



kasneb

ATD LEVEL II

PRINCIPLES OF TAXATION

TUESDAY: 20 August 2024. Afternoon Paper.

Time Allowed: 2 hours.

This paper consists of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

**RATES OF TAX (for employment income including wife's employment, self-employment and professional income).
Year of income 2023.**

Assume the following rates of tax applied throughout the year of income 2023:

| Monthly taxable pay (Sh.) | | Annual taxable pay (Sh.) | | Rate of tax % in each Sh. |
|------------------------------|-----------|-----------------------------|-------------|------------------------------|
| 1 | - 24,000 | 1 | - 288,000 | 10% |
| 24,001 | - 32,333 | 288,001 | - 388,000 | 25% |
| 32,334 | - 500,000 | 388,001 | - 6,000,000 | 30% |
| 500,001 | - 800,000 | 6,000,001 | - 9,600,000 | 32.5% |
| Excess over | 800,000 | Excess over | 9,600,000 | 35% |

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

| Investment allowance: Capital expenditure incurred on: | Rate of investment allowance | Residual value (25% per year on equal instalments) | Prescribed benefit rates of motor vehicles provided by employer (i) Saloons, Hatch Backs and Estates | | |
|--|-------------------------------------|---|--|--------------------------|---------|
| | | | Monthly rates (Sh.) | Annual rates (Sh.) | |
| (a) Buildings: <ul style="list-style-type: none"> Hotel building Building used for manufacture Hospital buildings Petroleum or gas storage facilities Educational/hostels building Commercial building | 50% in the first year of use | 25% | Up to 1200 cc | 3,600 | 43,200 |
| | 50% in the first year of use | 25% | 1201 - 1500 cc | 4,200 | 50,400 |
| | 50% in the first year of use | 25% | 1501 - 1750 cc | 5,800 | 69,600 |
| | 50% in the first year of use | 25% | 1751 - 2000 cc | 7,200 | 86,400 |
| | 10% per year on straight line basis | 25% | 2001 - 3000 cc | 8,600 | 103,200 |
| (b) Machinery: <ul style="list-style-type: none"> Machinery used for manufacture Hospital equipment Ships or aircraft Motor vehicles and heavy earth moving equipment Computer software, calculators, copiers and duplicating machines Furniture and fittings Telecommunication equipment Film equipment by a local producer Machinery used to undertake operations under prospecting rights and exploration under mining rights Other machinery | 10% per year on straight line basis | | Over - 3000 cc | 14,400 | 172,800 |
| | 50% in the first year of use | 25% | (ii) Pick-ups, Panel Vans (unconverted) | | |
| | 50% in the first year of use | 25% | Up to - 1750 cc | 3,600 | 43,200 |
| | 50% in the first year of use | 25% | Over - 1750 cc | 4,200 | 50,400 |
| | 25% per year on straight line basis | | (iii) Land Rovers/Cruisers | | |
| | 25% per year on straight line basis | | 7,200 | 86,400 | |
| | 10% per year on straight line basis | | | | |
| | 10% per year on straight line basis | | | | |
| | 10% per year on straight line basis | | | | |
| | 25% per year on straight line basis | 25% | | | |
| 50% in the first year of use | | | | | |
| 10% per year on straight line basis | | | | | |
| (c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation | 10% per year on straight line basis | | | | |
| (d) Farm works | 50% in the first year of use | 25% | | | |

| 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 |

1. Which one of the following is a tax-free benefit?
 - A. School fees paid by the employer for the employee's children if it was taxed on the employer
 - B. Employer contribution to unregistered scheme on behalf of an employee
 - C. School fees paid by employer on behalf of employees' children which has been expensed in employers' books of accounts
 - D. Medical benefits of senior staff in a company (2 marks)

2. Jonah Lali obtained a loan amounting to Sh.5,400,000 from his employer, Kiko Ltd., at an interest rate of 9% per annum while the market rate was 12% per annum. What is the fringe benefit tax per month?
 - A. Sh.4,725
 - B. Sh.3,375
 - C. Sh.4,050
 - D. Sh.2,700 (2 marks)

3. Which of the following dividends is fully exempted from taxation?
 - A. Dividends received from listed company
 - B. Dividends received from registered companies and Saccos
 - C. Dividends received from outside Kenya
 - D. Dividends received when company is winding up (2 marks)

4. Jamal Musa is an employee of Mahewa Ltd. During the year ended 31 December 2023, he contributed Sh.12,000 per month to cater for his insurance premium. His gross salary was Sh.12,000 per month.
 Determine his total tax relief for the year 2023.
 - A. Sh.28,800
 - B. Sh.58,800
 - C. Sh.21,600
 - D. Sh.50,400 (2 marks)

5. The income of a taxable person can be assessed on another person under the following circumstances **EXCEPT** when a taxable person is _____.
 - A. a minor
 - B. insane
 - C. deceased
 - D. an illiterate (2 marks)

6. Oliver Baraka is an employee of Mansa Ltd. During the year ended 31 December 2023, he was provided with a Land Rover with a capacity of 2500cc which had cost the company Sh.2,650,000 in the year 2022. How much was the car benefit due to Oliver Baraka for the year ended 31 December 2023?
 - A. Sh.636,000
 - B. Sh.662,500
 - C. Sh.318,000
 - D. Sh.672,000 (2 marks)

7. The tax shifting where the tax is borne by the supplier when the demand of a product is elastic and the trader is unable to pass a tax burden to the consumer is referred as:
 - A. Straight shifting
 - B. Online shifting
 - C. Backward shifting
 - D. Forward shifting (2 marks)

8. Romano Chuchu is an employee of Zozen Ltd. During the year 2023, he reported an income of Sh. 1,950,000 before housing benefits. He was housed in a fully furnished house. The cost of the furniture to the employer was Sh. 324,000. The employer had rented the house where he paid Sh. 40,000 per month and the market value of the house was Sh. 50,000. Romano paid a nominal rent of Sh. 5,000 per month for the house.
 Determine Romano Chuchu's taxable income for the year ended 31 December 2023.
 - A. Sh.2,628,800
 - B. Sh.2,607,760
 - C. Sh.2,528,880
 - D. Sh.2,489,920 (2 marks)

9. The revenue authority may send its officers to employers' paying point to check the operations of the pay as you earn (PAYE) system. Which of the following areas should the tax officer **NOT** include in his audit? Whether _____.
- the employer has deducted the correct amount of pay as you earn (PAYE) tax
 - the tax deducted has been paid over to the bank
 - other taxes like corporate tax has been correctly computed and filing done
 - the pay shown in the employer's salary records has correctly been transferred to the tax deduction card
- (2 marks)
10. Ronny Manizo received a loan amounting to Sh.1,875,000 from Simba Ltd, the employer, at interest rate of 12% while the prescribed rate was 14%. What is the low interest benefit due to Rodney Manizo?
- Sh.6,250
 - Sh.53,250
 - Sh.46,875
 - Sh.37,500
- (2 marks)
11. Toni Mbadi, is a senior manager of Plum Ltd. His employment agreement indicated that he was entitled to a commission of 5% per month of company's average monthly sales. The average sales per month for year 2023 was Sh. 125,280 inclusive of value added tax (VAT) at the rate of 16%.
- Determine the monthly commission due to Toni Mbadi for the year ended 31 December 2023.
- Sh.5,400
 - Sh.6,264
 - Sh.5,262
 - Sh.5,994
- (2 marks)
12. The commissioner of income tax has the following options upon receiving a valued objection **EXCEPT** _____.
- amend the assessment in light of the objection
 - keep the documents and don't communicate to the tax payer
 - amend the assessment in light of the objection with some adjustment
 - refuse to amend and confirm the assessment
- (2 marks)
13. The following changes must be notified the commissioner within 14 days by the tax payer **EXCEPT** _____.
- change of address of the place of the business
 - additional premises are or will be used for the purposes of the business
 - additional machinery and motor vehicle for business use
 - change of business or trading name
- (2 marks)
14. Jamleck Kamwana received an income of Sh.1,248,000 for the year 2023. He took a mortgage loan to acquire his own house from Mjengo Bank on 1 April 2023 amounting to Sh.4,485,000 at an interest rate of 4% per annum. What is Kamwana's taxable income for the year ended 31 December 2023?
- Sh.1,068,600
 - Sh.1,113,450
 - Sh.1,008,000
 - Sh.1,128,000
- (2 marks)
15. Sally Okwiri received a basic salary of Sh.1,236,000 in year 2023. She also received an annual medical allowance of Sh.225,000 which was available to senior staff only. The company paid Sh.187,500 to a school where her child was a pupil.
- The amount paid for the school fees was debited in the books of the company. What is Sally Okwiri's taxable income for the year 2023?
- Sh.1,461,000
 - Sh.1,423,500
 - Sh.1,400,500
 - Sh.1,648,500
- (2 marks)
16. The following are circumstances under which a taxpayer may be exempted from paying instalment tax **EXCEPT** where _____.
- total tax payable in any year of income exceeds Sh.40,000
 - income is for the first year of operation for a newly incorporated company
 - if total tax liability for that year of income is nil to the best of one's judgement
 - individual's only source of income is employment and all taxes have been paid in full through PAYE tax
- (2 marks)

17. James and Mildred are in partnership trading as Jamil Traders and sharing profit and losses equally. In the year ended 31 December 2023, the partnership reported a profit of Sh.1,800,000 after deducting salaries to James amounting to Sh.213,000 and Sh.245,000 to Mildred and interest on capital amounting to Sh.288,000 shared in the ratio of 2:3 to James and Mildred respectively.
- What is the taxable income for each partner for the year ended 31 December 2023?
- A. James Sh.1,228,200, Mildred Sh.1,317,800
 - B. James Sh.1,013,000, Mildred Sh.1,142,000
 - C. James Sh.1,228,200, Mildred Sh.1,015,200
 - D. James Sh.1,015,200, Mildred Sh.1,072,800 (2 marks)
18. Which one of the following statements explains the meaning of Pseudo tax? It's a tax charged _____.
- A. on incomes made by limited companies
 - B. by the government for particular services offered to the tax payer
 - C. on locally manufactured goods
 - D. on the value added to the price of goods and services (2 marks)
19. Merika Freighters Ltd. started operations in the year 2023 after incurring various capital expenditures among them an aircraft at a cost of Sh.210,000,000, computers Sh.320,000 and furniture Sh.126,000. What is Merika Freighters Ltd.'s investment allowance for the year 2023?
- A. Sh.105,000,000
 - B. Sh.105,223,000
 - C. Sh.105,092,600
 - D. Sh.210,446,000 (2 marks)
20. Which one of the following statements explains the tax position for school fees paid by an employer on behalf of employee's children? It is _____.
- A. a tax-free benefit provided it is taxed on the employer
 - B. taxed on the employee
 - C. always taxed on the employer
 - D. taxed on both the employer and employee (2 marks)
21. Benefit in kind is _____.
- A. an non-cash perks of an employee
 - B. remuneration of management staff
 - C. end year bonus to employees
 - D. official allowances of management staff (2 marks)
22. The following are chargeable to tax in relation to a partnership **EXCEPT** _____.
- A. salaries to partners
 - B. interest on capital
 - C. share of profit/loss
 - D. leave passages (2 marks)
23. The following expenses are **NOT** allowable when computing taxable income **EXCEPT** _____.
- A. depreciation
 - B. specific provision for bad debts
 - C. income tax provision
 - D. cost of defending a traffic offence (2 marks)
24. Which one of the following is **NOT** a benefit of withholding tax?
- A. It helps to broaden the tax base
 - B. It makes tax payment less cumbersome
 - C. It provides more money to a taxpayer
 - D. It reduces the incidence of tax evasion (2 marks)
25. What is the applicable withholding tax rate on monthly rental income?
- A. 7.5%
 - B. 10%
 - C. 5%
 - D. 2% (2 marks)

26. The time limit for remittance of withholding tax is within _____ days of the deduction.
 A. 30
 B. 20
 C. 10
 D. 5 (2 marks)
27. Under the Income Tax Act, the incidence of taxation depends on the _____ of a taxpayer.
 A. age of taxpayer
 B. residential status
 C. citizenship status
 D. gender of taxpayer (2 marks)
28. What is the name of the certificate issued to a taxpayer who pays withholding tax?
 A. Tax clearance certificate
 B. Tax credit certificate
 C. Withholding tax certificate
 D. PIN certificate. (2 marks)
29. What is the term given to an outright dishonest action whereby a taxpayer seeks to minimise tax liabilities through illegal means?
 A. Tax avoidance
 B. Tax evasion
 C. Tax deduction
 D. Tax allowance (2 marks)
30. Excise duty is charged on _____.
 A. export of goods and services
 B. import of goods and services
 C. goods manufactured.
 D. company's revenue (2 marks)

Use the following information to answer question 31 and 32.

Tamu Food Processing Industries commenced operations on 1 January 2022 after acquiring the following assets:

| Asset | Acquisition cost Sh. |
|-------------------|-------------------------|
| Packaging machine | 6,200,000 |
| Milling machine | 5,600,000 |
| Delivery van | 2,500,000 |
| Computers | 350,000 |
| Forklift | 3,200,000 |

The following buildings were constructed and put in use from 1 June 2023:

| Building | Construction cost Sh. |
|----------------------------|--------------------------|
| Labour quarters | 3,600,000 |
| Factory building extension | 2,800,000 |
| Perimeter wall | 1,600,000 |

31. Determine investment allowance due to Tamu Foods Processing Industries for the year ended 31 December 2022:
 A. Sh.3,100,000
 B. Sh.7,412,500
 C. Sh.2,800,000
 D. Sh.625,000 (2 marks)
32. Determine the investment allowance due to Tamu Foods Processing Industries for the year ended 31 December 2023.
 A. Sh.4,000,000
 B. Sh.2,987,500
 C. Sh.6,987,500
 D. Sh.5,497,500 (2 marks)

33. Contents of withholding tax certificate includes the following **EXCEPT** _____
- A. names of the taxpayer who suffered the deduction.
 - B. address of the taxpayer
 - C. amount of tax withheld
 - D. names of the directors of the company
- (2 marks)
34. A tax invoice should be issued _____ the date of supply of a service.
- A. within 30 days from
 - B. within 5 days from
 - C. within 15 days from
 - D. on
- (2 marks)
35. Tax is evaded through the following **EXCEPT** _____.
- A. refusing to register with relevant tax authority
 - B. failure to furnish tax returns
 - C. converting a sole proprietor business into a limited company
 - D. overstating expenses to reduce taxable profit
- (2 marks)
36. During the year of income 2023, Fanuel Barasa received a gross annual salary of Sh. 2,600,000 and reimbursement of medical expenses Sh. 420,000. The company reimburses all its staff for medical bills incurred. What amount should be considered as a taxable benefit from medical expenses?
- A. Sh.420,000
 - B. Nil
 - C. Sh.2,600,000
 - D. Sh.63,000
- (2 marks)
37. What is the applicable tax rate for newly listed companies on securities exchange?
- A. 30%
 - B. 10%
 - C. 25%
 - D. 20%
- (2 marks)
38. What is the withholding tax rate for incomes from winning of lottery as per the amended tax laws?
- A. 30%
 - B. 10%
 - C. 25%
 - D. 20%
- (2 marks)
39. What is the applicable turnover tax rate as per Finance Act 2023?
- A. 5%
 - B. 10%
 - C. 1.5%
 - D. 3%
- (2 marks)
40. What is the name of the taxes imposed on good, services or transactions collected on behalf of the revenue authority by such businesses and are ultimately borne by consumers?
- A. Direct taxes
 - B. Indirect taxes
 - C. Progressive taxes
 - D. Value added taxes
- (2 marks)
41. Joel Juma who is a Certified DOSH trainer received Sh.62,640 inclusive of VAT at 16% from Wazalendo Ltd. for training the company staff on fire safety. Which of the following is the correct amount of withholding tax in relation to the training fee?
- A. Sh.8,640
 - B. Sh.2,700
 - C. Sh.3,132
 - D. Sh.5,400
- (2 marks)

42. Zawadi Moraa received gross rental income of Sh.2,500,000 for the year ended 31 December 2023 from her commercial buildings. The buildings had been constructed through a bank loan where she paid annual interest Sh.350,000 and principal Sh.768,000, repairs and maintenance Sh.186,000 and caretaker salary 420,000. Determine the rental income tax payable by Zawadi Moraa for the year ended 31 December 2024.
- A. Sh.215,000
 - B. Sh.250,000
 - C. Sh.463,200
 - D. Sh.173,200
- (2 marks)
43. James Okaka earns a gross monthly salary of Sh.185,000. He is provided with Sh.25,000 as entertainment allowance per month and the company has rented him a house at Sh. 45,000 as monthly rent. The rented house was furnished by the company at Sh.250,000.
- Determine James Okaka's annual taxable income.
- A. Sh.3,310,000
 - B. Sh.3,090,000
 - C. Sh.2,932,500
 - D. Sh.3,060,000
- (2 marks)
44. Which one of the following is **NOT** included when determining taxable income?
- A. Income from trading activity
 - B. Casual income
 - C. Meals not exceeding Sh.4,000 per month
 - D. Income received in kind
- (2 marks)
45. What is the maximum mortgage interest relief per month available to an employee who have acquired a residential house through a loan obtained from a financial institution?
- A. Sh.15,000
 - B. Sh.30,000
 - C. Sh.26,000
 - D. Sh.25,000
- (2 marks)
46. Jerad Maele is a registered trader for value added tax (VAT) purposes dealing with household products. In the month of September 2023, he made sales of Sh. 5,200,000 and purchases of Sh. 1,800,000.10% of the sales were exports while 20% of the sales were made to VAT registered customers. The above amounts are stated exclusive of VAT at the rate of 16%.
- Determine VAT payable or refundable to Jerad Maele for the month of September 2023.
- A. Sh.748,800
 - B. Sh.460,800
 - C. Sh.288,000
 - D. Sh.544,000
- (2 marks)
47. Tamu Ltd, a manufacturer of soft drinks constructed an industrial building, warehouse, and staff quarters at Sh.2,500,000, Sh.950,000 and Sh.1,200,000 respectively in July 2023.
- Determine investment allowance claimable for the year ended 31 December 2023.
- A. Sh.1,465,000
 - B. Sh.2,325,000
 - C. Sh.840,000
 - D. Sh.1,357,500
- (2 marks)
48. Which one of the following statements is **TRUE** about investment allowances?
- A. If a qualifying asset is sold within three years of purchase, the tax saved by claiming investment allowances must be repaid
 - B. A building qualifying for investment allowance would receive 50% in the first year of purchase and 10% in the second year
 - C. The minimum required expenditure required on each asset to qualify for investment allowance is Sh.50,000
 - D. A six-seater vehicle used in tourism business would not qualify for investment allowance
- (2 marks)

49. Which one of the following incomes is subject to withholding tax?
- A. Director's sitting allowance
 - B. Employment income
 - C. Business income
 - D. Royalty income
- (2 marks)
50. Which one of the following persons is **NOT** qualified as a resident for tax purposes for the year ended 31 December 2023.
- A. John Lee a German resident with no permanent home in the country who worked in the country from January to March 2023
 - B. Ken Yaung who has a permanent residence in the country and was in the country for December 2023 holiday
 - C. George Weah who has no permanent home in the country but was in the country from 1 April to 31 December 2023
 - D. James Okal who has no permanent home in the country but was in the county in year 2022 and year 2023 from 1 June to 31 December for each of the two years
- (2 marks)

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ATD LEVEL II

PRINCIPLES OF TAXATION

TUESDAY: 23 April 2024. Afternoon Paper.

Time Allowed: 2 hours.

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| 24,001 | - 32,333 | 288,001 | - 388,000 | 25% |
| 32,334 | - 500,000 | 388,001 | - 6,000,000 | 30% |
| 500,001 | - 800,000 | 6,000,001 | - 9,600,000 | 32.5% |
| Excess over | 800,000 | Excess over | 9,600,000 | 35% |

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

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

| Commissioner's prescribed benefit rates: | Monthly rates (Sh.) | Annual rates (Sh.) |
|---|------------------------|-----------------------|
| 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 |

1. Which of the following actions should the revenue authority not use to recover overdue tax?
A. Holding property of the tax payer as security for the unpaid tax
B. Ask the bank to freeze the bank accounts of defaulters
C. Issue of distraint order where assets of the tax payer are auctioned to recover tax due and payable
D. The commissioner can prosecute the tax payer for the tax due and payable (2 marks)
2. The following are benefits of integrating functions of various departments of the revenue authority **EXCEPT** _____.
A. Results to efficiency
B. Reduction of operational cost
C. Reduction of tax collected
D. Increase customer satisfaction (2 marks)
3. Agricultural employees taxable housing benefit is 10% of employment income. Which of the following circumstances can lead to change of the rate to 15%?
A. If the director is not a whole-time service director
B. If employee is housed in a leased building
C. If employee is housed outside the farm or plantation
D. If employee has his own house (2 marks)
4. John Mutua is an employee of Vitah Traders. He was provided with a fully furnished house by the employer on 1 January 2023. The cost of the furniture was Sh.2,400,000 to the employer. What is the taxable furniture benefit due to John Mutua for the year 2023?
A. Sh.331,200
B. Sh.576,000
C. Sh.432,000
D. Sh.288,000 (2 marks)
5. Michael Ng'etich borrowed a loan from a bank to construct his residential house. During the year 2023, he paid Sh.320,000 as interest to the bank. How much did he qualify for as mortgage interest deduction?
A. Sh.320,000
B. Sh.150,000
C. Sh.300,000
D. Sh.240,000 (2 marks)
6. Betah Ltd. is a withholding tax agent and deals with vatable goods. During the month of September 2023, the company purchased goods from Tamu Traders worth Sh.1,252,800 inclusive of VAT. How much tax did the company withhold?
A. Sh.151,200
B. Sh.172,800
C. Sh.21,600
D. Sh.34,560 (2 marks)
7. The following circumstances could lead to import duty paid to be refunded **EXCEPT** _____.
A. It was paid in error as a result of wrong calculation or overpayment
B. Where imported goods are returned to the seller
C. Where goods are used to manufacture for local consumption
D. Where goods are destroyed or damaged while under custom control (2 marks)
8. Gadakih Ltd. imported goods in December 2023 valued at Sh.2,700,000. The insurance company charged 6% of the value of goods to insure goods and cargo handling company charged 3% of the value of goods being freight charges. Import duty rate was 25% during the month while VAT rate was 16%. Calculate the amount of VAT chargeable on the goods.
A. Sh.662,175
B. Sh.588,600
C. Sh.515,025
D. Sh.441,450 (2 marks)

9. Sumba Ltd. reported net taxable profit of Sh.14,040,000 for the year ended 31 December 2023. The instalment tax paid during the year ended 31 December 2023 was Sh.3,729,000.

