = $100,000 + 400,000 - 360,000 = 140,000$

W2 advertising expenses = $150,000 + 610,000 - 340,000 = 420,000$

W3 Royalty income = $240,000 + 160,000 - 100,000 = 300,000$

W5 Salaries & Wages = $139,000 + 410,000 - 130,000 = 167,000$

W6 interest on drawings : Sharon = $8\% \times 60,000 = 4,800$

Primes = $8\% \times 0$

Debtors a/c

Bal b/d	1,700,000	Receipt	1600,000
Credit sales	<u>5,800,000</u>	Bal c/d	<u>5,900,000</u>
	<u>7,500,000</u>		<u>7,500 000</u>

Payables a/c			
Payments	1000,000	Bal b/d	1,600,000
bal c/d	<u>2,000,000</u>	Purchases	<u>1,400,000</u>
	<u>3,000,000</u>		<u>3,000,000</u>

Sharon and Primus**Computation of taxable profit or less for the year ended 31dec 2018**

		Sh.
Sales		5,800,000
Cost of sales:		
Purchases	1,400,000	
drawings (110+60)	<u>(170,000)</u>	<u>(1,230,000)</u>
Gross profit		4,570,000
computer leasing charges		6,000
insurance compensation		35,000
Allowable Expenses:		
Advertising Expenses	420,000	
Salaries & Wages	1,670,000	
Motor Vehicle Expenses	240,000	
Electricity Expenses	80,000	
Meals To Employee	200,000	
Loan Interest	35,000	
Goods Destroyed (60-35)	25,000	
Wear & tear:		
Office partition 12.5% ×60,000	7,500	
Office equipment 12.5% ×97,000	<u>12,125</u>	<u>(2,689,625)</u>
Taxable profit		<u>1,921,375</u>

Partner allocation schedule

	Sharon	Primus	Total
Salary 60×9	540,000	540,000	1,080,000
Commission (W1)	93,333	46,667	140,000
Interest On Drawing (W6)	(4,800)	-	(4,800)
Profit Share	<u>470,783</u>	<u>235,392</u>	<u>706,175</u>
Taxable Profit	1,099,316	822,059	1,921,375
Royalty Income (W3)	<u>200,000</u>	<u>100,000</u>	
Adjusted Taxable Income	<u>1,299,316</u>	<u>922,059</u>	