Required:

Determine the net tax payable (if any) by Sumba Ltd. for the year ended 31 December 2023.

- A. Sh.4,212,000
B. Sh.483,000
C. Sh.1,263,600
D. Sh.1,118,700 (2 marks)
10. Which of the following is **NOT** a requirement for a valid memorandum of appeal?
A. It must be made in writing
B. It must state the ground of appeal in clear and concise manner
C. It must be signed by the commissioner
D. It must be accompanied with statement of fact with copies and original (2 marks)
11. Which one of the following statement is **NOT** a function of the directorate of customs?
A. Administration of common external tariff
B. Enforcement of customs law
C. Training in customs related matters
D. Prosecuting those who contravene customs rules (2 marks)
12. Whom among the following persons is **NOT** qualified as a resident for tax purposes for the year ended 31 December 2023.
A. John Burly, a German resident with no permanent home in the country who worked in the country from January to March 2023
B. Kenny Irungu who has a permanent home in the country and was in the country for the month of December 2023
C. George Mokaya who has no permanent home in the country but was in the country from 1 April 2022 to 31 December 2022
D. Victor Mahugu who has no permanent home in the country but was in the county in 2022 and 2023 from 1 June to 31 December for each of the two years (2 marks)
13. Elite Ltd., a manufacturer of soft drinks, constructed an additional industrial building, warehouse and staff quarters at Sh.25,000,000, Sh.9,500,000 and Sh.12,000,000 respectively in January 2023. Determine investment allowance claimable for the year ended 31 December 2023.
A. Sh.14,650,000
B. Sh.23,250,000
C. Sh.8,400,000
D. Sh.13,575,000 (2 marks)

Use the information provided below to answer Question 14 to Question 16:

The income statement for Vacom Ltd. for the year ended 31 December 2023 was as shown below.

| | Sh. | Sh. |
|-------------------------------------|----------------|--------------------|
| Gross profit for the year | | 11,500,000 |
| Less expenses: | | |
| Depreciation | 480,000 | |
| Printing and stationery | 160,000 | |
| Legal expenses on income tax appeal | 200,000 | |
| Accountancy and bookkeeping fee | <u>280,000</u> | <u>(1,120,000)</u> |
| Net Profit | | <u>10,380,000</u> |

14. Determine the allowable expenses for tax purpose by Vacom Ltd. in the year ended 31 December 2023.
A. Sh.480,000
B. Sh.440,000
C. Sh.680,000
D. Sh.160,000 (2 marks)

15. Determine the taxable profit for Vacom Ltd. for the year ended 31 December 2023.
- A. Sh.10,380,000
 - B. Sh.9,900,000
 - C. Sh.9,700,000
 - D. Sh.11,060,000
- (2 marks)
16. If Vacon Ltd. had paid installment tax amounting to Sh.2,150,000 during the year ended 31 December 2023, determine the additional amount of tax if any that Vacom Ltd. was expected to pay.
- A. Sh.1,404,600
 - B. Sh.964,000
 - C. Sh.1,168,000
 - D. Sh.820,000
- (2 marks)
17. Which one of the following is **NOT** a role of an employer in the operation of the pay as you earn (PAYE) system?
- A. Maintaining proper records of tax payable from employees
 - B. Submitting PAYE to the revenue authority on specified dates
 - C. Issuing certificate of PAYE paid to employees
 - D. Filing employees' annual returns
- (2 marks)
18. Which of the following statements is **TRUE** about investment allowances?
- A. If a qualifying asset is sold within three years of purchase the tax saved by claiming investment allowances must be repaid
 - B. A building qualifying for investment allowance would qualify for 50% of cost in the first year and 25% in the second year
 - C. The minimum required expenditure on each asset to qualify for investment allowance is Sh.50,000
 - D. A six-seater vehicle used in tourism business would not qualify for investment allowance
- (2 marks)
19. Which of the following is **NOT** included as taxable income?
- A. Income of Persons with disabilities
 - B. Farming income
 - C. Meals to employees not exceeding Sh.4,000 per month
 - D. Income received in kind
- (2 marks)
20. How much is the maximum per diem that is **NOT** chargeable to tax?
- A. Sh.2,000 per day
 - B. Sh.2,500 per day
 - C. Sh.3,000 per day
 - D. Sh.3,500 per day
- (2 marks)
21. Which of the following is a progressive tax?
- A. Custom duty
 - B. Development surcharge
 - C. Value added tax
 - D. Pay As You Earn
- (2 marks)
22. For the year ended 31December 2023, Wimpey Ltd. had a corporation tax liability of Sh. 250,000 which was not paid until 31 March 2024. How much penalty will Wimpey Ltd. be charged by the Revenue Authority in respect of the late payment of its corporation tax liability for the year ended 31 December 2023?
- A. Sh.50,000
 - B. Sh.25,000
 - C. Sh.12,500
 - D. Sh.37,500
- (2 marks)
23. Which of the following is a tax-free benefit?
- A. Monthly commuter allowance Sh.10,000
 - B. Monthly over time allowance Sh.10,000
 - C. Monthly lunch provided Sh.3000
 - D. Monthly airtime allowance Sh.2,000
- (2 marks)

24. Leonard Mwamba, a non-resident for tax purposes spent less than 20 days in each of the last two years in the country. What is the required number of days that he could spend in the country during the year 2024 to be treated as resident for tax purposes for that year?
- A. 120
 - B. 183
 - C. 122
 - D. 100
- (2 marks)

Use the following information to answer question 25 to question 27:

Jeffrey Juma is a salaried employee earning a gross salary of Sh.640,000 per month. During the month of December 2023, he contributed 7.5% of his gross salary to a registered pension scheme while the employer contributed a similar amount towards his Life Insurance policy. Assume he was exempted from payment of housing levy.

25. Determine the insurance relief claimable by Jeffrey Juma in the month of December 2023.
- A. Sh.9,600
 - B. Sh.7,200
 - C. Sh.5,000
 - D. Sh.9,000
- (2 marks)
26. Determine Jeffrey Juma's tax liability for the Month of December 2023.
- A. Sh.189,783.25
 - B. Sh.176,583.25
 - C. Sh.178,694.25
 - D. Sh.181,204.25
- (2 marks)
27. If PAYE of Sh.126,500 was deducted at source for the month of December 2023, determine the net tax payable by Jeffrey Juma.
- A. Sh.50,083.25
 - B. Sh.63,283.5
 - C. Sh.54,704.25
 - D. Sh.52,194.25
- (2 marks)
28. Any person supplying or who expects to supply taxable goods and services is required to register for VAT if the value of taxable goods or services is _____.
- A. Sh.500,000 per annum
 - B. Sh.5,000,000 per annum
 - C. Sh.2,500,000 per annum
 - D. Sh.1,000,000 per annum
- (2 marks)
29. Pay as You Earn (PAYE) deducted in a particular month shall be paid to the revenue authority on or before the _____.
- A. 5th day of the following month
 - B. 9th day of the following month
 - C. 20th day of the following month
 - D. 30th day of the following month
- (2 marks)
30. Which of the following is charged by the county governments?
- A. Stamp duty
 - B. Housing levy
 - C. Petroleum levy
 - D. Property rates
- (2 marks)
31. Paul Larama is an employee of Pingo Ltd. During the year 2023, he reported an income of Sh.1,700,000 before housing benefits. He was housed in a fully furnished house. The cost of the furniture to the employer was Sh.240,000. The employer had rented the house where he paid Sh.40,000 per month and the market value of the house was Sh.55,000. Paul paid a nominal rent of Sh.5,000 per month for the house.
- Determine Paul Larama's taxable income for the year ended 31 December 2023.
- A. Sh.2,328,800
 - B. Sh.2,208,800
 - C. Sh.1,988,120
 - D. Sh.2,240,120
- (2 marks)

32. Which of the following factors does **NOT** influence tax shifting?
- A. Elasticity of demand and supply
 - B. Purpose of the product
 - C. Nature of the market
 - D. Geographical location
- (2 marks)
33. The following arguments are in favour of introduction of capital gains tax (CGT) in an economy **EXCEPT** _____.
- A. It ensures equity in taxation
 - B. It helps in curbing inflation
 - C. It increases chances of tax avoidance
 - D. Increases government revenue
- (2 marks)
34. Angelo Jets Ltd. started aircraft operations on 1 January 2023 after incurring various capital expenditures among them acquiring an aeroplane at a cost of Sh.483,000,000 and a commercial building at a cost of Sh.15,784,000.
- Compute Angelo Jets Ltd.'s investment allowance for the year ended 31 December 2023.
- A. Sh.241,500,000
 - B. Sh.243,078,400
 - C. Sh.248,892,000
 - D. Sh.200,592,000
- (2 marks)
35. James Leleo is an employee of Timba Ltd. During the year ended 31 December 2023, he was provided with a pick-up 2500cc which had cost the company Sh.2,800,000 at the beginning of the year. How much was the taxable car benefit due to James Leleo for the year ended 31 December 2023?
- A. Sh.840,000
 - B. Sh.560,000
 - C. Sh.336,000
 - D. Sh.672,000
- (2 marks)
36. Which of the following is **NOT** a classification of employees for the purpose of computing housing benefit?
- A. Ordinary employee and a whole-time service director
 - B. Agricultural employee
 - C. Directors other than whole time service director
 - D. Ordinary employee and low-income employee
- (2 marks)
37. The following circumstances can lead to revocation of a licence of a manufacturer of excisable goods **EXCEPT** _____.
- A. If a licensee has been convicted of an offence involving dishonesty or fraud
 - B. If a licensee is guilty of an offence under the custom and excise duty
 - C. If a licensee has become bankrupt
 - D. If a licensee borrows operational funds outside the country
- (2 marks)
38. The following are offences under the value added tax (VAT) Act **EXCEPT** _____.
- A. Failure to register when eligible
 - B. Failure to supply taxable goods
 - C. Failure to issue a tax invoice
 - D. Failure to keep proper records
- (2 marks)
39. The following documents should accompany a claim for refund of VAT in relation to bad debts **EXCEPT** _____.
- A. Confirmation from liquidator that debtors have become insolvent and proof of debts amount
 - B. Copies of relevant tax invoices issued at time of supply to the insolvent debtors
 - C. A declaration that the debtor and the tax payer are related
 - D. Records or documents showing input tax paid by the tax payer
- (2 marks)
40. Ahmed Musa obtained a loan amounting to Sh.3,600,000 from the employer, Kin Ltd., at an interest rate of 9% per annum while the prescribed rate was 11% on 1 January 2023. Determine the low interest benefit due to Ahmed Musa for the year ended 31 December 2023.
- A. Sh.72,000
 - B. Sh.108,000
 - C. Sh.54,000
 - D. Sh.36,000
- (2 marks)

41. Joshua Warecha is a senior manager with Telly Ltd. He reported an annual employment income of Sh.1,360,000 for the year 2023. He received a commission of 5% of company's average monthly sales. The average sales per month for the year 2023 was Sh.120,060 inclusive of value added tax (VAT) at the rate of 16%.

Determine Joshua Warecha's annual taxable income.

- A. Sh.1,360,000
 - B. Sh.1,365,175
 - C. Sh.1,422,100
 - D. Sh.1,425,175
- (2 marks)

42. Which of the following class of asset matches its rate of capital deduction?

- A. Hotel building - 25% first year of use
 - B. Telecommunication equipment - 10% per year reducing balance
 - C. Ship or aircraft - 50% first year of use
 - D. Motor vehicle - 25% per year reducing balance
- (2 marks)

43. Mzito Ltd. exported goods to Umoja Ltd, a company based in Tanzania, for Sh.984,000 in December 2023. The local sales during the month amounted to Sh.577,680 inclusive of VAT. The rate of VAT applicable in the month was 16%. What is the value of VAT payable by Mzito Ltd.?

- A. Sh.159,440
 - B. Sh.79,680
 - C. Sh.237,120
 - D. Sh.187,600
- (2 marks)

44. Tambo Manufacturers Ltd. commenced its operations on 1 January 2023 after incurring the following expenditure:

| | Sh. |
|------------------------|------------|
| • Factory building | 57,120,000 |
| • Land | 45,000,000 |
| • Processing machinery | 24,480,000 |
| • Saloon car | 34,000,000 |
| • Forklift | 15,300,000 |
| • Staff quarters | 11,050,000 |

Required:

Determine the investment allowance due to Tembo Manufacturers Ltd. for the year 2023.

- A. Sh.53,230,000
 - B. Sh.52,125,000
 - C. Sh.41,905,000
 - D. Sh.45,505,000
- (2 marks)

45. Which of the following circumstances qualifies for a refund of value added tax (VAT) paid?

- A. VAT penalties paid
 - B. VAT paid on bad debts
 - C. Death of the taxpayer soon after payment
 - D. Withholding tax paid in advance
- (2 marks)

46. Prince Karembu received an income of Sh. 1,625,000 for the year ended 31 December 2023. He took a mortgage loan to acquire his house from Mkopo Bank on 1 January 2023 amounting to Sh. 3,646,500 at an interest rate of 3% per annum.

What is Prince Karembu's taxable income for the year ended 31 December 2023?

- A. Sh.1,625,000
 - B. Sh.1,673,750
 - C. Sh.1,515,605
 - D. Sh.1,734,395
- (2 marks)

47. Pareto Ltd.'s trading profit for the year ended 31 December 2023 amounted to Sh.12,500,000. This had been arrived at after deducting the following:

| | Sh. |
|-------------------------------|------------|
| • Stamp duty paid | 533,000 |
| • Discount allowed | 102,400 |
| • Donation to political party | 166,000 |
| • Auditing fee | 156,200 |
| • Conveyance fees | 175,000 |
| • Salaries and wages | 217,000 |
| • Transport cost | 147,000 |

Compute the amount that should be added back to the trading profit when calculating the adjusted taxable profit.

- A. Sh.874,000
B. Sh.916,000
C. Sh.1,177,200
D. Sh.1,030,200 (2 marks)
48. Which one of the following conditions is correct with respect to medical benefit?
A. It is a tax free benefit to employee provided the employee is employed on permanent basis
B. It is a tax free benefit to employee provided the employee contributes to the scheme
C. It is a taxable benefit if provided to all employees
D. It is a tax free benefit provided the scheme is not discriminatory (2 marks)

49. Fine Sounds Ltd. reported a net profit of Sh.256,400 after deducting the following expenses for the year ended 31 December 2023:

| | Sh. |
|---------------------------------------|------------|
| • Directors' remuneration | 495,000 |
| • Depreciation | 248,400 |
| • Subscription to chamber of commerce | 298,350 |
| • Neon Sign | 455,400 |
| • Specific bad debts | 125,000 |

Determine the adjusted taxable profit for Fine Sounds Ltd for the year ended 31 December 2023.

- A. Sh.960,200
B. Sh.711,800
C. Sh.914,660
D. Sh.1,085,200 (2 marks)
50. Betalite Ltd. commenced operations on 1 January 2022. The company acquired a Saloon Car at a cost of Sh.3,600,000 on 1 January 2022. Determine the wear and tear deduction for the year ended 31 December 2023 in respect of the Saloon Car.
A. Sh.780,000
B. Sh.960,000
C. Sh.900,000
D. Sh.750,000 (2 marks)

.....



ATD LEVEL II

PRINCIPLES OF TAXATION

TUESDAY: 5 December 2023. Afternoon Paper.

Time Allowed: 2 hours.

This paper is made up of fifty (50) Multiple Choice Questions. Answer ALL questions by indicating the letter (A, B, C or D) that represents the correct answer. Each question is allocated two (2) marks. Do NOT write anything on this paper.

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

Year of income 2022.

| Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax % in each Sh. |
|------------------------------|-----------------------------|------------------------------|
| 1 - 24,000 | 1 - 288,000 | 10% |
| 24,001 - 32,333 | 288,001 - 388,000 | 25% |
| Excess over - 32,333 | Excess over - 388,000 | 30% |

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

| Investment allowance: Capital expenditure incurred on: | Rate of investment allowance | Residual value (25% per year on equal instalments) | Prescribed benefit rates of motor vehicles provided by employer | | | | | | | | | | | | | | | | | | | | | |
|---|--|--|---|---------------|------------------------|-----------------------|---------------|-------|--------|----------------|-------|--------|----------------|-------|--------|----------------|-------|--------|----------------|-------|---------|--------------|--------|---------|
| (a) Buildings: | | | (i) Saloons, Hatch Backs and Estates | | | | | | | | | | | | | | | | | | | | | |
| <ul style="list-style-type: none"> Hotel building Building used for manufacture Hospital buildings Petroleum or gas storage facilities Educational/hostels building Commercial building | <ul style="list-style-type: none"> 50% in the first year of use 50% in the first year of use 50% in the first year of use 50% in the first year of use 10% per year on straight line basis 10% per year on straight line basis | <ul style="list-style-type: none"> 25% 25% 25% 25% 25% 25% | <table border="1"> <thead> <tr> <th></th> <th>Monthly rates (Sh.)</th> <th>Annual rates (Sh.)</th> </tr> </thead> <tbody> <tr> <td>Up to 1200 cc</td> <td>3,600</td> <td>43,200</td> </tr> <tr> <td>1201 - 1500 cc</td> <td>4,200</td> <td>50,400</td> </tr> <tr> <td>1501 - 1750 cc</td> <td>5,800</td> <td>69,600</td> </tr> <tr> <td>1751 - 2000 cc</td> <td>7,200</td> <td>86,400</td> </tr> <tr> <td>2001 - 3000 cc</td> <td>8,600</td> <td>103,200</td> </tr> <tr> <td>Over 3000 cc</td> <td>14,400</td> <td>172,800</td> </tr> </tbody> </table> | | 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 |
| | 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 | | | | | | | | | | | | | | | | | | | | | | |
| (b) Machinery: | | | (ii) Pick-ups, Panel Vans (unconverted) | | | | | | | | | | | | | | | | | | | | | |
| <ul style="list-style-type: none"> Machinery used for manufacture Hospital equipment Ships or aircraft Motor vehicles and heavy earth moving equipment Computer software, calculators, copiers and duplicating machines Furniture and fittings Telecommunication equipment Film equipment by a local producer Machinery used to undertake operations under prospecting rights and exploration under mining rights Other machinery | <ul style="list-style-type: none"> 50% in the first year of use 50% in the first year of use 50% in the first year of use 25% per year on straight line basis 25% per year on straight line basis 10% per year on straight line basis 10% per year on straight line basis 25% per year on straight line basis 50% in the first year of use 10% per year on straight line basis | <ul style="list-style-type: none"> 25% 25% 25% 25% 25% 25% 25% 25% 25% 25% | <table border="1"> <tbody> <tr> <td>Up to 1750 cc</td> <td>3,600</td> <td>43,200</td> </tr> <tr> <td>Over 1750 cc</td> <td>4,200</td> <td>50,400</td> </tr> </tbody> </table> | Up to 1750 cc | 3,600 | 43,200 | Over 1750 cc | 4,200 | 50,400 | | | | | | | | | | | | | | | |
| Up to 1750 cc | 3,600 | 43,200 | | | | | | | | | | | | | | | | | | | | | | |
| Over 1750 cc | 4,200 | 50,400 | | | | | | | | | | | | | | | | | | | | | | |
| (c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation | 10% per year on straight line basis | | (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 |

Agriculture employees: Reduced rates of benefits

| | | |
|------------------|-----|--------|
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

1. Which of the following condition must be fulfilled for passage to be excluded from taxation of an employee's income?
- A. The employee must be solely in Kenya to serve the employer
 - B. The employee must be a citizen of Kenya
 - C. The employee must be recruited or engaged in Kenya
 - D. The employee must get travel allowances from the employer
- (2 marks)

2. Paul Matata is an employee of Hill Care Ltd. He reported an annual employment income of Sh.1,360,000 before housing benefit for the year 2022. He lived in a company house and paid a nominal rent of Sh.5,000 per month for the house. The fair market rental value of houses in the estate was Sh.50,000 per month.

Required:

Calculate the housing benefit due to Paul Matata for the year ended 31 December 2022.

- A. Sh.204,000
 - B. Sh.600,000
 - C. Sh.540,000
 - D. Sh.336,000
- (2 marks)
3. An objection to a tax decision of the commissioner of domestic taxes must be done within a period not exceeding _____.
- A. 30 days
 - B. 14 days
 - C. 60 days
 - D. 21 days
- (2 marks)

4. Deylight Manufacturers Ltd. commenced its operations on 1 January 2022 after incurring the following expenditure:

| | Sh. |
|------------------------|------------|
| • Factory building | 7,780,000 |
| • Processing machinery | 2,800,000 |
| • Saloon car | 3,500,000 |
| • Forklift | 1,400,000 |
| • Generator | 1,100,000 |

The cost of the factory building include cost of staff canteen Sh.800,000 and sports pavilion Sh.600,000.

Required:

Determine the investment allowance due to Deylight Manufacturers Ltd. for the year ended 31 December 2022.

- A. Sh.6,920,000
 - B. Sh.5,950,000
 - C. Sh.6,380,000
 - D. Sh.5,550,000
- (2 marks)
5. The following instruments are not chargeable to stamp duty **EXCEPT** _____.
- A. Instrument of divorce
 - B. Mortgage agreements
 - C. Letter of allotment of shares
 - D. Acknowledgement of debt
- (2 marks)

6. Alex Mambo is a senior manager of Hyrax Ltd. His employment agreement indicated that he was entitled to a commission of 5% of company's average monthly sales. The average sales per month for the year 2022 was Sh.104,400 inclusive of value added tax (VAT) at the rate of 16%.

Required:

Determine monthly commission due to Alex Mambo for the year ended 31 December 2022.

- A. Sh.4,500
 - B. Sh.4,750
 - C. Sh.5,220
 - D. Sh.4,985
- (2 marks)

7. Amos Kiplop is an employee of Neroh Ltd. During the year ended 31 December 2022, he contributed Sh.6,000 per month to Maisha Insurance for his personal life insurance premium and Sh.1,700 per month to National Hospital Insurance Fund (NHIF). How much was his insurance relief for the year?
- Sh.10,800
 - Sh.13,860
 - Sh.9,240
 - Sh.7,700
- (2 marks)
8. The following are reasons why accounting profit may be different from taxable profit **EXCEPT** _____.
- Inclusion of non-taxable income in the income statement
 - Allowable expenses may be omitted in computing taxable profit
 - Inclusion of non-business income in computing accounting profit
 - Use of the same accounting period when computing taxable profit
- (2 marks)
9. What is the tax position on house furniture provided by an employer to an employee provided with a furnished house?
- It is a tax-free benefit if below Sh.3,000 per month
 - The taxable amount is 2% per month on the cost of the furniture
 - The taxable amount is 1% per month on the cost of the furniture
 - The taxable amount is 1.5% per month on the cost of the furniture
- (2 marks)
10. Welview Ltd. had the following expenses in their financial statement for the year ended 31 December 2022:
- | | Sh. |
|---------------------------------------|---------|
| • Advertisement | 369,000 |
| • Depreciation | 266,000 |
| • Subscription to chamber of commerce | 355,000 |
| • Goodwill amortisation | 399,000 |
| • Bad debts written off | 230,000 |
- Determine the total allowable expenses for Welview Ltd. for income tax purposes.
- Sh.998,000
 - Sh.954,000
 - Sh.990,000
 - Sh.865,000
- (2 marks)
11. The following are circumstances under which a late objection can be accepted by the commissioner **EXCEPT** _____.
- When the tax payer has no power in the office
 - When the tax payer is sick to the extent that he/she cannot handle his/her tax matters
 - When the tax payer was out of the country
 - When the tax payer is held in a police custody
- (2 marks)
12. Harrison Mutua received a gross employment income of Sh.1,300,000 for the year 2022. He took a mortgage loan to acquire his own house from Faidah Bank on 1 February 2022 amounting to Sh.3,900,000 at an interest rate of 4% per annum. What is his taxable income for the year ended 31 December 2022?
- Sh.1,300,000
 - Sh.3,900,000
 - Sh.1,157,000
 - Sh.1,144,000
- (2 marks)
13. The following documents should accompany a self-assessment return to the revenue authority **EXCEPT** _____.
- A list of customers and suppliers
 - A set of final accounts fully audited
 - Tax computation schedule
 - Documents supporting instalment tax paid
- (2 marks)

14. Derrick Onyango obtained a loan amounting to Sh.4,320,000 from his employer, Linda Ltd, at an interest rate of 9% per annum while the market rate was 12% per annum. What is the fringe benefit tax per month?
- A. Sh.3,240
 B. Sh.10,800
 C. Sh.7,560
 D. Sh.3,780 (2 marks)
15. Housing benefit may not be taxed under the following circumstances **EXCEPT** _____.
- A. If housing is provided for better performance of duty for example caretaker of a building
 B. Housing was necessary for such kind of employment for example a school matron
 C. Housing was provided for security reason for instance soldiers in barracks
 D. Housing was provided due to position or rank for instance senior management (2 marks)
16. Martin Ruru is an employee of Taifa Ltd. During the year ended 31 December 2022, he was provided with a company car of 2500cc which had cost the company Sh.1,500,000 at the beginning of the year. The company paid for his medical expenses amounting to Sh.244,000. The medical scheme was only available to senior managers only. The company also paid school fees for his son amounting to Sh.78,000 which was expensed in the company's books. Determine the taxable employment benefits due to Martin Ruru for the year ended 31 December 2022.
- A. Sh.640,000
 B. Sh.682,000
 C. Sh.438,000
 D. Sh.322,000 (2 marks)
17. Unity Ferry Ltd. started ship operations in the year 2022 after incurring various capital expenditures among them acquiring a ship of 440 tonnes at a cost of Sh.420,800,000 and telecommunication equipment at a cost of Sh.276,000. Compute Unity Ferry Ltd.'s investment allowance for the year 2022.
- A. Sh.210,427,600
 B. Sh.105,227,600
 C. Sh.242,107,600
 D. Sh.210,469,000 (2 marks)
18. Although value added tax (VAT) contributes significantly to government revenue, it has limitations which impact on the government, tax payers and the economy at large. Which of the following is **NOT** a limitation of VAT?
- A. High tax avoidance and evasion where invoicing is not strictly enforced
 B. VAT is a direct tax therefore it is hard to shift the tax burden
 C. It is discriminatory where some goods and services are not vatiable
 D. It requires many statutory records which are time consuming to maintain (2 marks)
19. Jezzy Ltd. sold goods to Winny Ltd., a withholding tax agent for Sh.999,050 inclusive of 16% value added tax (VAT). What is the amount of VAT paid by Jezzy Ltd. on the due date in regards to the goods sold?
- A. Sh.159,848
 B. Sh.137,800
 C. Sh.120,575
 D. Sh.17,225 (2 marks)
20. Joel Wekesa, a farmer and a sole trader made the following income in the year 2021 and 2022:
- | | 2021 | 2022 |
|------------------------|-------------|-------------|
| | Sh. | Sh. |
| Farming income | 672,000 | 222,400 |
| Business income/(loss) | (376,000) | 440,000 |
- What is his total taxable amount for the year ended 31 December 2022?
- A. Sh.662,400
 B. Sh.894,400
 C. Sh.1,112,000
 D. Sh.286,400 (2 marks)

21. Nyota Ltd. reported a net profit of Sh.367,500 for the year ended 31 December 2022 after deducting the following expenses:
- General provision for bad and doubtful debts Sh.112,500
 - Specific provision for bad and doubtful debts Sh.157,500
 - Bad debts written off Sh.75,000
 - Depreciation Sh.90,000
 - Conveyance Sh.45,000
- Determine the adjusted taxable profit for Nyota Ltd.
- A. Sh.690,000
B. Sh.615,000
C. Sh.645,000
D. Sh.502,500 (2 marks)
22. Binding assessments are assessments which are final and conclusive. Which among the following is **NOT** a binding assessment?
- A. Assessment determined by local committee
B. Assessment made and no appeal has been made
C. Assessment made and no objection has been raised within the statutory period
D. Assessment awaiting determination by local committee (2 marks)
23. Identify one of the following strategies that cannot be used by the Revenue Authority to enhance tax compliance.
- A. Creating awareness by the revenue authority on the roles of taxes and the civic duty to pay taxes
B. Increasing the rates of various taxes for example customs duty and VAT
C. Enhancing efficiency in tax collection for example requiring PIN in some transactions
D. Providing more tax incentives for example tax reliefs and allowances (2 marks)
24. Mercy Mumbih received a loan amounting to Sh.2,000,000 from Tech Ltd., the employer at an interest rate of 12% while the prescribed rate was 14% on 1 January 2022. Determine the low interest benefit due to Mercy Mumbih for the year ended 31 December 2022.
- A. Sh.240,000
B. Sh.40,000
C. Sh.100,000
D. Sh.80,000 (2 marks)
25. The following statements are true about stamp duty **EXCEPT** _____.
- A. It is levied by the government on certain transactions and documents
B. The rate of stamp duty in urban areas is 4% and in rural areas 2%
C. It is paid in advance and the tax payer does not get a direct reward
D. Its purpose is to legalise the transaction (2 marks)
26. Which of the following measures **CANNOT** be used by the customs and excise duty departments of your country to prevent dumping.
- A. Establishment of the advisory committee to recommend to the minister the imposition of antidumping or countervailing measures on investigated products imported into the country
B. Prohibition and restriction of all imports from time to time and ensuring that the directives are adhered to
C. Pre-shipment and pre-verification of exports done by qualified and reputable inspection firms and institutions of regular off-shore inspections
D. Collusion between customs officers and importers are policed strictly and heavily penalised (2 marks)
27. The commissioner of income tax has the following options upon receiving a valid objection **EXCEPT** _____.
- A. Amend the assessment in light of the objection
B. Keep the documents and not to communicate to the tax payer
C. Amend the assessment in light of the objection with some adjustment
D. Refuse to amend and confirm the assessment (2 marks)

28. Lightway Ltd. is a manufacturing company that prepares its accounts on 31 December every year. On 1 February 2022, the company imported a processing machinery and incurred the following costs:

Sh.

| | |
|------------------------|---------|
| • Cost of machinery | 925,000 |
| • Freight charges | 150,000 |
| • Insurance on transit | 35,000 |
| • Duty paid | 205,000 |
| • Installation costs | 180,000 |

What is the qualifying cost for investment allowance which can be claimed by Lightway Ltd. in respect of the processing machines?

- A. Sh.1,255,000
B. Sh.1,290,000
C. Sh.1,315,000
D. Sh.1,495,000 (2 marks)
29. Which of the following is a taxable benefit from employment?
A. Employer contribution on behalf of the employee to a registered pension scheme
B. Employer contribution on behalf of the employee to life insurance policy
C. Employer subscriptions on behalf of the employee to a professional body
D. School fees paid by the employer for the employee's children if it was taxed on the employer (2 marks)
30. Michael Ng'etich borrowed loan from a bank to construct his residential house. During the year he paid Sh.320,000 as interest on loan to the bank. How much did he qualify for mortgage interest deduction?
A. Sh.320,000
B. Sh.150,000
C. Sh.300,000
D. Sh.240,000 (2 marks)
31. Zawadi Moraa received a gross rental income of Sh.2,500,000 in the year ended 31 December 2022 from her residential buildings. The buildings had been constructed through a bank loan where she paid annual interest and principal amount of Sh.350,000 and Sh.768,000 respectively. Determine the rental income tax payable by Zawadi Moraa assuming she takes advantage of the prevailing tax amnesty.
A. Sh.215,000
B. Sh.250,000
C. Sh.138,200
D. Sh.173,200 (2 marks)
32. Which of the following statements are true about an employee with more than one employer as per the Income Tax Act provisions in relation to year of income 2022?
(i) The employer who pays the highest income is considered as the primary employer.
(ii) A secondary employer taxes the employee at a flat rate of 30% PAYE.
(iii) A primary employer treats the employee as a permanent employee and taxes the employee per the normal PAYE brackets.
(iv) The employee can choose who should be the primary and secondary employer.
A. (i) and (ii)
B. (ii), (iii) and (iv)
C. (i) only
D. (i), (ii), (iii) and (iv) (2 marks)
33. Cotek Inspection South Africa is a non- resident company operating in several regions in East and Western Africa. During the year ended 31 December 2022, the company reported a net profit of Sh.4,500,000 from Kenyan operations. How much tax should the company pay to the Revenue Authority for the year 2022?
A. Sh.900,000
B. Sh.1,125,000
C. Sh.1,350,000
D. Sh.1,687,500 (2 marks)

34. The VAT Act (Amended) requires that any trader who carries out a taxable activity should issue an invoice generated by electronic Tax Management System (eTIMS). Which of the following obligations is excluded from the user of eTIMS?
- (i) To possess an electronic invoicing system.
 - (ii) To issue an electronic invoice to a buyer who requests for an electronic invoice.
 - (iii) To indicate the name of goods, buyer and related prices and quantity.
 - (iv) To notify the Revenue Authority of the failure of electronic system within 24 hours.
- A. (i) and (ii)
B. (ii), (iii) and (iv)
C. (ii) only
D. (ii), (iii) and (iv) (2 marks)
35. Which of the following statements concerning self-assessment tax returns for individuals registered for income tax purpose is **TRUE**?
- A. Individuals with income of less than Sh.300,000 in a tax year are not required to file annual tax returns
B. All individuals who submit their annual tax returns on time can have their tax payable calculated by the Revenue Authority
C. Individuals are only required to file annual tax returns for a tax year if they receive a notice from the Revenue Authority
D. All individuals are required to submit their annual tax returns on or before the due date to the Revenue Authority whether they have earned income or not (2 marks)
36. Identify the withholding tax rate applicable to legal fees paid to a non-resident company.
- A. 5%
B. 10%
C. 15%
D. 20% (2 marks)
37. Which of the following income is exempted from taxable employment income?
- A. Jane Kadzo has taken a 3-day sick leave and received Sh.5,000 as sick pay
B. Jerad Maka is reimbursed Sh.10,000 spent on entertaining potential clients
C. Philip Daku received Sh.20,000 as being the best employee of the year
D. Susan Mweni is paid Sh.50,000 as 13th month salary (2 marks)
38. Benard Okaka earns a gross monthly salary of Sh.185,000. He is provided with an entertainment allowance of Sh.25,000 per month and the company has rented him a house at monthly rent of Sh.45,000. The rented house was furnished by the company at Sh.250,000. Determine Benard Okaka's annual taxable income.
- A. Sh.3,310,000
B. Sh.3,090,000
C. Sh.2,932,500
D. Sh.3,060,000 (2 marks)
39. James Mwema is a Kenyan resident serving as an agent for different companies in sales and marketing promotion. In the month of October 2023, he earned a commission of Sh.320,000. What is his withholding tax liability for the month of October 2023?
- A. Sh.48,000
B. Sh.16,000
C. Sh.32,000
D. Sh.64,000 (2 marks)
40. Jonathan Bundi is a Finance Manager of Umoja Ltd. He received a gross remuneration of Sh.250,000 for the month of December 2022. His monthly contribution towards National Hospital Insurance Fund (NHIF) was Sh.1,700. Determine the tax payable on the remuneration received net of applicable reliefs.
- A. Sh.69,783.35
B. Sh.66,383.35
C. Sh.67,383.35
D. Sh.67,128.35 (2 marks)

41. Which of the following expenses would be an allowable expense when calculating taxable income of a corporate entity?
- A. Repairs of a large processing machinery due to breakdown
 - B. Purchase of computer software
 - C. Construction of a building extension
 - D. Purchase of a second hand delivery van
- (2 marks)
42. Which of the following taxes would be considered as direct taxes?
- (i) Withholding tax on interest
 - (ii) Excise tax on alcohol
 - (iii) Value added tax
 - (iv) Import duties on goods and services
- A. (i) and (iv)
 - B. (i) and (iii)
 - C. (ii) and (iv)
 - D. (iii) and (iv)
- (2 marks)
43. Johnson Mwamba placed a bet of Sh.150,000 in a football match between Simba Stars and Chui United. After the end of the game, Johnson Mwamba was rewarded with Sh.680,000. What is the withholding tax on Johnson's win from the bet?
- A. Sh.68,000
 - B. Sh.34,000
 - C. Sh.136,000
 - D. Sh.102,000
- (2marks)
44. Milly Chirih was employed as a casual cleaner by The ICT Tech Ltd. for three weeks only in the month of September 2022. Each week she earned Sh.6,000. Determine her tax liability at the end of the month of September 2022.
- A. Sh.1,800
 - B. Sh.2,400
 - C. Sh.5,400
 - D. Nil
- (2 marks)
45. Which of the following would be classified as taxable employment income?
- A. Reimbursement cost of fuel for delivering goods to a customer
 - B. A mobile phone purchased by an employer for office use by the employees
 - C. Bonus compensation for working in hardship regions
 - D. Employers' contribution to a registered pension scheme
- (2 marks)
46. Zachariah Rioba was employed by Link Ltd. on 1 March 2023. He has not previously filed a self-assessment tax return and therefore wants to know when will be the deadline of filing his return for the year 2023.

Required:

Advise Zachariah Rioba on the last date by which he will be expected to file self-assessment tax return for the year 2023 to avoid late filing penalty.

- A. 30th January 2024
 - B. 31st March 2024
 - C. 31st December 2023
 - D. 30th June 2024
- (2 marks)

47. Grain Bulk Ltd. is a registered trader for value added tax (VAT) purposes. In the month of September 2023, the company incurred the following expenses exclusive of VAT at the rate of 16% where applicable:

| | Sh. |
|----------------------------|-----------|
| Insurance premiums | 350,000 |
| Printing and stationery | 180,000 |
| Delivery van fuel | 86,000 |
| Purchase of goods for sale | 2,800,000 |

Determine the amount of input VAT recoverable by Grain Bulk Ltd. for the month of September 2023 in respect of the above transactions.

- A. Sh.546,560
B. Sh.490,560
C. Sh.448,000
D. Sh.461,760 (2 marks)
48. Which of the following information is **NOT** required to be included on eTIMS valid value added tax (VAT) invoice?
A. The customer's PIN number
B. The invoice number
C. Terms of payment
D. A description of the services supplied (2 marks)
49. Maven Ltd., started its operations on 1 January 2022 after acquiring telecommunication equipment for Sh.960,000 and other machines worth Sh.256,000. Determine the investment allowance claimable by the company for the year ended 31 December 2022.
A. Sh.240,000
B. Sh.265,600
C. Sh.121,600
D. Sh.304,000 (2 marks)
50. Which of the following statements correctly explain the difference between tax evasion and tax avoidance?
A. Both tax evasion and tax avoidance are illegal, but tax evasion involves providing the Revenue Authority with deliberately false information
B. Tax evasion is illegal, whereas tax avoidance involves the minimisation of tax liabilities using any lawful means
C. Both tax evasion and tax avoidance are illegal, but tax avoidance involves providing the Revenue Authority with deliberately false information
D. Tax avoidance is illegal, whereas tax evasion involves the minimisation of tax liabilities using any lawful means (2 marks)

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ATD LEVEL II

PRINCIPLES OF TAXATION

TUESDAY: 22 August 2023. Afternoon Paper.

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. Do NOT write anything on this paper.

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

Year of income 2022.

| Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax % in each Sh. |
|---------------------------|--------------------------|---------------------------|
| 1 - 24,000 | 1 - 288,000 | 10% |
| 24,001 - 32,333 | 288,001 - 388,000 | 25% |
| Excess over - 32,333 | Excess over - 388,000 | 30% |

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

| Investment allowance: | Rate of investment allowance | Residual value (25% per year on equal instalments) | Prescribed benefit rates of motor vehicles provided by employer | | | | | | | | | | | | | | | | | | | | | |
|---|--|--|---|---------------|---------------------|--------------------|---------------|-------|--------|----------------|-------|--------|----------------|-------|--------|----------------|-------|--------|----------------|-------|---------|--------------|--------|---------|
| Capital expenditure incurred on: | | | (i) Saloons, Hatch Backs and Estates | | | | | | | | | | | | | | | | | | | | | |
| (a) Buildings: | | | <table border="1"> <thead> <tr> <th></th> <th>Monthly rates (Sh.)</th> <th>Annual rates (Sh.)</th> </tr> </thead> <tbody> <tr> <td>Up to 1200 cc</td> <td>3,600</td> <td>43,200</td> </tr> <tr> <td>1201 - 1500 cc</td> <td>4,200</td> <td>50,400</td> </tr> <tr> <td>1501 - 1750 cc</td> <td>5,800</td> <td>69,600</td> </tr> <tr> <td>1751 - 2000 cc</td> <td>7,200</td> <td>86,400</td> </tr> <tr> <td>2001 - 3000 cc</td> <td>8,600</td> <td>103,200</td> </tr> <tr> <td>Over 3000 cc</td> <td>14,400</td> <td>172,800</td> </tr> </tbody> </table> | | 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 |
| | 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 | | | | | | | | | | | | | | | | | | | | | | |
| <ul style="list-style-type: none"> Hotel building Building used for manufacture Hospital buildings Petroleum or gas storage facilities Educational/hostels building Commercial building | <ul style="list-style-type: none"> 50% in the first year of use 50% in the first year of use 50% in the first year of use 50% in the first year of use 10% per year on straight line basis 10% per year on straight line basis | <ul style="list-style-type: none"> 25% 25% 25% 25% | | | | | | | | | | | | | | | | | | | | | | |
| (b) Machinery: | | | (ii) Pick-ups, Panel Vans (unconverted) | | | | | | | | | | | | | | | | | | | | | |
| <ul style="list-style-type: none"> Machinery used for manufacture Hospital equipment Ships or aircraft Motor vehicles and heavy earth moving equipment Computer software, calculators, copiers and duplicating machines Furniture and fittings Telecommunication equipment Film equipment by a local producer Machinery used to undertake operations under prospecting rights and exploration under mining rights Other machinery | <ul style="list-style-type: none"> 50% in the first year of use 50% in the first year of use 50% in the first year of use 25% per year on straight line basis 25% per year on straight line basis 10% per year on straight line basis 10% per year on straight line basis 25% per year on straight line basis 50% in the first year of use 10% per year on straight line basis | <ul style="list-style-type: none"> 25% 25% 25% 25% | <table border="1"> <tbody> <tr> <td>Up to 1750 cc</td> <td>3,600</td> <td>43,200</td> </tr> <tr> <td>Over 1750 cc</td> <td>4,200</td> <td>50,400</td> </tr> </tbody> </table> | Up to 1750 cc | 3,600 | 43,200 | Over 1750 cc | 4,200 | 50,400 | | | | | | | | | | | | | | | |
| Up to 1750 cc | 3,600 | 43,200 | | | | | | | | | | | | | | | | | | | | | | |
| Over 1750 cc | 4,200 | 50,400 | | | | | | | | | | | | | | | | | | | | | | |
| (c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation | 10% per year on straight line basis | | (iii) Land Rovers/Cruisers 7,200 86,400 | | | | | | | | | | | | | | | | | | | | | |
| (d) Farm works | 50% in the first year of use | 25% | | | | | | | | | | | | | | | | | | | | | | |

| Commissioner's prescribed benefit rates: Services | Monthly rates (Sh.) | Annual rates (Sh.) |
|---|---------------------|--------------------|
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) Water (Communal or from a borehole) | 500 | 6,000 |

Agriculture employees: Reduced rates of benefits

| | | |
|------------------|-----|--------|
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

QUESTION ONE

- (a) Explain the following terms as used in taxation:
- (i) Forward shifting. (2 marks)
 - (ii) Backward shifting. (2 marks)
- (b) Outline **FOUR** obligations of value added tax (VAT) registered person as provided under the Value Added Tax Act 2013. (4 marks)
- (c) Neno Safi Ltd. is registered for value added tax (VAT) purposes. During the month of April 2023, the company made the following transactions:
- April 1: Sold goods on credit to Ufanisi Traders for Sh.500,000.
 - April 2: Purchased goods on credit from Salama Enterprises for Sh.250,000.
 - April 3: Paid for catering expenses Sh.85,000 by cash.
 - April 3: Ufanisi Traders returned goods valued at Sh.75,000.
 - April 4: Exported goods to Mwanza Ltd. a company based in Tanzania for Sh.375,000.
 - April 5: Purchased stationery for Sh.105,000 from Elimu Bookshop on credit.
 - April 6: Purchased goods for Sh.1,000,000 from Upendo Ltd. on credit.
 - April 9: Imported goods for Sh.1,125,000 from China exclusive of import duty at the rate of 25% and value added tax at the rate of 16%.
 - April 12: Received a debit note of Sh.60,000 from Upendo Ltd.
 - April 17: Paid electricity bills amounting to Sh.30,000 by cash.
 - April 19: Paid audit fee Sh.75,000 by cheque.
 - April 21: Sold goods worth Sh.1,750,000 to the Ministry of Education.
 - April 23: Bought spare parts for repair of delivery van for Sh.150,000.
 - April 26: Sold goods on credit to Ulinzi Traders for Sh.1,000,000 a business not registered for VAT purpose.
 - April 28: Made cash sales of Sh.250,000.
 - April 30: Purchased shares worth Sh.920,000 from Kenlight Ltd.
 - April 30: Closing stock were valued at Sh.600,000.

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

Required:

Prepare a value added tax (VAT) account for the month of April 2023.

(12 marks)

(Total: 20 marks)

QUESTION TWO

- (a) In a tax forum one of the facilitators noted that, “the recent Finance Bill elicited divergence views across the country, where main concern was whether the Finance Bill meets the equity, productivity, diversity and simplicity principles of taxation”.
- With reference to the above statement, explain the **FOUR** principles of taxation mentioned above. (8 marks)
- (b) Eliud Meta is employed as a senior officer of Bumala Ltd. He has presented the following information relating to his employment income for the year ended 31 December 2022:
1. Basic salary Sh.102,500 per month (PAYE Sh.23,000 per month).
 2. He received gifts worth Sh.60,000 from the company during the year.
 3. He was provided with a company car of 2000cc whose cost was Sh.1,875,000. The car was leased by the company at a monthly rental of Sh.30,000. He also received a monthly fuel allowance of Sh.12,500 for the car.
 4. He was provided with a fully furnished house by the employer. The house was rented at Sh.50,000 per month. The cost of the furniture to the company was Sh.240,000.
 5. The company paid his life insurance policy whose annual premium amount to Sh.72,000 per annum.
 6. He was out of work station on official duty for 5 days for which he was paid per diem of Sh.5,750 per day.
 7. During the year the company settled his medical bills amounting to Sh.675,000. The company medical scheme is only available to senior officers only.
 8. He is a member of a registered pension scheme where he contributes Sh.22,500 per month with the employer contributing an equal amount for him.
 9. The employer provided him with a cook and a security guard. The employer paid monthly salaries of Sh.9,000 and Sh.12,000 respectively to the two servants.
 10. School fees amounting to Sh.240,000 was paid for his daughter’s education. The amount was not debited in company’s books of account.

Required:

- (i) Compute taxable income for Eliud Meta for the year ended 31 December 2022. (10 marks)
- (ii) Determine tax payable on the income computed in (b) (i) above. (2 marks)

(Total: 20 marks)**QUESTION THREE**

- (a) Propose **FOUR** measures that could be used by the customs and excise duty departments of your country to prevent dumping. (4 marks)
- (b) State **FOUR** meaning of “tax decision” as provided under the Tax Procedures Act, 2015. (4 marks)
- (c) Bora and Malezi are in partnership trading as Boma Traders and sharing profits or losses in the ratio of 2:3 respectively. Their statement of profit or loss for the year ended 31 December 2022 reflected the following:

| | Sh. | Sh. |
|-----------------------------------|---------------|-------------------------|
| Sales | | 2,100,000 |
| Other income | | 1,200,000 |
| Foreign exchange gain | | <u>120,000</u> |
| | | 3,420,000 |
| Less expenses: | | |
| Stationery | 90,000 | |
| Value added tax | 38,000 | |
| Legal fees | 380,000 | |
| Depreciation | 117,000 | |
| Advertisement cost | 250,000 | |
| Miscellaneous expenses | 800,000 | |
| Repair and maintenance | 220,000 | |
| Salaries and wages | 760,000 | |
| Fuel and oils | 64,000 | |
| Interest expense | 705,000 | |
| Subscription to trade association | 34,000 | |
| Insurance premium | 105,600 | |
| Goodwill written off | 169,200 | |
| Mortgage interest | 180,000 | |
| Purchase of computers | 96,000 | |
| Bad debts | <u>51,000</u> | <u>(4,059,800)</u> |
| Reported loss | | <u><u>(639,800)</u></u> |

Additional information:

1. Legal fees comprised:

| | Sh. |
|----------------------------------|------------|
| Parking fines | 15,600 |
| Appeal on tax assessment | 48,000 |
| Defending Bora in a private suit | 143,240 |

2. **Advertisement cost comprised:**

| | Sh. |
|--------------------------------|------------|
| Neon sign | 80,000 |
| Newspaper advert for a product | 21,200 |

3. **Miscellaneous expenses comprised:**

| | Sh. |
|----------------------------------|------------|
| Partners end of year party | 60,000 |
| Embezzlement by cashier | 80,000 |
| Staff catering expenses | 97,200 |
| Foreign exchange losses realised | 88,000 |
| Registration of trademark | 140,000 |

4. Repair and maintenance include Sh.135,000 spent on replacement of motor vehicle engine.

5. Salaries and wages included salaries to partners as follows:

| | Sh. |
|--------|------------|
| Bora | 187,500 |
| Malezi | 372,000 |

6. Interest expenses comprised:
- | | Sh. |
|----------------------------|------------|
| Interest on bank overdraft | 255,000 |
| Interest on capital : Bora | 135,000 |
| Malezi | 127,500 |
7. Insurance premiums expenses included Sh.50,400 paid for Bora's private car.
8. Mortgage interest relates to a partner's residential house.
9. Bad debts include Sh.21,000 which are specific bad debts.
10. Other income comprises the following:
- | | Sh. |
|--------------------------------------|------------|
| Profit on disposal of motor vehicle | 180,000 |
| Discount received | 135,000 |
| Interest charged to Bora on drawings | 250,000 |
11. Wear and tear allowance was agreed at Sh.154,800 with the commissioner of domestic taxes.

Required:

- (i) Prepare adjusted taxable profit or loss of the partnership for the year ended 31 December 2022. (10 marks)
- (ii) The allocation of the taxable profit or loss in (c) (i) above to the partners. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Identify **FOUR** benefits of applying information communication technology (ICT) in taxation. (4 marks)
- (b) Summarise **FOUR** advantages of progressive taxes. (4 marks)
- (c) The following information was obtained from the books of Greenlight Ltd. for the year ended 31 December 2022:

| | Sh. |
|--|-----------------|
| Revenue | 95,760,000 |
| Purchases | 51,320,000 |
| Rent received (commercial premises) | 648,000 |
| Dividends received (Sawa Ltd.) | 100,000 (Net) |
| Dividends received (Rwandacell Ltd. in Rwanda) | 340,000 (Gross) |
| Interest received (Wezesh Bank Ltd.) | 408,000 (Net) |
| Bad debt recovered | 336,000 |
| Allowance for bad debts (specific) | 654,000 |
| Discount allowed | 964,800 |
| Discount received | 759,600 |
| Salaries | 9,152,000 |
| Electricity | 216,000 |
| Advertising | 674,000 |
| Subscription to chambers of commerce | 78,000 |
| Audit fees | 201,600 |
| Legal fees | 2,167,400 |
| Car hire expenses | 504,000 |
| Drawings (inventory) | 236,000 |
| Rent expense | 165,000 |
| Non-processing machinery | 440,000 |
| Installation cost of non-machinery | 160,000 |
| Foreign exchange gain (realised) | 378,400 |
| Donation to a political party | 1,260,000 |
| General expenses | 2,162,400 |

Additional information:

1. Opening inventory were valued at Sh.7,094,400 and closing inventory valued at Sh.6,008,000.
2. Included in the sales figure was a sale of Sh.1,113,600 that was inclusive of value added tax (VAT) at the rate of 16% while the rest of the sales were recorded net of VAT.
3. Included in the advertising was an amount of Sh.234,000 spent on erection of a bill board.
4. Audit fees includes an amount of Sh.50,400 paid to the audit firm for tax consultation.
5. Two thirds of the bad debts recovered related to bad debts which were previously written off from the company's books.
6. Legal fees relate to the following:

| | |
|-------------------------------------|------------|
| | Sh. |
| Conveyance fees | 550,400 |
| Preparation of employment contracts | 240,800 |
| Debt collection | 832,400 |
| Breach of contract | 543,800 |

Required:

Adjusted taxable profit or loss for Greenlight Ltd. for the year ended 31 December 2022. (12 marks)
(Total: 20 marks)

QUESTION FIVE

- (a) Explain the following types of tax assessments:
- (i) Advance assessment. (2 marks)
- (ii) Default assessment. (2 marks)
- (b) Highlight **FOUR** circumstances under which duty paid on goods may be refunded. (4 marks)
- (c) Betah Ltd. was registered in the year 2021 as a manufacturer of leather products. The company started operations on 1 January 2022. Prior to commencement of operations, the company incurred the following expenditure on purchases and construction of fixed assets:

| | |
|---------------------------|------------|
| | Sh. |
| Office administration | 9,400,000 |
| Processing machinery | 23,200,000 |
| Delivery lorries | 14,500,000 |
| Factory building | 45,000,000 |
| Generator | 1,270,000 |
| Waste recycling machinery | 1,900,000 |
| Drainage system | 1,200,000 |
| Parking yard for goods | 1,600,000 |
| Saloon car | 3,400,000 |

Further analysis of the above capital expenditure showed that:

- A staff canteen constructed at a cost of Sh.1,550,000 formed part of the office administration.
- Processing machinery comprised of locally purchased new machinery (cost Sh.11,400,000) while the balance relates to imported second hand machinery.
- The factory building included a warehouse constructed at a cost of Sh.9,600,000.

Additional information:

- On 1 June 2022, the company commissioned a computerisation project which had not been completed by the year end. A total of Sh.300,000 had been spent on the project as at 31 December 2022.
- The following building extensions were undertaken during the year 2022:

| | | |
|-----------------------|------------|--------------------|
| | Sh. | Utilised on |
| Factory | 3,000,000 | 1 July 2022 |
| Office administration | 1,800,000 | 1 September 2022 |

- One of the delivery lorries with an original cost of Sh.4,500,000 was traded in for a new and bigger lorry of 4 Tonnes costing Sh.6,600,000 on 1 September 2022. The market value of the old lorry on the date of transaction was Sh.3,900,000. The balance due for the new lorry was paid in cash.
- The company sunk a borehole at a cost of Sh.1,300,000 which was utilised from 1 October 2022. A water pump costing Sh.450,000 was purchased and utilised from the same date.
- On November 2022, the company purchased a fleet of ten Tuktuks at a cost of Sh.180,000 each.
- On November 2022, the company purchased the following assets:

| | |
|---------------|-------------|
| Asset | Cost |
| | Sh. |
| Furnitures | 540,000 |
| Cabinets | 50,000 |
| Fax machine | 140,000 |
| Photocopiers | 270,000 |
| Mobile phones | 196,000 |

Required:

Determine the investment allowance due to Betah Ltd. for the year ended 31 December 2022. (12 marks)
(Total: 20 marks)

.....



ATD LEVEL II

PRINCIPLES OF TAXATION

TUESDAY: 25 April 2023. Afternoon Paper.

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. Do NOT write anything on this paper.

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

Year of income 2022.

| Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax % in each Sh. |
|---------------------------|--------------------------|---------------------------|
| 1 - 24,000 | 1 - 288,000 | 10% |
| 24,001 - 32,333 | 288,001 - 388,000 | 25% |
| Excess over - 32,333 | Excess over - 388,000 | 30% |

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

| Investment allowance: | Rate of investment allowance | Residual value (25% per year on equal instalments) | Prescribed benefit rates of motor vehicles provided by employer | | | | | | | | | | | | | | | | | | | | | |
|---|--|--|---|---------------|---------------------|--------------------|---------------|-------|--------|----------------|-------|--------|----------------|-------|--------|----------------|-------|--------|----------------|-------|---------|--------------|--------|---------|
| Capital expenditure incurred on: | | | (i) Saloons, Hatch Backs and Estates | | | | | | | | | | | | | | | | | | | | | |
| | | | <table border="1"> <thead> <tr> <th></th> <th>Monthly rates (Sh.)</th> <th>Annual rates (Sh.)</th> </tr> </thead> <tbody> <tr> <td>Up to 1200 cc</td> <td>3,600</td> <td>43,200</td> </tr> <tr> <td>1201 - 1500 cc</td> <td>4,200</td> <td>50,400</td> </tr> <tr> <td>1501 - 1750 cc</td> <td>5,800</td> <td>69,600</td> </tr> <tr> <td>1751 - 2000 cc</td> <td>7,200</td> <td>86,400</td> </tr> <tr> <td>2001 - 3000 cc</td> <td>8,600</td> <td>103,200</td> </tr> <tr> <td>Over 3000 cc</td> <td>14,400</td> <td>172,800</td> </tr> </tbody> </table> | | 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 |
| | 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 | | | | | | | | | | | | | | | | | | | | | | |
| (a) Buildings: | | | (ii) Pick-ups, Panel Vans (unconverted) | | | | | | | | | | | | | | | | | | | | | |
| <ul style="list-style-type: none"> Hotel building Building used for manufacture Hospital buildings Petroleum or gas storage facilities Educational/hostels building Commercial building | <ul style="list-style-type: none"> 50% in the first year of use 50% in the first year of use 50% in the first year of use 50% in the first year of use 10% per year on straight line basis 10% per year on straight line basis | <ul style="list-style-type: none"> 25% 25% 25% 25% | <table border="1"> <tbody> <tr> <td>Up to 1750 cc</td> <td>3,600</td> <td>43,200</td> </tr> <tr> <td>Over 1750 cc</td> <td>4,200</td> <td>50,400</td> </tr> </tbody> </table> | Up to 1750 cc | 3,600 | 43,200 | Over 1750 cc | 4,200 | 50,400 | | | | | | | | | | | | | | | |
| Up to 1750 cc | 3,600 | 43,200 | | | | | | | | | | | | | | | | | | | | | | |
| Over 1750 cc | 4,200 | 50,400 | | | | | | | | | | | | | | | | | | | | | | |
| (b) Machinery: | | | (iii) Land Rovers/Cruisers | | | | | | | | | | | | | | | | | | | | | |
| <ul style="list-style-type: none"> Machinery used for manufacture Hospital equipment Ships or aircraft Motor vehicles and heavy earth moving equipment Computer software, calculators, copiers and duplicating machines Furniture and fittings Telecommunication equipment Film equipment by a local producer Machinery used to undertake operations under prospecting rights and exploration under mining rights Other machinery | <ul style="list-style-type: none"> 50% in the first year of use 50% in the first year of use 50% in the first year of use 25% per year on straight line basis 25% per year on straight line basis 10% per year on straight line basis 10% per year on straight line basis 25% per year on straight line basis 50% in the first year of use 10% per year on straight line basis | <ul style="list-style-type: none"> 25% 25% 25% 25% | | | | | | | | | | | | | | | | | | | | | | |
| (c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation | 10% per year on straight line basis | | | | | | | | | | | | | | | | | | | | | | | |
| (d) Farm works | 50% in the first year of use | 25% | | | | | | | | | | | | | | | | | | | | | | |

| Commissioner's prescribed benefit rates: Services | Monthly rates (Sh.) | Annual rates (Sh.) |
|---|---------------------|--------------------|
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) Water (Communal or from a borehole) | 500 | 6,000 |

Agriculture employees: Reduced rates of benefits

| | | |
|------------------|-----|--------|
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

QUESTION ONE

- (a) Explain the tax position of a resident individual with respect to the following:
- (i) Royalty income. (2 marks)
- (ii) Loan received from an employer at an interest rate below the market interest rate. (2 marks)
- (b) Identify **FOUR** ways through which the government might prevent loss of revenue from imports. (4 marks)
- (c) Suntech Ltd. is in trading business. The following is its statement of profit or loss for the year ended 31 December 2022:

| | | |
|-------------------------------|------------------|---------------------------|
| | Sh. | Sh. |
| Gross profit | | 24,220,000 |
| Gain on sale of van | | <u>400,000</u> |
| | | 24,620,000 |
| Expenses: | | |
| Directors remuneration | 3,600,000 | |
| Distribution expenses | 2,200,000 | |
| Custom duty | 1,120,000 | |
| Bad debt written off | 498,000 | |
| Salaries and wages | 4,980,000 | |
| Audit and accountancy fees | 850,000 | |
| General expenses | 2,900,000 | |
| Water and electricity | 434,000 | |
| Depreciation | 1,520,000 | |
| Advertising | 860,000 | |
| Purchase of computer software | 350,000 | |
| Transfer to general reserves | 2,480,000 | |
| Rent and rates | 1,640,000 | |
| Amortisation of goodwill | 1,250,000 | |
| Stationery and printing | 124,000 | |
| Legal fees | <u>1,024,000</u> | <u>(25,830,000)</u> |
| Net loss | | <u><u>(1,210,000)</u></u> |

Additional information:

| | |
|---|------------------|
| 1. Distribution expenses comprise: | Sh. |
| Motor vehicle running expenses | 1,800,000 |
| Parking fines | 240,000 |
| Third party insurance | <u>160,000</u> |
| | <u>2,200,000</u> |
| 2. General expenses include: | Sh. |
| Subscriptions to trade associations | 420,000 |
| Tax appeal to a local committee | 400,000 |
| Income tax arrears and penalty | <u>2,080,000</u> |
| | <u>2,900,000</u> |
| 3. Legal fees comprise: | Sh. |
| Payment for business operating permit | 65,000 |
| Defending a director in a private suit | 230,000 |
| Collection of outstanding debts | 614,000 |
| Preparation of 100 years lease | <u>115,000</u> |
| | <u>1,024,000</u> |

Required:

- (i) Compute adjusted taxable profit or loss for Suntech Ltd. for the year ended 31 December 2022. (10 marks)
- (ii) Determine tax payable (if any) by Suntech Ltd. for the year ended 31 December 2022. (2 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain the following principles of taxation:
- (i) Elasticity. (2 marks)
 - (ii) Flexibility. (2 marks)
- (b) Identify **FOUR** reasons that may give rise to an amended assessment by the Commissioner of Domestic Taxes. (4 marks)
- (c) Imbaiza Mwatete is the Finance Manager of Rotoh Ltd. Her employment income for the year ended 31 December 2022 was as follows:
1. Her basic salary was Sh.194,000 per month (PAYE Sh.48,000 per month).
 2. The company pays a gardener for Imbaiza Mwatete at a monthly salary of Sh.25,000.
 3. The company provided her with meals for 45 days during the year, she did not contribute anything towards this benefits which amounted to Sh.180,000.
 4. The employment contract provided Imbaiza Mwatete with the following allowances.

| | Sh. |
|-----------------------------------|------------|
| • Monthly travelling allowance | 45,000 |
| • Annual Medical allowance | 600,000 |
| • Monthly entertainment allowance | 28,000 |
 5. The company provided her with a company house whose market rent was Sh.85,000 per month for which she contributes Sh.35,000 per month.
 6. Imbaiza Mwatete incurred reimbursable expenses of Sh.450,000 during the year while performing official duties of the company.
 7. The company paid insurance premium of Sh.250,000 during the year for the life insurance cover of Imbaiza Mwatete and her dependents.
 8. The company contributed Sh.300,000 during the year to a registered retirement fund for the benefit of Imbaiza Mwatete of which 10% was deducted from her employment income.
 9. Imbaiza Mwatete received Sh.120,000 as extraneous allowance during the year.
 10. She was provided with a 2000cc Saloon car which had been purchased for Sh.1,800,000 from July 2022. The company stopped paying travelling allowance once she was provided with a car.

Required:

- (i) Compute the total taxable income for Imbaiza Mwatete for the year ended 31 December 2022. (10 marks)
 - (ii) Determine the tax payable (if any) from the income calculated in (c) (i) above. (2 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Identify **FOUR** transactions where use of Personal Identification Number (PIN) is required. (4 marks)
- (b) Explain **TWO** circumstances under which a tax refund may arise to a taxpayer. (4 marks)
- (c) Safi Manufacturing Company Ltd. started its operations on 1 January 2022 producing soft drinks for the local market.

The company acquired the following assets on commencement of its operations:

| | Sh |
|---------------------|------------|
| Factory buildings | 29,500,000 |
| Plant and Machinery | 12,800,000 |
| File cabinets | 680,000 |
| Motor vehicles | 6,200,000 |
| Photocopier | 140,000 |
| LCD Television | 80,000 |
| Visitors chairs | 50,600 |
| Trucks and trailers | 9,200,000 |
| Computers | 400,000 |
| Labour quarters | 3,600,000 |
| Parking bay | 2,960,000 |

| | |
|--------------------------|------------|
| | Sh. |
| Non-processing machinery | 2,000,000 |
| Calculators | 60,000 |
| Water pump | 1,280,000 |

Additional information:

- Motor vehicles comprised of pick-ups to supply soft drinks to the local market.
- The cost of trailers was Sh.1,400,000.

Required:

Compute the investment allowance due to Safi Manufacturing Company Ltd. for the year ended 31 December 2022. (12 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Explain the following terms as used in taxation:

(i) Specific custom duty. (2 marks)

(i) Advalorem custom duty. (2 marks)

(b) Outline **FOUR** offences under the value added (VAT) Act. (4 marks)

(c) Sabina Kali is a business woman dealing in a variety of value added tax (VAT) designated goods. The following transactions were recorded in the month of December 2022:

| | | |
|--------------|--|------------|
| December 1: | Received a payment of Sh.600,000 from a debtor. | |
| December 3: | Sold goods valued at Sh.675,000. | |
| December 5: | Imported goods valued at Sh.960,000 being cost insurance and freight excluding import duty and VAT. Import duty rate was 20% during the month. | |
| December 7: | Purchased goods locally for Sh.375,000. | |
| December 9: | Purchased furniture for Sh.180,000 for office use. | |
| December 11: | Paid for bottled water supplied for office use for Sh.45,000. | |
| December 13: | Paid motor vehicle branding for Sh.87,500. | |
| December 15: | Sold goods on cash valued at Sh.337,500. | |
| December 17: | Sold goods to a company based in Tanzania for Sh.255,000. | |
| December 19: | Purchased goods locally for Sh.250,000. | |
| December 21: | Purchased goods on credit valued out Sh.270,000. | |
| December 23: | Sold goods valued at Sh.540,000. | |
| December 29: | Paid the following expenses: | Sh. |
| | • Photocopy and printing | 12,000 |
| | • Electricity | 15,000 |
| | • Catering | 19,000 |
| | • Salaries | 431,000 |
| | • Motor vehicle repair | 9,000 |
| | • Bonus | 230,000 |
| | • Office rent | 117,000 |
| | • Advertising | 21,750 |

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

Required:

Prepare the VAT account for Sabina Kali for the month of December 2022. (12 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Explain the following classification of taxes:

(i) Direct taxes. (2 marks)

(ii) Indirect taxes. (2 marks)

(b) Propose **TWO** ways of tax avoidance that could be engaged by an employed person. (4 marks)

- (c) Kefa and Kennedy are partners trading as Keken Traders and sharing profits and losses in the ratio of 2:1 respectively.

The statement of profit or loss for the year ended 31 December 2022 reflected the following:

| | Sh. | Sh. |
|-----------------------------|------------------|---------------------|
| Gross profit | | 32,360,800 |
| Advertisement | 624,960 | |
| Depreciation | 2,193,600 | |
| Repairs and maintenance | 4,113,880 | |
| Rent and rates | 950,700 | |
| Legal fees | 822,568 | |
| Value added tax | 724,960 | |
| General expenses | 456,832 | |
| Insurance premiums | 634,320 | |
| Salaries and wages | 8,593,840 | |
| Interest on capital: | | |
| Kefa | 763,800 | |
| Kennedy | 784,600 | |
| Bad debts | 516,640 | |
| PAYE Penalties | 221,320 | |
| Purchase of furniture | 362,400 | |
| Goodwill written off | 146,640 | |
| Donation to political party | 132,350 | |
| Customs duty paid | <u>1,204,000</u> | <u>(23,247,410)</u> |
| Reported net profit | | <u>9,113,390</u> |

Additional information:

1. **Legal fees comprised of the following:**

| | Sh. |
|--------------------------------|----------------|
| Parking fines | 61,640 |
| Settling dispute with customer | 510,140 |
| Securing a bank overdraft | 95,120 |
| Appeal on tax assessment | <u>155,668</u> |
| | <u>822,568</u> |

2. **Salaries and wages included salaries to partners as follows:**

| | Sh. |
|---------|------------|
| Kefa | 1,161,200 |
| Kennedy | 1,322,400 |

3. Insurance premiums expense included Sh.116,380 paid to insure Kennedy's private car.

4. **General expenses comprised:**

| | Sh. |
|----------------------------------|----------------|
| Partners end of year party | 89,000 |
| Embezzlement by the cashier | 45,652 |
| Staff catering services | 140,400 |
| Foreign exchange losses realised | 68,600 |
| Preparation of ender documents | <u>113,180</u> |
| | <u>456,832</u> |

5. 70% of bad debts represented the general provision as at 31 December 2022.

6. Capital allowances were agreed to be Sh.2,522,000 by the commission of domestic taxes.

7. Half of the rent paid related to the amount paid to Kefa for letting part of his building to the partnership.

8. Included in gross profit is Sh.498,000 being profit on sale of motor vehicle.

Required:

- (i) Compute taxable profit or loss of the partnership for the year ended 31 December 2022. (10 marks)

- (ii) Allocation of the profit or loss in (c) (i) above to the partners. (2 marks)

(Total: 20 marks)

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ATD LEVEL II

PRINCIPLES OF TAXATION

TUESDAY: 6 December 2022. Afternoon Paper.

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. Do NOT write anything on this paper.

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

Year of income 2021.

Assume that the following rates of tax applied throughout the year of income 2021:

| Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax % in each Sh. |
|------------------------------|-----------------------------|------------------------------|
| 1 - 24,000 | 1 - 288,000 | 10% |
| 24,001 - 32,333 | 288,001 - 388,000 | 25% |
| Excess over - 32,333 | Excess over - 388,000 | 30% |

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

| Investment allowance: | Rate of investment allowance | Residual value (per year on reducing balance) | Prescribed benefit rates of motor vehicles provided by employer | | | | | | | | | | | | | | | | | | | | | |
|---|--|--|---|---------------|------------------------|-----------------------|---------------|-------|--------|----------------|-------|--------|----------------|-------|--------|----------------|-------|--------|----------------|-------|---------|--------------|--------|---------|
| Capital expenditure incurred on: | | | (i) Saloons, Hatch Backs and Estates | | | | | | | | | | | | | | | | | | | | | |
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| | 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 | | | | | | | | | | | | | | | | | | | | | | |
| (a) Buildings: | | | (ii) Pick-ups, Panel Vans (unconverted) | | | | | | | | | | | | | | | | | | | | | |
| <ul style="list-style-type: none"> Hotel building Building used for manufacture Hospital buildings Petroleum or gas storage facilities Educational/hostels building Commercial building | <ul style="list-style-type: none"> 50% in the first year of use 50% in the first year of use 50% in the first year of use 50% in the first year of use 10% per year on reducing balance 10% per year on reducing balance | <ul style="list-style-type: none"> 25% 25% 25% 25% | <table border="1"> <tbody> <tr> <td>Up to 1750 cc</td> <td>3,600</td> <td>43,200</td> </tr> <tr> <td>Over 1750 cc</td> <td>4,200</td> <td>50,400</td> </tr> </tbody> </table> | Up to 1750 cc | 3,600 | 43,200 | Over 1750 cc | 4,200 | 50,400 | | | | | | | | | | | | | | | |
| Up to 1750 cc | 3,600 | 43,200 | | | | | | | | | | | | | | | | | | | | | | |
| Over 1750 cc | 4,200 | 50,400 | | | | | | | | | | | | | | | | | | | | | | |
| (b) Machinery: | | | (iii) Land Rovers/Cruisers | | | | | | | | | | | | | | | | | | | | | |
| <ul style="list-style-type: none"> Machinery used for manufacture Hospital equipment Ships or aircraft Motor vehicles and heavy earth moving equipment Computer software, calculators, copiers and duplicating machines Furniture and fittings Telecommunication equipment Film equipment by a local producer Machinery used to undertake operations under prospecting rights and exploration under mining rights Other machinery | <ul style="list-style-type: none"> 50% in the first year of use 50% in the first year of use 50% in the first year of use 25% per year on reducing balance 25% per year on reducing balance 10% per year on reducing balance 10% per year on reducing balance 25% per year on reducing balance 50% in the first year of use 10% per year on reducing balance | <ul style="list-style-type: none"> 25% 25% 25% 25% | <table border="1"> <tbody> <tr> <td>7,200</td> <td>86,400</td> </tr> </tbody> </table> | 7,200 | 86,400 | | | | | | | | | | | | | | | | | | | |
| 7,200 | 86,400 | | | | | | | | | | | | | | | | | | | | | | | |
| (c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation | 10% per year on reducing balance | | | | | | | | | | | | | | | | | | | | | | | |
| (d) Farm works | 50% in the first year of use | 25% | | | | | | | | | | | | | | | | | | | | | | |

Commissioner's prescribed benefit rates:

| Services | Monthly rates (Sh.) | Annual rates (Sh.) |
|--|------------------------|-----------------------|
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) Water (Communal or from a borehole) | 500 | 6,000 |

Agriculture employees: Reduced rates of benefits

| | | |
|------------------|-----|--------|
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

QUESTION ONE

- (a) Explain the following terms as used in taxation of employment income:
- (i) Benefits in kind. (2 marks)
 - (ii) Deemed interest. (2 marks)
- (b) Outline **TWO** conditions where an individual is deemed to be resident in Kenya for tax purposes. (4 marks)
- (c) Ezekiel Keboi is an employee of Sabuk Ltd. The following information relate to his income for the year ended 31 December 2021:
- 1. His basic salary was Sh.515,000 per month (PAYE Sh.154,600 per month).
 - 2. He was provided with a company house with electricity, water and telephone.
 - 3. During the year, the employer paid Sh.60,000 for his life insurance policy.
 - 4. He was provided with a 2000cc saloon car which had an initial cost of Sh.2,600,000.
 - 5. During the year, the company settled his bills as follows:

| | Sh. |
|-------------|------------|
| Electricity | 28,000 |
| Water | 12,000 |
| Telephone | 32,000 |

- 6. During the year, he was reimbursed Sh.180,000 spent on medical bills. The company has a medical cover for all staff.
- 7. His employer contributes 3% of his basic salary to a pension scheme while he contributes an equal amount.
- 8. He spent Sh.20,000 in December 2021 for entertaining the company's customers which was fully reimbursed by the company.
- 9. He received Sh.350,000 as annual bonus which is usually payable to all employees in December each year.
- 10. He received an overtime allowance of Sh.40,000 in the month of December 2021.

Required:

- (i) Compute the total taxable income for Ezekiel Keboi for the year ended 31 December 2021. (10 marks)
- (ii) Determine the tax payable (if any) from the income computed in (c) (i) above. (2 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain the following terms as used in taxation:
- (i) Bond security. (2 marks)
 - (ii) Stamp duty. (2 marks)
- (b) Identify **FOUR** documents required by the customs authority when clearing imported goods in Kenya. (4 marks)
- (c) Haziki Enterprises is registered for value added tax (VAT) purposes dealing in electrical appliances and accounts for VAT on monthly basis.

The following information relates to the month of August 2022:

| | Sh. |
|--------------------------------------|------------|
| 1. Sales: | |
| Credit sales | 3,480,000 |
| Cash sales | 1,102,000 |
| Exports | 960,000 |
| 2. Purchases: | |
| Credit purchases for re-sale | 1,740,000 |
| Cash purchases for re-sale | 1,190,000 |
| 3. Purchases not for re-sale: | |
| Stationery | 580,000 |
| Mobile phone | 34,800 |
| Office furniture | 278,000 |
| 4. Other expenses: | |
| Legal fees | 626,400 |
| Catering expenses | 69,600 |
| Electricity bills | 47,600 |

| | Sh. |
|--------------------|------------|
| Office rent | 672,800 |
| Salaries and wages | 420,000 |
| Advertising | 17,400 |
| Motor vehicle fuel | 27,840 |

All transactions are inclusive of value added tax (VAT) at the standard rate of 16% or any other applicable rate.

Required:

Determine the VAT payable or refundable to Haziki Enterprises for the month of August 2022. (12 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Outline **FOUR** instances when the Commissioner might cancel a personal identification number (PIN) as provided under the Tax Procedures Act, 2015. (4 marks)
- (b) Identify **SIX** items that the Commissioner should specify in writing and notify the taxpayer when he has made an amended assessment. (6 marks)
- (c) Sportsline Manufacturing Ltd. commenced operations on 2 January 2021 as a manufacturer of sports shoes. The company acquired and constructed the following assets before commencing operations:

| Asset | Cost (Sh.) |
|------------------------------------|-------------------|
| Land | 5,000,000 |
| Construction of a factory building | 25,800,000 |
| Processing machinery | 2,940,000 |
| 2 lorries (4 tonnes each) | 6,400,000 |
| Saloon car | 3,750,000 |
| Conveyor belt | 720,000 |
| Computers | 300,000 |
| Tractor | 1,900,000 |
| Workshop machine | 472,000 |

Additional information:

- The cost of land includes Sh.1,800,000 paid for a building on site as at 2 January 2021. The building was constructed by the seller on 1 January 2019 at a cost of Sh.2,000,000. Sportsline Ltd. converted this building into a warehouse with effect from 2 January 2021.
- The cost of constructing the factory building included Sh.800,000 spent on the construction of administration offices.
- The following assets were purchased and utilised by the company with effect from 1 June 2021:

| Asset | Cost (Sh.) |
|--------------|-------------------|
| Fax machines | 90,000 |
| Trailer | 200,000 |
| Pick up van | 1,200,000 |
| Furniture | 180,000 |

- On 1 July 2021, the company constructed a factory extension at a cost of Sh.2,400,000. Processing machinery costing Sh.840,000 was purchased and installed in the factory extension on 15 August 2021.
- Saloon car purchased on 2 January 2021 was involved in an accident on 1 September 2021. The company received Sh.2,500,000 as insurance compensation for the vehicle.
- The following costs were incurred on 1 September 2021:

| | Sh. |
|-----------------------------------|------------|
| Sinking of a borehole | 600,000 |
| Construction of a parking bay | 560,000 |
| Construction of a sewerage system | 700,000 |

Required:

Compute the investment allowance due to Sportsline Manufacturing Ltd. for the year ended 31 December 2021. (10 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Discuss **FOUR** principles of taxation as advocated by Adam Smith. (8 marks)
- (b) Safi Ltd., a company dealing with laundry services has provided the following statement of profit or loss for the year ended 31 December 2021:

| | Sh. | Sh. |
|----------------------------------|----------------|-----------------------|
| Gross profit | | 2,982,600 |
| Less: Operating expenses: | | |
| Salary and wages | 800,000 | |
| Reserve for contingencies | 158,000 | |
| Hire purchase interest | 41,300 | |
| Laundry expenses | 43,400 | |
| Legal and professional fees | 40,000 | |
| Depreciation | 245,000 | |
| Dividends paid | 160,000 | |
| Repair and maintenance | 87,200 | |
| Insurance premiums | 32,000 | |
| VAT paid | 16,800 | |
| Bad and doubtful debts | 22,800 | |
| Advertising | 120,000 | |
| Bank charges | 17,000 | |
| Water and electricity | 120,000 | |
| Rent and rates | 302,000 | |
| Subscriptions and donations | 37,100 | |
| Telephone and postage | 120,400 | |
| Sundry expenses | 60,000 | |
| Motor vehicle expenses | <u>230,000</u> | <u>(2,653,000)</u> |
| Net profit | | <u><u>329,600</u></u> |

Additional information:

- Salary and wages includes Sh.6,600 paid to the Revenue Authority as penalties and interests on delayed submission of PAYE deduction.
- Hire purchase interest relates to interest on loans obtained to purchase a delivery van Sh.14,600 and the chairman's personal car Sh.26,700.
- The company directors and senior managers are given free laundry services at the company's laundry. The cost of cleaning their personal clothing for the year ended 31 December 2021 was Sh.13,300.
- Legal and professional expenses includes Sh.14,600 incurred while defending the managing director in a private suit.
- Repair and maintenance include the cost of acquiring a second hand laundry machines for Sh.16,700.
- The 10% of bad and doubtful debt relate to general provision for bad debt while the balance relate to specific provision for bad debts.
- Subscription and donations comprise:

| | Sh. |
|--|--------|
| • Subscription to the chamber of commerce | 32,350 |
| • Donation of books to Watoto School for the blind | 3,500 |
| • Donation to political party | 1,250 |

- Sundry expenses include Sh.26,300 paid to Heal Africa for the Managing Director's medical cover. He is the only one in the company covered by the medical scheme.
- Investment allowance for the year ended 31 December 2021 has been agreed with the Commissioner at Sh.432,000.

Required:

Prepare adjusted taxable profit or loss for Safi Ltd. for the year ended 31 December 2021. (12 marks)
(Total: 20 marks)

QUESTION FIVE

- (a) Explain the following terms as used in customs and excise Act:

- (i) Bill of landing. (2 marks)
- (ii) Clean Report of Findings (CRF). (2 marks)

- (b) (i) With reference to Digital Service Tax (DST), explain whether DST is a final tax for a resident and non-resident. (2 marks)
- (ii) Outline **TWO** benefits of Digital Service Tax (DST). (2 marks)
- (c) Hamisi and Tamara are partners trading as Hatah Traders and sharing profits and losses in the ratio of 2:1 respectively. Their statement of profit or loss for the year ended 31 December 2021 reflected the following:

| | Sh. | Sh. |
|-------------------------|----------------|--------------------|
| Gross profit | | 3,178,000 |
| Advertisement | 38,400 | |
| Depreciation | 144,000 | |
| Repairs and maintenance | 175,200 | |
| Rent and rates | 78,000 | |
| Legal fees | 34,720 | |
| VAT paid | 38,400 | |
| General expenses | 241,280 | |
| Insurance premiums | 52,800 | |
| Salaries and wages | 913,600 | |
| Interest on capital: | | |
| Hamisi | 252,000 | |
| Tamara | 284,000 | |
| Bad debts | 25,600 | |
| NSSF contribution | 32,800 | |
| Purchase of furniture | 96,000 | |
| Good will written off | <u>225,600</u> | <u>(2,632,400)</u> |
| Reported net profit | | <u>545,600</u> |

Additional information:

- Insurance premium expense included Sh.25,200 paid to insure Hamisi's private car.
- Legal fees comprised the following:

| | Sh. |
|------------------------------------|------------|
| Parking fines | 4,000 |
| Traffic offence fees | 6,400 |
| Settling a dispute with a customer | 15,600 |
| Appeal on a tax assessment | 8,720 |

- General expenses comprised:

| | Sh. |
|----------------------------------|------------|
| Partners end of year party | 60,000 |
| Embezzlement by cashier | 24,080 |
| Staff catering services | 16,000 |
| Foreign exchange losses realised | 44,000 |
| Preparation of tender document | 97,200 |
- Salaries and wages included salaries to partners Sh.744,000 according to their ratio of sharing profit and losses.
- Bad debts represented the general provision as at the end of the year.
- Capital allowances was agreed with the commissioner at Sh.180,000.
- Closing stock was valued at Sh.360,000 and had been over valued by 20%.

Required:

- Compute taxable profit or loss of the partnership for the year ended 31 December 2021. (8 marks)
- Allocation of the profit or loss in (c) (i) above to the partners. (4 marks)

(Total: 20 marks)

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ATD LEVEL II

PRINCIPLES OF TAXATION

TUESDAY: 2 August 2022. Afternoon paper.

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. Do NOT write anything on this paper.

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

Year of income 2021.

Assume that the following rates of tax applied throughout the year of income 2021:

| Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax % in each Sh. |
|------------------------------|-----------------------------|------------------------------|
| 1 - 24,000 | 1 - 288,000 | 10% |
| 24,001 - 32,333 | 288,001 - 388,000 | 25% |
| Excess over - 32,333 | Excess over - 388,000 | 30% |

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

| Investment allowance: | Rate of investment allowance | Residual value (per year on reducing balance) | Prescribed benefit rates of motor vehicles provided by employer |
|---|----------------------------------|--|--|
| Capital expenditure incurred on: | | | (i) Saloons, Hatch Backs and Estates |
| | | | Monthly rates (Sh.) Annual rates (Sh.) |
| (a) Buildings: | | | 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) Machinery: | | | (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 7,200 86,400 |
| (d) Farm works | 50% in the first year of use | 25% | |

Commissioner's prescribed benefit rates:

| Services | Monthly rates (Sh.) | Annual rates (Sh.) |
|--|------------------------|-----------------------|
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) Water (Communal or from a borehole) | 500 | 6,000 |

Agriculture employees: Reduced rates of benefits

| | | |
|------------------|-----|--------|
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

QUESTION ONE

- (a) Outline four roles of an employer in relation to the operation of the Pay As You Earn (PAYE). (4 marks)
- (b) Distinguish between “restricted goods” and “prohibited goods” as used under Customs and Excise Act. (4 marks)
- (c) Tobias Osoro is an employee of Mayfarm Ltd. He has provided the following information relating to his income for the year ended 31 December 2021:
1. Basic salary Sh.140,000 per month (PAYE Sh.54,950 per month).
 2. He was provided with a saloon car of 2000cc which had an initial cost of Sh.1,950,000.
 3. He was provided with a free house, water, electricity, furniture and telephone. The market value of the rental house was Sh.50,000 per month and he contributed Sh.10,000 per month to cater for the rent. The cost of the furniture to the employer was Sh.315,000.
 4. During the year, the employer settled his bills as follows; electricity Sh.18,000, telephone Sh.15,000 and water Sh.14,400.
 5. His employer’s contribution to a registered pension scheme was 5% of the basic salary and he contributed a similar amount.
 6. He was entitled to leave pay equal to one month’s basic salary.
 7. He enjoyed free medical treatment during the year valued at Sh.128,000 under the medical cover operated by the company for all staff.
 8. During the year, the employer paid Sh.72,000 for his life insurance policy.
 9. He was issued 2,000 shares by the company at a price of Sh.70 each. The market price per share was Sh.120.
 10. The company paid Sh.138,000 during the year for his daughter’s school fees. This amount was recorded in the company’s books as an expense.
 11. His wife was given free goods worth Sh.80,000 by the company during the year.
 12. He contributed Sh.7,000 per month towards home ownership savings plan.

Required:

- (i) The taxable income for Tobias Osoro for the year ended 31 December 2021. (10 marks)
- (ii) Tax payable (if any) on the income computed in (c) (i) above. (2 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Discuss four measures that the government could put in place to prevent tax evasion. (8 marks)
- (b) Bahati Ltd. presented the following income statement for the year ended 31 December 2021:

| | Sh. “000” | Sh. “000” |
|-----------------------------|----------------|--------------------|
| Gross profit from trading | | 1,800,000 |
| Other incomes: | | |
| Discount received | | 120,000 |
| Profit on sale of machinery | | 150,000 |
| Investment income | | <u>200,000</u> |
| | | 2,270,000 |
| Less expenses: | | |
| Depreciation | 140,000 | |
| Wages and salaries | 800,000 | |
| Rent and rates | 480,000 | |
| Legal and professional fees | 360,000 | |
| Interest charges | 250,000 | |
| Motor expenses | 210,000 | |
| Allowance for bad debts | 180,000 | |
| Stationery | 140,000 | |
| VAT paid | <u>220,000</u> | <u>(2,780,000)</u> |
| Net loss | | <u>(510,000)</u> |

Additional information:

| | | |
|----|---|------------------|
| 1. | Legal and professional fees comprise: | Sh. "000" |
| | Audit and accountancy fees | 160,000 |
| | Legal fees to defend a director against fraud | 80,000 |
| | Legal fees for debt collection | 74,000 |
| | Conveyance fees | <u>46,000</u> |
| | | <u>360,000</u> |
| 2. | Interest charges comprise: | Sh. "000" |
| | Bank overdraft interest | 60,000 |
| | Interest on late VAT payment | 100,000 |
| | Interest on loan to purchase shares | <u>90,000</u> |
| | | <u>250,000</u> |
| 3. | Motor expenses comprise: | Sh. "000" |
| | Running expenses for the delivery van | 20,000 |
| | Parking fines | 10,000 |
| | Replacement of engine in director's car | <u>180,000</u> |
| | | <u>210,000</u> |

Required:

- (i) Adjusted taxable profit or loss for Bahati Ltd. for the year ended 31 December 2021. (10 marks)
- (ii) Tax payable (if any) on the profit or loss in (b) (i) above. (2 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Explain the following terms as used in taxation:
- (i) Petroleum levy. (2 marks)
- (ii) Airport tax. (2 marks)
- (b) Propose four reasons why a difference may arise between the accounting profit and the taxable profit. (4 marks)
- (c) Tembek Ltd. is a company dealing in a variety of value added tax (VAT) designated goods. The following transactions were recorded for the month of May 2022:

| | |
|---------|---|
| May 1: | Sold goods to Jakah Ltd. Sh.1,399,975 on credit. |
| May 5: | Purchased goods on cash Sh.759,800 from Alpha Holdings. |
| May 8: | Imported goods valued at Sh.1,200,000 from China being cost insurance and freight excluding import duty and VAT. Import duty rate was 20% during the month. |
| May 9: | Purchased a pick-up for Sh.1,199,875 from general motors for business use. |
| May 11: | Bought stationeries for Sh.72,000 from Edu Bookshop. |
| May 13: | Paid accountancy and audit fee to Kibuchi Associates Sh.79,750 by cheque. |
| May 15: | Paid Sh.69,600 to Perfect Garage for the repair of the pickup. |
| May 17: | Sold goods on credit to Ministry of Education Sh.809,825. |
| May 18: | Sold goods amounting to Sh.2,088,000 and allowed a discount of 5% to Watermark Ltd. |
| May 19: | Sold goods to Kalama Traders a company based in Tanzania for Sh.510,000. |
| May 21: | Purchased goods from Limuru Ltd. Sh.259,550 and paid cash. |
| May 23: | Paid electricity expenses Sh.14,500 and telephone expenses Sh.8,700. |
| May 27: | Paid for catering expenses Sh. 23,000 to Furaha Caterers. |
| May 29: | Paid for legal fees Sh.71,775 to Jopo Advocates. |
| May 30: | Closing stock was valued at Sh.800,000. |

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

Required:

- The VAT account for Tembek Ltd. for the month of May 2022. (12 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Outline two requirements that need to be fulfilled for a notice of objection to be treated as validly lodged by a taxpayer under Section 51(2) of the Tax Procedures Act, 2015. (4 marks)
- (b) Summarise four obligations of the user of a register as provided under the Value Added Tax (Electronic Tax Invoices) Regulations, 2020. (4 marks)
- (c) Kamaki and Kawaida are partners trading as Kamaki Traders and sharing profits and losses in the ratio of 2:1 respectively. The following is an extract of income statement for the year ended 31 December 2021:

| | Sh. | Sh. |
|-----------------------------|----------------|--------------------|
| Gross profit | | 3,178,000 |
| Sale of motor vehicle | | 1,182,000 |
| Discount received | | 581,000 |
| Dividend income (net) | | <u>450,000</u> |
| | | 5,391,000 |
| Less expenses: | | |
| Advertisement | 33,600 | |
| Repair and maintenance | 153,300 | |
| Rent and rates | 68,250 | |
| Legal fees | 30,380 | |
| Value added tax | 34,560 | |
| General expenses | 211,120 | |
| Insurance premiums | 46,200 | |
| Purchase of land | 4,396,000 | |
| Salaries and wages | 799,400 | |
| Interest on capital: Kamaki | 220,500 | |
| Kawaida | 248,500 | |
| Bad debts | 22,400 | |
| NSSF contribution | 28,700 | |
| Purchase of furniture | 84,000 | |
| Goodwill written off | 197,400 | |
| Depreciation | <u>126,000</u> | <u>(6,700,310)</u> |
| Reported net profit (loss) | | <u>(1,309,310)</u> |

Additional information:

- Insurance premiums expenses included Sh.22,050 paid to insure Kawaida's private house.
- Legal fees comprised:

| | Sh. |
|----------------------------------|---------------|
| Parking fines | 3,500 |
| Securing a bank overdraft | 5,600 |
| Settling a dispute with customer | 13,650 |
| Appeal on tax assessment | <u>7,630</u> |
| | <u>30,380</u> |
- Salaries and wages included salaries to partners as follows:

| | Sh. |
|---------|------------|
| Kamaki | 217,000 |
| Kawaida | 434,000 |
- General expenses comprised:

| | Sh. |
|----------------------------------|----------------|
| Partners end of year party | 52,500 |
| Embezzlement by the cashier | 21,070 |
| Staff catering services | 14,000 |
| Foreign exchange losses realised | 38,500 |
| Preparation of tender documents | <u>85,050</u> |
| | <u>211,120</u> |
- Bad debts represented the general provision as at the end of the year.
- Half of the rent and rates paid related to the amount paid to Kamaki for letting part of the building to the partnership.
- The capital allowances were agreed with the revenue authority at Sh.882,000 during the year ended 31 December 2021.

Required:

- (i) Adjusted total taxable profit or loss for Kamaki Traders for the year ended 31 December 2021. (9 marks)
 - (ii) Allocation of taxable profit or loss calculated in (c) (i) above to the partners. (3 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Citing an example, explain the difference between “tax impact” and “tax incidence”. (4 marks)
- (b) Penalties are imposed by Revenue Authority to enforce tax laws and regulations among other objectives.

In relation to the above statement, propose four circumstances under which the imposition of penalties might not achieve the intended objectives. (4 marks)

- (c) Best Industries Ltd. a manufacturer of clothes was established in December 2020. The company commenced its operations on 1 January 2021 after incurring the following expenditure:

| | Sh. |
|----------------------|------------|
| Factory building | 14,200,000 |
| Warehouse | 900,000 |
| Staff canteen | 780,000 |
| Drainage system | 400,000 |
| Computers | 500,000 |
| Delivery van | 1,800,000 |
| Conveyor belts | 680,000 |
| Office furniture | 250,000 |
| Generator | 350,000 |
| Tractor | 4,200,000 |
| Processing machinery | 3,800,000 |

Additional information:

- 1. A godown was constructed and utilised with effect from 1 October 2021. The total cost of construction was Sh.850,000.
- 2. A Sports Pavilion and labour quarters were constructed at a cost of Sh.650,000 and Sh.1,300,000 respectively. Both were utilised with effect from 1 June 2021.
- 3. A parking bay was constructed and completed on 1 November 2021 at a cost of Sh.580,000.
- 4. The factory building comprised of the following:

| | Sh. |
|----------------|------------|
| Retail shop | 720,000 |
| Dwelling house | 600,000 |
| Office block | 280,000 |
| Land | 4,200,000 |

Required:

- Investment allowances due to Best Industries Ltd. for the year ended 31 December 2021. (12 marks)
- (Total: 20 marks)**
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ATD LEVEL II

PRINCIPLES OF TAXATION

TUESDAY: 5 April 2022. Afternoon paper.

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. Do NOT write anything on this paper.

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

Year of income 2021.

Assume that the following rates of tax applied throughout the year of income 2021:

| Monthly taxable pay (Sh.) | Annual taxable pay (Sh.) | Rate of tax % in each Sh. |
|------------------------------|-----------------------------|------------------------------|
| 1 - 24,000 | 1 - 288,000 | 10% |
| 24,001 - 32,333 | 288,001 - 388,000 | 25% |
| Excess over - 32,333 | Excess over - 388,000 | 30% |

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

| Investment allowance: | Rate of investment allowance | Residual value (per year on reducing balance) | Prescribed benefit rates of motor vehicles provided by employer |
|---|----------------------------------|--|--|
| Capital expenditure incurred on: | | | (i) Saloons, Hatch Backs and Estates |
| (a) Buildings: | | | Monthly rates (Sh.) Annual rates (Sh.) |
| • Hotel building | 50% in the first year of use | 25% | Up to 1200 cc 3,600 43,200 |
| • Building used for manufacture | 50% in the first year of use | 25% | 1201 - 1500 cc 4,200 50,400 |
| • Hospital buildings | 50% in the first year of use | 25% | 1501 - 1750 cc 5,800 69,600 |
| • Petroleum or gas storage facilities | 50% in the first year of use | 25% | 1751 - 2000 cc 7,200 86,400 |
| • Educational/hostels building | 10% per year on reducing balance | | 2001 - 3000 cc 8,600 103,200 |
| • Commercial building | 10% per year on reducing balance | | Over - 3000 cc 14,400 172,800 |
| (b) Machinery: | | | (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 7,200 86,400 |
| (d) Farm works | 50% in the first year of use | 25% | |

| Commissioner's prescribed benefit rates: | Monthly rates (Sh.) | Annual rates (Sh.) |
|---|------------------------|-----------------------|
| 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 |

QUESTION ONE

- (a) Highlight four reasons for introduction of withholding taxes in most developing countries. (4 marks)
- (b) Outline four registration requirements for personal identification number (PIN) for a non-Kenyan employee residing in Kenya other than a refugee. (4 marks)
- (c) Kelvin Baraka is employed by Hakika Ltd. as a sales manager. During the year ended 31 December 2021, he presented the following information for income tax purposes:
- He received a basic monthly salary of Sh.350,500. The company deducted Sh.96,950 from his monthly salary as PAYE.
 - He received sales commission during the year amounting to Sh.1,200,000.
 - He received one month basic salary as bonus in the month of December 2021.
 - He lives in a rented house near the company where he pays a monthly rent of Sh.40,000. The company reimburses him the rental cost incurred.
 - The company provided him with a 1500cc saloon car and fuel for his travelling. The vehicle had been acquired at Sh.2,500,000. During the year, the company incurred Sh.320,000 as motor vehicle running costs.
 - During the year, the company reimbursed him the following expenses:

| | Sh. |
|------------------------------|---------|
| Telephone bills | 120,000 |
| Professional membership fees | 180,000 |
| Official expenses | 145,000 |
 - He attended a 5 day seminar during the month of December where he was paid daily allowance of Sh.6,000 for his accommodation.
 - The company provided him with food items worth Sh.25,000 during the year.
 - He contributed Sh.12,000 per month to an approved pension scheme while the employer contributed a similar amount.

Required:

- (i) Taxable income of Kelvin Balaka for the year ended 31 December 2021. (9 marks)
- (ii) Tax payable (if any) from the income computed in (c) (i) above. (3 marks)

(Total: 20 marks)**QUESTION TWO**

- (a) Distinguish between "bonded warehouse" and "custom warehouse" as used in Customs and Excise Act. (4 marks)
- (b) Describe four categories of goods that are subject to customs control. (4 marks)
- (c) Darubini Ltd. provided the following statement of profit or loss for the year ended 31 December 2021:

| | Sh. | Sh. |
|---|----------------|--------------------|
| Gross profit | | 4,956,000 |
| Dividends received (gross) | | 270,000 |
| Rental income | | 615,000 |
| Foreign exchange gains realised | | 570,000 |
| Insurance compensation for the stolen inventory | | 360,000 |
| Less expenses: | | |
| Salaries and wages | 1,830,000 | |
| Subscriptions and donations | 90,000 | |
| Bank charges | 255,000 | |
| Depreciation | 210,000 | |
| Office rent | 1,290,000 | |
| Electricity and water | 790,000 | |
| Advertisement costs | 97,500 | |
| Amortisation of goodwill | 315,000 | |
| Repairs and maintenance | 480,000 | |
| Audit fees | 247,500 | |
| General expenses | 1,800,000 | |
| Provision for corporation tax | <u>185,000</u> | <u>(7,590,000)</u> |
| Net loss | | <u>(819,000)</u> |

Additional information:

| | | |
|----|---|------------|
| 1. | General expenses comprised the following: | Sh. |
| | Legal fees for breach of contract | 135,000 |
| | Stamp duty on land | 900,000 |
| | Passages to one of the directors | 315,000 |
| | General provision for bad debts | 450,000 |
| 2. | Repairs and maintenance included: | Sh. |
| | Replacement of an old computer | 61,500 |
| | Re-roofing the factory with branded iron sheet | 315,000 |
| | General repairs | 103,500 |
| 3. | Advertisement costs included the following: | Sh. |
| | Placing advertisements in media | 36,000 |
| | Erection of a new billboard | 18,000 |
| | Publicity for Christmas sales | 43,500 |
| 4. | Subscriptions and donations related to the following: | Sh. |
| | Donations to political parties | 67,500 |
| | Subscription to Federation of Employers | 22,500 |

Required:

Adjusted taxable profit or loss of Darubini Ltd. for the year ended 31 December 2021.

(12 marks)

(Total: 20 marks)**QUESTION THREE**

- (a) Summarise four contents of a notice of default assessment made by the commissioner to a taxpayer as provided under Tax Procedures Act, 2015. (4 marks)
- (b) Argue four cases against value added tax (VAT) levied in most countries. (4 marks)
- (c) Mapema Ltd. deals in a wide variety of vatiable goods and is registered for value added tax (VAT) purposes. The following information was extracted from its records for the month of January 2022.

All transactions are exclusive of VAT at the rate of 16% where applicable.

| | |
|--------------------|------------------|
| | Sh. |
| Total cash sales | 2,800,000 |
| Total credit sales | 3,600,000 |
| Total exports | <u>1,200,000</u> |
| | <u>7,600,000</u> |

Expenditure during the month:

| | |
|---|-----------|
| Purchase made from VAT registered persons | 4,200,000 |
| Purchases from dealers not registered for VAT | 1,500,000 |
| Internet charges | 180,000 |
| Security services | 550,000 |
| Salaries and wages | 2,200,000 |
| Electricity bills | 350,000 |
| Water bills from Clean Water Bottlers | 220,000 |
| Catering services | 380,000 |
| Stationery | 290,000 |
| Office rent | 600,000 |
| Medical services | 228,000 |
| Motor vehicle fuel | 125,000 |

Required:

A value added tax (VAT) account for the month of January 2022.

(12 months)

(Total: 20 marks)

QUESTION FOUR

- (a) A taxation system can be classified based on the base, incidence or the rate.

With reference to the above statement, explain four classifications of taxes based on the tax rate.

(8 marks)

- (b) Bancy Ltd. is a private company engaged in the business of manufacturing and selling toys.

The company started operations in February 2021 after incurring the following costs:

| | Sh. |
|--------------------------------------|------------|
| Factory land and building | 22,600,000 |
| Plant and machinery | 8,200,000 |
| Labour quarters | 3,600,000 |
| Computers | 480,000 |
| Furniture and fittings | 950,000 |
| 2 Saloon cars (each at Sh.2,600,000) | 5,200,000 |
| Duplicating machines | 620,000 |
| Generator | 350,000 |
| Photocopying machine | 280,000 |
| Conveyor belts | 720,000 |
| Delivery van | 1,900,000 |

Additional information:

1. A godown was constructed and utilised with effect from 1 October 2021. The total construction cost was Sh.1,200,000.
2. Factory land and building included Sh.10,000,000 as the cost of land.
3. On 1 October 2021, the following assets were acquired:

| | Sh. |
|-------------------------|-----------|
| Laptop | 180,000 |
| Heavy duty forklift | 1,400,000 |
| Trailer for the tractor | 460,000 |

Required:

Investment allowances due to Bancy Ltd. for the year ended 31 December 2021.

(12 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Distinguish between the term "tax evasion" and "tax avoidance".

(4 marks)

- (b) Propose four taxable services under the Digital Service Tax (DST) regulation.

(4 marks)

- (c) Mwenda and Musyoka have been trading as Mwema Traders and sharing profits and losses equally. They have provided the following statement of profit or loss for the year ended 31 December 2021:

| | Sh. | Sh. |
|------------------------------------|------------------|--------------------|
| Sales | | 13,612,000 |
| Opening stock | 1,965,000 | |
| Purchases | 3,930,000 | |
| Closing stock | <u>(982,500)</u> | <u>(4,912,500)</u> |
| Gross profit | | 8,699,500 |
| Rental income | | 900,000 |
| Discount received | | 81,000 |
| Foreign exchange gain - unrealised | | <u>180,000</u> |
| | | 9,860,500 |
| Less expenses: | | |
| Salaries and wages | 1,950,000 | |
| Office expenses | 540,000 | |
| Telephone and postage | 255,000 | |
| Depreciation | 375,000 | |
| Marketing and promotion | 180,000 | |
| Rent and rates | 360,000 | |
| Consultancy and professional fees | 630,000 | |

| | Sh. | Sh. |
|--------------------------------------|----------------|--------------------|
| Loss on disposal of a motor vehicles | 300,000 | |
| Insurance | 187,500 | |
| Customs duty paid | 153,000 | |
| Legal fees | 615,000 | |
| Permits and licenses | 150,000 | |
| Interest on bank overdraft | 120,000 | |
| NSSF paid | 148,500 | |
| Repairs and maintenance | <u>709,500</u> | <u>(6,673,500)</u> |
| Net profit | | <u>3,187,000</u> |

Additional information:

1. Salaries and wages include salaries to partners of Sh.675,000 and Sh.525,000 for Mwenda and Musyoka respectively.
2. Marketing and promotion expenses represent the cost of putting up huge billboard in a conspicuous location of the central business district.
3. Consultancy and professional fees include Sh.525,000 paid to a tax law expert to defend the partnership in a tax dispute.
4. Included in the rent and rates is Sh.135,000 for stamp duty in relation to lease of the rental premises. The lease is for a period of less than 100 years.
5. Investment allowances was agreed with the Commissioner of Domestic Taxes at Sh.1,312,500.
6. Rent and rates relates to rental income from commercial properties owned or leased by the partners.

Required:

- (i) Adjusted total taxable profit or loss for Mwema Traders for the year ended 31 December 2021. (10 marks)
- (ii) Allocation of taxable profit or loss in (c) (i) above to the partners. (2 marks)

(Total: 20 marks)

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ATD LEVEL II

PRINCIPLES OF TAXATION

THURSDAY: 16 December 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: | 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 | | | | | | | | | | | | | | | | | | | | | |
|---|----------------------------------|--|---|--|------------------------|-----------------------|---------------|-------|--------|----------------|-------|--------|----------------|-------|--------|----------------|-------|--------|----------------|-------|---------|--------------|--------|---------|
| Capital expenditure incurred on: | | | <table border="1"> <thead> <tr> <th></th> <th>Monthly rates (Sh.)</th> <th>Annual rates (Sh.)</th> </tr> </thead> <tbody> <tr> <td>Up to 1200 cc</td> <td>3,600</td> <td>43,200</td> </tr> <tr> <td>1201 - 1500 cc</td> <td>4,200</td> <td>50,400</td> </tr> <tr> <td>1501 - 1750 cc</td> <td>5,800</td> <td>69,600</td> </tr> <tr> <td>1751 - 2000 cc</td> <td>7,200</td> <td>86,400</td> </tr> <tr> <td>2001 - 3000 cc</td> <td>8,600</td> <td>103,200</td> </tr> <tr> <td>Over 3000 cc</td> <td>14,400</td> <td>172,800</td> </tr> </tbody> </table> | | 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 |
| | 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 | | | | | | | | | | | | | | | | | | | | | | |
| (a) Buildings: | | | | | | | | | | | | | | | | | | | | | | | | |
| • Hotel building | 50% in the first year of use | 25% | | | | | | | | | | | | | | | | | | | | | | |
| • Building used for manufacture | 50% in the first year of use | 25% | | | | | | | | | | | | | | | | | | | | | | |
| • Hospital buildings | 50% in the first year of use | 25% | | | | | | | | | | | | | | | | | | | | | | |
| • Petroleum or gas storage facilities | 50% in the first year of use | 25% | | | | | | | | | | | | | | | | | | | | | | |
| • Educational/hostels building | 10% per year on reducing balance | | | | | | | | | | | | | | | | | | | | | | | |
| • Commercial building | 10% per year on reducing balance | | | | | | | | | | | | | | | | | | | | | | | |
| (b) Machinery: | | | (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 7,200 86,400 | | | | | | | | | | | | | | | | | | | | | |
| (d) Farm works | 50% in the first year of use | 25% | | | | | | | | | | | | | | | | | | | | | | |

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

QUESTION ONE

(a) Describe the following principles of taxation:

- (i) Simplicity. (2 marks)
- (ii) Flexibility. (2 marks)
- (iii) Productivity. (2 marks)

(b) Propose four reasons for restricting imports in most developing countries. (4 marks)

(c) Taita Ltd. is in trading business. The following income statement was obtained from the accounting records of the company for the year ended 31 December 2020:

| | Sh. | Sh. |
|--------------------------------|---------------|------------------|
| Sales | | 1,113,600 |
| Foreign exchange gain | | 94,800 |
| Capital gain on sale of shares | | 120,000 |
| Dividends net of tax | | 170,000 |
| Interest from savings account | | <u>36,400</u> |
| | | 1,534,800 |
| Less expenses: | | |
| Purchases | 417,600 | |
| Legal expenses | 94,800 | |
| Donations | 29,400 | |
| Depreciation | 148,200 | |
| General expenses | 360,000 | |
| Cost of developing website | 90,000 | |
| Salaries and wages | 306,000 | |
| Bad debts | 354,000 | |
| Proposed dividends | 146,500 | |
| NSSF contributions | 82,800 | |
| Purchase of furniture | 120,000 | |
| Bank ledger fees | <u>64,300</u> | <u>2,213,600</u> |
| Net loss | | <u>(678,800)</u> |

Additional information:

1. Legal expenses comprise:

| | Sh. |
|---|---------------|
| • Renewal of 100 years lease | 28,000 |
| • Defending a director from fraud charges | 24,800 |
| • Registering a patent right | 36,200 |
| • Providing legal opinion on tender documents | <u>5,800</u> |
| | <u>94,800</u> |
2. Bad debts comprise:

| | Sh. |
|----------------------------------|----------------|
| General provision for bad debts | 48,000 |
| Specific provision for bad debts | 184,000 |
| Bad debts written off | <u>122,000</u> |
| | <u>354,000</u> |
3. General expenses include; Cost of partitioning an offices space Sh.60,000, purchase of computer software Sh.36,000, cost of wiring Sh.24,000 and conveyance fees Sh.48,000.
4. Purchases and sales are inclusive of VAT at the rate of 16%.

Required:

A statement of adjusted taxable profit or loss for the year ended 31 December 2020.

(10 marks)

(Total:20 marks)

QUESTION TWO

(a) Identify five transactions that requires Personal Identification Number (PIN) under the Income Tax Act. (5 marks)

(b) Kiberly Makau is employed by Haki Ltd. as a marketing director. He has provided the following details to be used in the computation of his taxable income for the year ended 31 December 2020:

1. Basic salary of Sh.675,000 per month (PAYE Sh.127,500).
2. He was provided with a fully furnished house with water, electricity and a telephone line.
3. The market rental value of the house was estimated at Sh.135,000 per month. The cost of furniture was Sh.850,000.

4. During the year, water consumed amounted to Sh.5,200, electricity bills Sh.16,400 and telephone bills Sh.18,000.
5. He was provided with a saloon car of 1800cc from 1 July 2020 which had cost the company Sh.950,000.
6. During the year, the company contributed an amount equal to 5% of his monthly basic salary to a registered pension scheme, while he contributed an equal amount to the scheme.
7. The company paid school fees for his son amounting to Sh.52,000. This amount was disallowed for tax purposes in the company's accounts.
8. He received a bonus pay equal to 15% of one month basic pay in the month of December 2020.
9. The company operates a medical scheme for all the staff. During the year the company paid his medical expenses amounting to Sh.45,000.
10. During the year, the company paid for his life insurance premiums and his family at Sh.12,000 per person. He has a cover for himself, wife and son.
11. He received entertainment allowance amounting to Sh.28,300 per month from 1 September 2020.
12. On 1 July 2020, Kiberly Makau obtained a loan of Sh.8,000,000 from the company at an interest rate of 5% per annum repayable in 15 years. The prescribed interest rate by the Revenue Authority during the year was 7%.

Required:

- (i) Taxable income for Kiberly Makau for the year ended 31 December 2020. (12 marks)
 - (ii) Tax payable (if any) from the income computed in (b) (i) above. (3 marks)
- (Total: 20 marks)**

QUESTION THREE

(a) Explain the following terms as used in taxation:

- (i) Instalment tax. (2 marks)
- (ii) Advance tax. (2 marks)

(b) Explain two conditions attached to Voluntary Tax Disclosure Programme (VTDP). (4 marks)

(c) Wanga and Kemboi are partners trading as Wema Enterprises and sharing profits and losses equally. The following information was extracted from their books of accounts:

| | Sh. |
|---|---------------|
| Sales | 5,616,000 |
| Purchases | 1,850,000 |
| Discount allowed | 54,000 |
| Discount received | 75,000 |
| Trading loss | 48,000 |
| Insurance claim received | 380,000 |
| Interest on capital | 252,000 |
| Rent and rates | 440,000 |
| General provision for bad debts | 138,000 |
| Electricity | 32,000 |
| Dividend received (Utumishi Co-operative Society) | 119,000 (net) |
| Purchase of computer | 51,500 |
| Legal fees | 209,000 |
| Subscriptions | 282,000 |
| Farming income | 180,000 |
| Bank charges | 22,500 |
| Drawings | 515,000 |
| Purchase of furniture | 215,000 |
| Foreign exchange loss (realized) | 39,500 |
| Salaries | 1,600,000 |
| Depreciation | 114,000 |

Additional information:

1. Included in the purchases figure, was a purchase of Sh.36,250 inclusive of VAT at 16%.
2. Insurance claim received related to loss of profit.
3. Interest on capital comprise Sh.145,000 and Sh.107,000 paid to Wanga and Kemboi respectively.
4. Legal fees comprise:

| | |
|------------------------------|---------------|
| • Lease agreement (99 years) | Sh. 53,500 |
|------------------------------|---------------|

- Wanga's legal defense 34,000
 - Defending firm's sales manager 80,000
 - Collection of firm's debts 41,500
5. Subscriptions relate to: **Sh.**
- Subscription to scientific research 125,000
 - Staff subscription to a sports club 95,000
 - Kemboi's subscription to golf club 62,000
6. Drawings relate to goods taken by partners for personal use as follows:
- Sh.**
- | | |
|--------|---------|
| Wanga | 280,000 |
| Kemboi | 235,000 |
7. Salaries included Sh.510,000 and Sh.480,000 paid to Wanga and Kemboi respectively.
8. Ignore opening and closing stock.
9. Investment allowance was agreed with the Commissioner of Revenue Authority at Sh.720,000.

Required:

- (i) Taxable profit or loss of the partnership for the year ended 31 December 2020. (8 marks)
- (ii) Allocation of taxable profit or loss in (c) (i) above to the partners. (4 marks)
- (Total: 20 marks)**

QUESTION FOUR

(a) Explain the following terms as used in taxation:

- (i) Tax shifting. (2 marks)
- (ii) Tax set off. (2 marks)

(b) Outline four circumstances under which custom duty paid could be refunded. (4 marks)

(c) Shaka Enterprises Ltd. deals in a wide variety of vatable goods. The transactions for the month of November 2021 are provided below:

- November 2: Purchased goods on credit from Mambo Enterprises of Sh.960,000.
- November 3: Imported goods worth Sh.744,500 from Dubai inclusive of custom duty, freight charges and value added tax.
- November 4: Made cash sales of Sh.148,000 to Ripa Ltd. a company in Rwanda.
- November 9: Paid Sh.160,800 as audit fee to Hela Certified Public Accountants.
- November 11: Returned goods worth Sh.40,000 to Mambo Enterprises.
- November 12: Sold goods on credit to the Ministry of Sports worth Sh.386,000.
- November 14: Paid for electricity and water bills of Sh.18,200 and Sh.6,800 respectively.
- November 15: Made credit sales to Mapato Enterprises of Sh.560,000.
- November 19: Received Sh.180,000 from the Ministry of Sports on account.
- November 21: Mapato Enterprises returned goods worth Sh.82,000 claiming that they were of low quality.
- November 22: Paid for restaurant services amounting to Sh.64,500.
- November 25: Purchased goods worth Sh.482,000 from Rusha Enterprises and paid half of the amount by cash.
- November 27: Paid Sh.132,000 to Motor Tech Ltd. as repair costs on motor vehicles used in supplying vatable goods.
- November 30: Made cash sale of Sh.728,000 to Nyota Ltd.

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

Required:

- A value added tax (VAT) account for the month of November 2021. (12 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Citing four reasons, justify why most countries are focusing more on indirect taxes as compared to direct taxes as a source of revenue to the government. (8 marks)

- (b) Southern Manufacturing Company Ltd. was incorporated on 22 January 2020 to manufacture leather products. The company commenced its operations on 4 May 2020 after incurring the following expenditure:

| | Sh. |
|------------------------------------|------------|
| Factory land and building | 18,400,000 |
| Stone perimeter wall | 2,600,000 |
| Staff canteen | 956,000 |
| Plant and machinery for factory | 6,600,000 |
| Computers | 480,000 |
| Tractor | 3,400,000 |
| 2 lorries (2.8 tonnes each) | 4,800,000 |
| 3 saloon cars each at Sh.3,600,000 | 10,800,000 |
| Electronic tax registers | 180,000 |
| Scanners | 96,000 |
| Bus – for staff | 5,400,000 |
| Mobile phones | 72,000 |
| Tuk-tuk | 280,000 |
| Delivery van | 1,800,000 |
| Conveyor belts | 240,600 |
| Waste recycling machine | 920,000 |

Additional information:

- 1. Included in factory land and building is the cost of land Sh.4,400,000.
- 2. The cost of plant and machinery for factory include custom duty Sh.600,000, insurance in transit Sh.72,000 and installation costs Sh.480,600.
- 3. A borehole was drilled at a cost of Sh.1,240,500 and utilised with effect from 1 September 2020.
- 4. The following additional assets were acquired or constructed and utilised with effect from 1 October 2020.

| | Sh. |
|----------------------------|------------|
| Printers | 280,000 |
| Heating plant | 4,200,000 |
| Sports pavilion | 540,000 |
| 2-pick-up | 3,600,000 |
| Loading bay | 320,000 |
| Trailer for the tractor | 780,000 |
| Factory building extension | 2,700,000 |
| Labour quarters | 1,800,000 |

- 5. The company disposed of the following assets on 1 October 2020:

| Asset | Disposable proceeds |
|----------------|----------------------------|
| | Sh. |
| Computers | 120,000 |
| Mobile phone | 32,000 |
| Lorry | 2,100,000 |
| One saloon car | 1,800,000 |

Required:

Investment allowances due to Southern Manufacturing Company Ltd. for the year ended 31 December 2020.

(12 marks)
(Total: 20 marks)

.....



**ATD LEVEL II
PILOT PAPER**

PRINCIPLES OF TAXATION

December 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 | | | | | | | | | | | | | | | | | | | | | |
|---|----------------------------------|--|---|--|------------------------|-----------------------|---------------|-------|--------|----------------|-------|--------|----------------|-------|--------|----------------|-------|--------|----------------|-------|---------|--------------|--------|---------|
| | | | <table border="1"> <thead> <tr> <th></th> <th>Monthly rates (Sh.)</th> <th>Annual rates (Sh.)</th> </tr> </thead> <tbody> <tr> <td>Up to 1200 cc</td> <td>3,600</td> <td>43,200</td> </tr> <tr> <td>1201 - 1500 cc</td> <td>4,200</td> <td>50,400</td> </tr> <tr> <td>1501 - 1750 cc</td> <td>5,800</td> <td>69,600</td> </tr> <tr> <td>1751 - 2000 cc</td> <td>7,200</td> <td>86,400</td> </tr> <tr> <td>2001 - 3000 cc</td> <td>8,600</td> <td>103,200</td> </tr> <tr> <td>Over 3000 cc</td> <td>14,400</td> <td>172,800</td> </tr> </tbody> </table> | | 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 |
| | 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 | | | | | | | | | | | | | | | | | | | | | | |
| (a) Buildings: | | | | | | | | | | | | | | | | | | | | | | | | |
| • Hotel building | 50% in the first year of use | 25% | | | | | | | | | | | | | | | | | | | | | | |
| • Building used for manufacture | 50% in the first year of use | 25% | | | | | | | | | | | | | | | | | | | | | | |
| • Hospital buildings | 50% in the first year of use | 25% | | | | | | | | | | | | | | | | | | | | | | |
| • Petroleum or gas storage facilities | 50% in the first year of use | 25% | | | | | | | | | | | | | | | | | | | | | | |
| • Educational/hostels building | 10% per year on reducing balance | | | | | | | | | | | | | | | | | | | | | | | |
| • Commercial building | 10% per year on reducing balance | | | | | | | | | | | | | | | | | | | | | | | |
| (b) Machinery: | | | (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 7,200 86,400 | | | | | | | | | | | | | | | | | | | | | |
| (d) Farm works | 50% in the first year of use | 25% | | | | | | | | | | | | | | | | | | | | | | |

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

QUESTION ONE

- (a) “The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing” Jean-Baptiste Colbert.
- (b) In light of the above statement, suggest five factors that tax administrators should consider to minimise negative effects of taxation while maximising on revenue collection. (10 marks)

With reference to the principle of equity in taxation, distinguish between “vertical equity” and “horizontal equity”. (4 marks)

- (c) One of the Urban Counties in Kenya has been battling with perennial budget deficits since inception of counties in the year 2013. Suggest to the county administration possible sources of revenue for supplementing the allocation from the National government (6 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Two groups of tax students were engaged in an argument on taxation of non-cash benefits from employment. One group argued that employees should be taxed only on their salary and other related cash benefits while the other group supported taxation of all cash and non-cash benefits.

Required:

Giving two reasons to justify your choice, identify which of the two groups you would support. (4 marks)

- (b) August Ochieng’ an employee of Embassy bank has provided you with the following information for the year of income 2020.
1. His basic salary was Sh.300, 000 per month (PAYE deducted Sh.65,680). He also received an allowance of Sh.25,000 per month to be spend exclusively in customer entertainment.
 2. The bank provided him with a new 2000 cc car market value Sh.1800, 000. The car was leased from Casino Motors at Sh.45,000 per month. 40% of the cars use is official.
 3. The company pays for private medical insurance for its directors and senior staff. The cost attributable to August Ochieng’ was Sh.240,000 for the year.
 4. The Employer pays Sh. 12,600 per month towards his Life insurance cover but recovers Sh.7,500 against his salary
 5. He paid mortgage interest of shs.320,000 (gross) p.a. on a shs.8000,000 mortgage on his new home
 6. Night out allowance for 13 days he was in Naivasha for seminar Sh. 6400 per day
 7. On 1 September 2020, he obtained a Sh.600,000 loan from his employer. The interest payable on this loan was at the rate of 2% per annum. The governments prescribed rate of interest is 10%
 8. Leave Passages for visiting USA where his family lives 400,000
 9. Embassy bank issued him with 15,000 shares at a price of Sh.23 per share, the shares were trading at Sh.28 on the date of issue
 10. He paid by standing order a contribution of Sh.100, 000 per annum to Borderless World a registered charity.

Other incomes were as follows:

- Dividend from Makuyu cooperative society Sh.255,000 (net)
- Royalties for his online Motivational series Sh.285,000 (net)
- Dividend from EASN Ltd Sh.120,000 gross
- Directors allowances from Government SACCO Sh.40,000 each quarter

Required:

- (i) Determine August Ochieng’s taxable income for the year of income 2020. (12 marks)
- (ii) The tax payable (if any) for the year from the income computed in (b) (i) above. (2 marks)
- (iii) Explain the tax treatment of Loan obtained from the employer. (2 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Gatu Wanderi a farmer in Kirinyanga has Sh.4, 000,000 as compensation for his Land taken over for a government's project. He intends to invest the amount as follows:
1. Construct a bungalow in the neighboring town and rent it out at estimated rent of Sh. 28,000 per month
 2. Buy a piece of land and subdivide it out into plots for resale
 3. Buy a huge piece of land in the Arid north and hold it in speculation for higher prices in the future
 4. Sink a borehole and start selling water in his village
 5. Invest the money in his brothers Mitumba Business with an agreement of joint participation in the profits
 6. Deposit the Money with Fairbank Uganda which pays the highest interest in the region

Advise Gatu Wanderi on the tax implications of each of the above options. (6 marks)

- (b) Rick, Kent and Antoine have been partners in an entertainment firm. They shared profit and losses in the ratio 3:2:1 respectively up to 30 September when the firm was dissolved.

During the nine months to 30 September 2020, the firm presented the following income statement:

| Rick, Kent and Chris Partnership | | Sh. "000" | Sh. "000" |
|---|-------|------------------|------------------|
| Income statement for nine months ended 30/9/2020 | | | |
| Gross profit | | | 13,500 |
| Deduct | | | |
| Rent and rates | | 1200 | |
| Salaries - | staff | 585 | |
| | Rick | 1125 | |
| | Kent | 900 | |
| | Chris | 675 | |
| Depreciation | | 300 | |
| Balancing deduction | | 75 | |
| Advertising (Neo-sign) | | 187.5 | |
| Interest on capital - Rick | | 450 | |
| | Kent | 300 | |
| | Chris | 150 | |
| Commission paid to Chris | | 60 | |
| Water and electricity | | 225 | |
| Insurance | | 142.5 | <u>6,375</u> |
| Net profit | | | <u>7,125</u> |

On 1 October 2020 Kent was employed as a sales manager by Blaze Africa Ltd. The terms of his employment provided for the following

- An annual salary shs.2400,000 (PAYE shs.316,000 per annum)
- His monthly allowances were specified as follows:

| Sh. | |
|--------------------|---------|
| Hardship allowance | 180,000 |
| Entertainment | 120,000 |
- School fees paid for His MBA classes Sh. 140,000
- He was entitled to end of year bonus of 5% of his annual salary paid pro rata to months of service.
- He contributed 10% of his monthly basic salary to a registered pension fund.

Required:

- (i) The taxable profit or loss of the partnership for the period ended 30 September 2020. (6 marks)
- (ii) Allocation of profit or loss to the partners. (2 marks)
- (iii) Determine Kent's taxable income for the year ended 31 December 2020. (6 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Explore the benefits of electronic tax register to
- (i) The trader. (2 marks)
- (ii) The Revenue Authority. (2 marks)
- (b) The following transactions relate to Malimwengu Limited, a VAT registered company for the month of September 2021:

1 September: Brought forward merchandise purchased in the previous month for Sh 464,000
3 September: Purchased goods valued merchandise at Sh 185,600
4 September: Sold zero rated merchandise for Sh. 142,000
5 September Sold goods on credit to Wanahawa traders for Sh. 208,800
6 September: Purchased merchandise from a trader at Sh. 190,000. This trader was not registered for VAT purposes.
7 September: Merchandise worth Sh. 37,120 was returned to the suppliers.
9 September: Merchandise sold on 4 September for Sh. 58,000 was returned by customers
11 September: Catering for staff Sh. 92,000
12 September: A client who had purchased merchandise on 4 September was declared bankrupt before paying a balance of Sh. 41,760 due from him.
15 September: Wanahawa Traders paid 160,000 in part settlement of their dues
18 September: Purchased motor vehicles fuel for Sh. 51,840
22 September: Imported merchandise at a cost of Sh. 250,000. Import duty and excise duty were charged at 20% and 10% respectively on top of the import price.
25 September: Purchased merchandise as follows:
From suppliers registered for VAT purposes - Sh.556,800
From suppliers not registered for VAT purposes - Sh.292,000
27 September: Sold merchandise as follows
To customers registered for VAT purposes - Sh.1160,000
To customers not registered for VAT purposes - Sh.580,000
30 September: VAT paid on Utilities
Electricity Sh. 11,600
Telephone Sh. 5,800
All transactions are quoted inclusive of VAT at the rate of 16% where applicable.

Required:

- (i) VAT account for the month ended 30 September 2021. (12 marks)
- (ii) Comment on any Information not used in your computations above (4 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain the options that the Revenue authority might employ to enforce tax compliance to defaulters. (4 marks)
- (b) Explain various strategies deployed by the customs and border control department in maximising revenue collection and curbing illicit trade. (6 marks)
- (c) Looks & Class Limited was established in the year 2020 to manufacture soap for the local market. Before commencement of operations on 1 January 2020, the company spent a total of Sh.9,760,000 to construct a factory. This cost is analysed as follows:

| | Sh. |
|---|------------------|
| Cost of land | 1,000,000 |
| Incinerator (for Burning waste) | 200,000 |
| Perimeter Wall | 560,000 |
| Factory building costs | <u>8000,000</u> |
| (Including showroom at Sh. 900,000 and offices Sh. 700,000) | <u>9,760,000</u> |

Additional information:

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

| | Cost (Sh.) |
|---|-------------------|
| Power transformer | 800,000 |
| Processing machinery (including installation costs at Sh.200,000) | 1,900,000 |
| Bridge (connecting the factory to the main road) | 600,000 |
| Water pump | 150,000 |
| Fork lift (mobile) | 1,200,000 |
| Two saloon cars (cost 4.8 million each) | 9,600,000 |
| Computers | 200,000 |
| Furniture and fixtures | 120,000 |
| Pickups | 1,500,000 |
| Tractor | 1,400,000 |
| Scanners | 80,000 |
| Machine for repairing factory plant | 400,000 |
| Office curtains | 160,000 |
| Fax machine | 100,000 |

Machine for repairing factory plant was acquired on hire purchase terms.

The cash price was 250,000.

Required:

Compute the investment allowances due to Looks and Class Limited for the year of income 2020. (10 marks)

(Total: 20 marks)

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ATD LEVEL III

DCM LEVEL III

PRINCIPLES OF PUBLIC FINANCE AND TAXATION

TUESDAY: 31 August 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 | | | | | | | | | | | | | | | | | | | | | |
|---|--|--|---|--|------------------------|-----------------------|---------------|-------|--------|----------------|-------|--------|----------------|-------|--------|----------------|-------|--------|----------------|-------|---------|--------------|--------|---------|
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| | 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 | | | | | | | | | | | | | | | | | | | | | | |
| (a) Buildings: <ul style="list-style-type: none"> Hotel building Building used for manufacture Hospital buildings Petroleum or gas storage facilities Educational/hostels building Commercial building | 50% in the first year of use 50% in the first year of use 50% in the first year of use 50% in the first year of use 10% per year on reducing balance 10% per year on reducing balance | 25% 25% 25% 25% 25% | (ii) Pick-ups, Panel Vans (unconverted) Up to 1750 cc 3,600 43,200 Over 1750 cc 4,200 50,400 | | | | | | | | | | | | | | | | | | | | | |
| (b) Machinery: <ul style="list-style-type: none"> Machinery used for manufacture Hospital equipment Ships or aircraft Motor vehicles and heavy earth moving equipment Computer software, calculators, copiers and duplicating machines Furniture and fittings Telecommunication equipment Film equipment by a local producer Machinery used to undertake operations under prospecting rights and exploration under mining rights Other machinery | 50% in the first year of use 50% in the first year of use 50% in the first year of use 25% per year on reducing balance 25% per year on reducing balance 10% per year on reducing balance 10% per year on reducing balance 25% per year on reducing balance 50% in the first year of use 10% per year on reducing balance | 25% 25% 25% 25% | (iii) Land Rovers/Cruisers 7,200 86,400 | | | | | | | | | | | | | | | | | | | | | |
| (c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation | 10% per year on reducing balance | | | | | | | | | | | | | | | | | | | | | | | |
| (d) Farm works | 50% in the first year of use | 25% | | | | | | | | | | | | | | | | | | | | | | |

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

QUESTION ONE

- (a) Explain the term “county government revenue” as provided under the Public Finance Management Act. (2 marks)
- (b) Highlight five sources of non-tax revenue that the state uses to finance the national budget. (5 marks)
- (c) Identify five areas where the Public Finance Management Act shall prevail in case of any inconsistency with any other legislation. (5 marks)
- (d) Propose four benefits that could arise from citizen participation in the budget process and public finance management in your country. (8 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Describe three functions of the Revenue Authority or similar body in your country. (6 marks)
- (b) Summarise four roles of the County Assembly in public finance management. (4 marks)
- (c) Mambo PLC is a registered company for value added tax (VAT) purposes. During the month of April 2021, the company made the following transactions:

April 4: Purchased goods on cash for Sh.64,960.

April 8: Imported goods from China whose cost, insurance and freight amounted to Sh.150,000. Import duty on those goods was at the rate of 25%.

April 12: Sold goods on cash valued at Sh.151,380 to the local market.

April 16: Exported goods valued at Sh.70,000 to Malawi.

April 18: Purchased goods on credit for Sh.91,060 from local markets.

April 20: Sold goods to Mbao Ltd. on credit for Sh.41,064.

April 24: Received debit notes of Sh.22,852 in respect to goods purchased from the local market.

April 26: Issued a credit note of Sh.34,220 to Mbao Ltd. in respect to under invoicing of supplies.

April 28: Paid for catering services from Safi restaurant of Sh.28,536.

April 30: Paid electricity bills of Sh.17,052 and for bottled mineral water for drinking worth Sh.9,164.

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

Required:

A value added tax (VAT) account for the month of April 2021.

(10 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Highlight four benefits of an effective tax system to a developing country. (4 marks)
- (b) Explain the following terms as used in the Custom and Excise Act:
- (i) Drawback. (2 marks)
- (ii) Uncustomed goods. (2 marks)

- (c) Erick Jawabu works for Tacos Ltd. as an Assistant Finance Manager. He has provided the following details relating to his income during the month of December 2020:

1. Basic salary Sh.150,000 per month.

2. Monthly allowance include:

Sh.

Entertainment allowance 40,000

Transport allowance 60,000

Responsibility allowance 25,000

3. He contributed 12% of his monthly basic salary towards the company’s provident fund approved by the Pension Authority.

4. He has a life insurance policy where the company pays Sh.35,000 per month for him. He also pays an equal amount for the policy on monthly basis.

5. He is a member of a House Ownership Savings Plan (HOSP) where he contributes Sh.10,000 per month.

6. He received medical benefits amounting to Sh.42,000 from the employer during the month. The company has a medical scheme for all its senior staff members.

7. The employer provided him with electricity, water, telephone and a cook at a cost of Sh.1,200, Sh.1,800, Sh.6,000 and Sh.16,000 during the month respectively.

8. He worked out of office for 5 days during the month and the company paid him an allowance of Sh.4,500 per day.

9. He received an overtime allowance of Sh.29,000 during the month.

Required:

- (i) Total taxable income for Erick Jawabu for the month of December 2020. (10 marks)
- (ii) Tax payable (if any) from the income computed in (c) (i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) With reference to Tax Procedures Act, propose four ways through which the Revenue Authority could use to recover unpaid taxes from a taxpayer. (8 marks)
- (b) Tengeza manufacturers Ltd. commenced manufacturing on 1 May 2020 after having incurred the following capital expenditure:

| | Sh. |
|----------------------------|------------|
| • Factory building | 19,600,000 |
| • Processing machinery | 8,400,000 |
| • Godown | 900,000 |
| • Motor vehicle-saloon car | 2,400,000 |
| • Computers | 600,000 |
| • Staff canteen | 700,000 |

Additional information:

1. The factory building above includes: showroom Sh.450,000, retail outlet Sh.300,000 and warehouse Sh.500,000.
2. During the month of August 2020, the company constructed and put into use the following structures:

| | Sh. |
|------------------------|-----------|
| • Factory extension | 4,800,000 |
| • Processing machinery | 2,000,000 |
| • Warehouse | 800,000 |

3. Other capital items acquired during the month of October 2020 were as follows:

| | Sh. |
|--------------------------|-----------|
| • Computers and printers | 420,000 |
| • Furniture and fittings | 360,000 |
| • Switchboard | 180,000 |
| • Saloon car | 3,800,000 |
| • Pick up | 3,500,000 |
| • Tractor | 1,400,000 |
| • Carpets | 250,000 |
| • Water tanks | 120,000 |
| • Borehole sunk | 940,000 |

Required:

- Investment allowances for the year ended 31 December 2020. (12 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain the term "withholding tax" as provided under the Tax Procedures Act. (2 marks)
- (b) Summarise four changes to the turnover tax regime that were introduced through Tax Laws (Amendment) Act, 2020. (4 marks)
- (c) Kamali and Wanjiku are running Kawa Enterprises as partners, sharing profits and losses in the ratio of 2:3 respectively. The following is the statement of profit or loss of the business for the year ended 31 December 2020:

| | Sh. | Sh. |
|--|-----|-----------|
| Turnover (inclusive of VAT at the rate of 16%) | | 2,850,004 |
| Profit on sale of motor vehicle | | 396,500 |
| Interest on fixed deposit (Net) | | 185,000 |
| Dividends from Wakeh Cooperative Society (Net) | | 68,000 |
| Insurance recovery for stock stolen | | 169,500 |
| | | 3,669,004 |

| | Sh. | Sh. |
|------------------------|----------------|--|
| Less expenses: | | |
| Purchases | 1,640,000 | |
| Purchase of furniture | 840,000 | |
| Legal expenses | 420,000 | |
| Salaries and wages | 650,000 | |
| Travelling expenses | 148,800 | |
| General expenses | 320,000 | |
| Freight charges | 360,000 | |
| Insurance | 124,800 | |
| Loan repayment | 240,000 | |
| Purchase of computers | 180,000 | |
| Motor vehicle expenses | <u>156,200</u> | |
| Net loss | | <u>5,079,800</u> <u>(1,410,796)</u> |

Additional information:

- The partners' salaries included in the salaries and wages amounted to Sh.350,000. Their salaries were paid in the proportion to their profit and loss sharing ratio.
- The opening stock was valued at Sh.472,000 while closing stock was valued at Sh.600,000. It was discovered that closing stock was overstated by 20%.
- Legal expenses comprise:

| | Sh. |
|--------------------------------------|----------------|
| Appeal against tax tribunal decision | 164,800 |
| Conveyance of parcel of land | 32,000 |
| Negotiating a business loan | 36,400 |
| Registration of trade mark | 150,000 |
| Debt collection fees | <u>36,800</u> |
| | <u>420,000</u> |
- General expenses comprised:

| | Sh. |
|---|----------------|
| • Cost of advertisement billboard | 30,000 |
| • Installation of advertisement Billboard | 6,000 |
| • Office partitions | 24,000 |
| • Renewal of patent rights | 180,000 |
| • Valuation of parcel of land | <u>80,000</u> |
| | <u>320,000</u> |
- Freight charges included import duty of Sh.160,000 in respect to a motor vehicle imported from Japan. The motor vehicle cost of Sh.800,000 is included in the purchase figure.

Required:

- Adjusted taxable profit or loss for the partnership for the year ended 31 December 2020. (10 marks)
 - A schedule of allocation of taxable profit or loss in (c) (i) above to each partner. (4 marks)
- (Total: 20 marks)**
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ATD LEVEL III

DCM LEVEL III

PRINCIPLES OF PUBLIC FINANCE AND TAXATION

TUESDAY: 18 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 | | | | | | | | | | | | | | | | | | | | | |
|---|----------------------------------|--|---|--|---------------------------|--------------------------|---------------|-------|--------|----------------|-------|--------|----------------|-------|--------|----------------|-------|--------|----------------|-------|---------|--------------|--------|---------|
| | | | <table border="1"> <thead> <tr> <th></th> <th>Monthly rates (Sh.)</th> <th>Annual rates (Sh.)</th> </tr> </thead> <tbody> <tr> <td>Up to 1200 cc</td> <td>3,600</td> <td>43,200</td> </tr> <tr> <td>1201 - 1500 cc</td> <td>4,200</td> <td>50,400</td> </tr> <tr> <td>1501 - 1750 cc</td> <td>5,800</td> <td>69,600</td> </tr> <tr> <td>1751 - 2000 cc</td> <td>7,200</td> <td>86,400</td> </tr> <tr> <td>2001 - 3000 cc</td> <td>8,600</td> <td>103,200</td> </tr> <tr> <td>Over 3000 cc</td> <td>14,400</td> <td>172,800</td> </tr> </tbody> </table> | | 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 |
| | 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 | | | | | | | | | | | | | | | | | | | | | | |
| (a) Buildings: | | | | | | | | | | | | | | | | | | | | | | | | |
| • Hotel building | 50% in the first year of use | 25% | | | | | | | | | | | | | | | | | | | | | | |
| • Building used for manufacture | 50% in the first year of use | 25% | | | | | | | | | | | | | | | | | | | | | | |
| • Hospital buildings | 50% in the first year of use | 25% | | | | | | | | | | | | | | | | | | | | | | |
| • Petroleum or gas storage facilities | 50% in the first year of use | 25% | | | | | | | | | | | | | | | | | | | | | | |
| • Educational/hostels building | 10% per year on reducing balance | | | | | | | | | | | | | | | | | | | | | | | |
| • Commercial building | 10% per year on reducing balance | | | | | | | | | | | | | | | | | | | | | | | |
| (b) Machinery: | | | (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 7,200 86,400 | | | | | | | | | | | | | | | | | | | | | |
| (d) Farm works | 50% in the first year of use | 25% | | | | | | | | | | | | | | | | | | | | | | |

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

QUESTION ONE

- (a) Explain the following terms as used in public finance management:
- (i) Budget ceilings. (2 marks)
 - (ii) Vote-on-account. (2 marks)
 - (iii) National government security. (2 marks)
- (b) State four factors that should be taken into consideration in the allocation of the national revenue between the national government and county governments. (4 marks)
- (c) Discuss five functions of the Auditor General as envisaged by the Constitution and the Public Finance Management Act. (10 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Highlight four parties or persons whose views must be sought and incorporated by the National Treasury in preparation of the Budget Policy Statement according to the Public Finance Management Act. (4 marks)
- (b) Explain the following types of taxes:
- (i) Progressive taxes. (2 marks)
 - (ii) Regressive taxes. (2 marks)
- (c) The following details were extracted from the books of Mapato Ltd., a registered business for value added tax (VAT) purposes for the month of August 2020:

| Sales Journal | | | |
|---------------|----|--------------------------|-------------------------|
| Date | | Details | Amount (Sh.) |
| August : | 2 | Hekima Traders | 104,310 |
| August : | 8 | J. Omollo | 62,700 |
| August : | 14 | Kampala Traders (Uganda) | 400,000 |
| August : | 20 | Mkopo Enterprises | 230,280 |
| August : | 28 | Ministry of Health | 694,260 |
| | | Total | <u>1,491,550</u> |

| Purchases Journal | | | |
|-------------------|----|-----------------|-------------------------|
| Date | | Details | Amount (Sh.) |
| August : | 1 | Matunda Traders | 417,240 |
| August : | 3 | Wizary Traders | 928,530 |
| August : | 10 | K. Kamau | 250,800 |
| | | Total | <u>1,596,570</u> |

Additional information:

1. A trade discount of Sh.37,620 from Wizary Traders had not been deducted from the records.
2. On 31 August 2020, Mapato Ltd. issued a debit note to Mkopo Enterprises for Sh.34,200.
3. J. Omollo was declared bankrupt by a court of law. As at the date of declaration, he owed Mapato Ltd. Sh.23,256 in relation to the goods supplied.
4. During the month of August 2020, the following expenses were paid through Mapato Ltd. bank account:

| | Sh. |
|--------------------|---------|
| Audit services | 57,000 |
| Stationery | 17,100 |
| Salaries and wages | 835,050 |
| Legal services | 104,310 |
| Water bills | 8,550 |
| Electricity bills | 43,890 |

The above transactions are quoted inclusive of VAT at the rate of 14% where applicable.

Required:

A VAT account for Mapato Ltd. for the month of August 2020.

(12 marks)
(Total: 20 marks)

QUESTION THREE

- (a) State four documents that an importer should have while clearing goods at the port of entry in the country. (4 marks)
- (b) Distinguish between the terms "Transit" and "Transshipment" as used in custom and excise taxes. (4 marks)
- (c) Philip Lupisha is employed by Hesabu Contractors Ltd. as a managing director.

During the year ended 31 December 2020, he presented the following information for income tax purposes:

1. He received a gross monthly salary of Sh.465,000. The company deducted Sh.135,000 from his monthly salary as PAYE.
2. The employer has a life insurance scheme for all the senior employees. During the year the company paid Sh.180,000 for Philip Lupisha in regard to the scheme.
3. He was provided with a saloon car of 1,750 cc by the company on 1 July 2020. The car had been purchased for Sh.960,000 in 2019 and was to be used for both private and official duties.
4. School fees amounting to Sh.120,000 was paid by the company for Philip Lupisha's children during the year. This amount was expensed in the company's income statement.
5. He was provided with a company house furnished at the cost of Sh.420,000 during the year.
6. He contributed Sh.6,000 per month to an approved pension scheme while the employer contributed a similar amount for him.
7. He received a bonus of Sh.80,000 from the company in December 2020 for being the best employee of the year.
8. He attended a seminar for 10 days during the month of September 2020. He was paid a daily allowance of Sh.5,000 for his accommodation.
9. The company house provided was fixed with a telephone line and the company paid an average monthly bill of Sh.5,800.
10. On 1 October 2020, Philip Lupisha obtained a loan of Sh.1,800,000 at an interest rate of 8% per annum from Hesabu Contractors Ltd. The prevailing market interest rate was 18% per annum while the prescribed interest rate by the Commissioner was 12%.
11. Philip Lupisha's other income for the year comprised:

| | Sh. |
|-----------------------------------|---------|
| Part-time lecturing fee | 280,000 |
| Monthly pension income | 28,000 |
| Interest from infrastructure bond | 96,000 |
| Business income | 120,000 |

Required:

- (i) Taxable income of Philip Lupisha for the year ended 31 December 2020. (10 marks)
- (ii) Tax payable (if any) on the income computed in (c) (i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Riziki Ltd. presented the following statement of profit or loss for the year ended 31 December 2020:

| | Sh. | Sh. |
|----------------------------------|------------------|--------------------|
| Revenues | | 12,800,000 |
| Cost of sales | | <u>(4,300,000)</u> |
| Gross profit | | 8,500,000 |
| Expenses: | | |
| Distribution costs | 1,300,000 | |
| General expenses | 960,000 | |
| Depreciation | 140,000 | |
| Provision for tax | 180,000 | |
| Staff costs | 1,900,000 | |
| Specific provision for bad debts | 250,000 | |
| Repairs and maintenance | 137,000 | |
| Legal fees | <u>1,200,000</u> | <u>(6,067,000)</u> |
| Net profit | | <u>2,433,000</u> |

Additional information:

| | | |
|----|---|------------------|
| 1. | Distribution costs include: | Sh. |
| | Motor vehicle running and maintenance cost | 400,000 |
| | Traffic fines | 180,000 |
| | Replacement of motor vehicle engine | 550,000 |
| | Motor vehicle insurance and licensing cost | <u>170,000</u> |
| | | <u>1,300,000</u> |
| 2. | General expenses include: | Sh. |
| | Office renovation and re-painting | 370,000 |
| | Office lease amortisation | <u>590,000</u> |
| | | <u>960,000</u> |
| 3. | Staff costs include: | Sh. |
| | Salaries and wages | 960,000 |
| | Cash embezzlement by the cashier | 80,000 |
| | Staff catering costs | 420,000 |
| | Staff Christmas party | <u>440,000</u> |
| | | <u>1,900,000</u> |
| 4. | Legal fees include: | Sh. |
| | VAT penalties | 800,000 |
| | Drafting employment contracts | 150,000 |
| | Defending the company against breach of contracts | <u>250,000</u> |
| | | <u>1,200,000</u> |
| 5. | Repairs and maintenance costs included Sh.120,000 spent on partitioning the Finance Manager's office. | |
| 6. | Capital allowances were agreed with the commissioner for revenue authority at Sh.1,480,000 for the year 2020. | |

Required:

Adjusted taxable profit or loss for Riziki Ltd. for the year ended 31 December 2020.

(10 marks)

- (b) Galaxy Ltd. a clothing manufacturing company commenced operations on 1 May 2020 after incurring the following costs:

| | Sh. |
|---------------------------|------------|
| Land | 8,000,000 |
| Factory building | 3,200,000 |
| Security wall | 960,000 |
| Furniture | 380,000 |
| Staff recreation facility | 450,000 |
| Computers | 480,000 |
| Delivery van | 2,800,000 |
| Warehouse building | 1,800,000 |
| Drainage system | 640,000 |
| Tractor | 3,260,000 |
| Processing machinery | 1,860,000 |
| Sports pavilion | 720,000 |

Additional information:

1. The following assets were acquired or constructed during the year 2020:

| Asset | Date of first use | Cost (Sh.) |
|----------------------------|--------------------------|-------------------|
| Factory store | 1 June 2020 | 960,000 |
| Factory building extension | 1 July 2020 | 850,000 |
| Lorry (3 tonnes) | 1 August 2020 | 2,780,000 |
| Labour quarters | 1 October 2020 | 1,500,000 |
| Packing machinery | 1 November 2020 | 400,000 |

2. The company disposed of two computers at Sh.40,000 each on 1 October 2020.
 3. A borehole was drilled at a cost of Sh.940,000 and utilised from 1 September 2020.
 4. The company acquired a saloon car for a director at Sh.4,000,000.

Required:

Capital allowances due to Galaxy Ltd. for the year ended 31 December 2020.

(10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Edward Leleku, a small business operator has approached you for tax advice in relation to turnover tax and presumptive tax.

Required:

In light of Tax Laws (Amendment) Act, 2020 advise Edward Leleku on tax position in relation to:

- (i) Turnover tax (TOT). (2 marks)
- (ii) Presumptive tax (PT). (2 marks)
- (b) Identify four circumstances under which the commissioner of Revenue Authority might require a taxpayer to file a tax return before the due date of filing of tax returns. (4 marks)
- (c) Kizuki, Kabuga and Kanja are trading as a partnership registered as Kaka Enterprises. The partners share profits and losses in the ratio of 3:2:1 respectively.

The following is the partnership statement of profit or loss for the year ended 31 December 2020:

| | Sh. | |
|--------------------------------|----------------|--------------------|
| Gross profit | 2,400,000 | |
| Sundry receipts | 92,000 | |
| Dividends (gross) | 360,000 | |
| Lottery winnings | 120,000 | |
| Gain on sale of shares | <u>80,000</u> | |
| | 3,052,000 | |
| Expenses: | | |
| Repairs of premises | 192,000 | |
| Gifts and presents for charity | 40,000 | |
| Legal charges | 398,000 | |
| Commission to partners: | | |
| Kizuki | 96,000 | |
| Kabuga | 60,000 | |
| Kanja | 45,000 | |
| Depreciation | 120,000 | |
| Stationery and printing | 220,000 | |
| Value added tax (VAT) | 48,000 | |
| Bad debts | 240,000 | |
| Goodwill written off | 84,000 | |
| Interest on capital: | | |
| Kizuki | 180,000 | |
| Kabuga | 120,000 | |
| Kanja | 90,000 | |
| Salaries and wages | 960,000 | |
| Purchase of computers | 280,000 | |
| General expenses | <u>450,000</u> | <u>(3,623,000)</u> |
| Reported net loss | | <u>(571,000)</u> |

Additional information:

1. General expenses comprised of:
- | | Sh. |
|---------------------------------|----------------|
| Purchase of computer software | 80,000 |
| Partner's Christmas party | 165,000 |
| Preparation of tender documents | 48,000 |
| Staff catering services | 74,000 |
| Embezzlement by Kabuga | <u>83,000</u> |
| | <u>450,000</u> |
2. The salaries and wages included monthly salaries of Sh.22,000 and Sh.18,000 to Kizuki and Kanja respectively.

- | | | |
|----|--|----------------|
| 3. | Legal charges comprised the following: | Sh. |
| | Parking fines to the local authority | 32,000 |
| | Cost of defending partnership premises | 96,000 |
| | Charges for registering patents | 120,000 |
| | Appeal on tax assessment | 60,000 |
| | Court charges for breach of contract | <u>90,000</u> |
| | | <u>398,000</u> |
| 4. | Bad debts comprised: | Sh. |
| | Expired goods | 80,000 |
| | Specific provision for bad debts | 140,000 |
| | General provision for bad debts | <u>20,000</u> |
| | | <u>240,000</u> |
| 5. | Repairs of premises included Sh.42,000 used in erecting a sign post to the partnership premises. | |

Required:

- (i) Taxable profit or loss of the partnership for the year ended 31 December 2020. (8 marks)
- (ii) Allocation of the taxable profit or loss in (c) (i) above to the partners. (4 marks)

(Total: 20 marks)

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ATD LEVEL III

DCM LEVEL III

PRINCIPLES OF PUBLIC FINANCE AND TAXATION

TUESDAY: 24 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 (Sh.) | Annual rates (Sh.) |
|--|-------|---|-----------------------|
| Capital allowance: | | | |
| Wear and tear allowance: | | | |
| Class I | 37.5% | | |
| Class II | 30% | | |
| Class III | 25% | | |
| Class IV | 12.5% | | |
| Software | 20% | | |
| 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% | | |
| | | (i) Saloons, Hatch Backs and Estates | |
| | | Up to 1200 cc | 3,600 |
| | | 1201 1500 cc | 4,200 |
| | | 1501 1750 cc | 5,800 |
| | | 1751 2000 cc | 7,200 |
| | | 2001 3000 cc | 8,600 |
| | | Over 3000 cc | 14,400 |
| | | (ii) Pick-ups, Panel Vans (unconverted) | |
| | | Up to 1750 cc | 3,600 |
| | | Over 1750 cc | 4,200 |
| | | (iii) Land Rovers/Cruisers | 7,200 |

Extraction expenditure:

Written off over 5 years (20%)

Commissioner's prescribed benefit rates

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

QUESTION ONE

- (a) Highlight six different entities whose accounts the Auditor-General is required to audit and report on within six months after the end of each financial year as provided in the Constitution of Kenya, 2010. (6 marks)
- (b) Describe four principles of public finance as outlined in Chapter 12 of the Constitution of Kenya, 2010. (8 marks)
- (c) Outline three contents of a Budget and Outlook Paper that the National Treasury is required to prepare and submit to cabinet for approval by 30 September in each financial year. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Discuss three roles of the Senate as provided under Article 96 of the Constitution of Kenya, 2010. (6 marks)
- (b) Propose four factors that influence tax shifting in your country. (4 marks)
- (c) The following information was extracted from the records of Masters Wholesalers Ltd., a registered business for value added tax (VAT) purposes for the month of March 2020:

| | | Sh. |
|---|---------------|-----------|
| Sales: | Standard rate | 3,581,500 |
| | Zero rate | 1,800,000 |
| | Exempt | 205,000 |
| Purchases: | Standard rate | 1,486,250 |
| | Zero rate | 750,000 |
| Telephone (20% private) | | 217,500 |
| Printing and stationery | | 228,375 |
| Equipment | | 373,665 |
| Purchase of business vehicles | | 2,586,800 |
| Repairs and maintenance (business vehicles) | | 194,300 |
| Fuel for business vehicle (regular and premium) | | 859,140 |

Additional information:

1. All the standard rate sales as shown above were on credit. They are recorded on gross before accounting for discount. The company grants a 5% discount to customers who settle within ten days but none for later payments. 80% of the customers takes advantage of the discount.
 2. Debit notes exclusive of VAT were received from suppliers during the month as follows:

| | |
|----------------------------------|-----------|
| Suppliers registered for VAT | Sh.40,925 |
| Suppliers not registered for VAT | Sh.34,500 |
 3. A customer owing Sh.95,990 from the month of February was declared bankrupt and a receiver manager appointed to manage the process.
 4. Refund claims amounting to Sh.25,000 that Masters Wholesalers Ltd. had made with the revenue authorities two years prior, were approved during the month of March 2020.
 5. The input VAT in relation to exempt supplies was negligible.
- All transactions are inclusive of VAT at the appropriate rate where applicable.

Required:

For the month of March 2020, compute for Masters Wholesalers Ltd.:

- (i) Input tax. (6 marks)
- (ii) Output tax. (3 marks)
- (iii) VAT payable or refundable. (1 mark)
- (Total: 20 marks)**

QUESTION THREE

- (a) Angela Lopez, a landlady with several residential units remits her tax under the rental residential income tax regime. This is her only business activity. Details of her transactions for the year ended 31 December 2019 were as follows:

| | | Sh. |
|----------------------|--|-----------|
| Caretaker's wages | | 315,000 |
| Mortgage interest | | 280,000 |
| Rental income | | 2,000,000 |
| Donations to charity | | 120,000 |
| Insurance: Life | | 60,000 |
| Fire | | 340,000 |
| Rent and rates | | 87,000 |

Required:

- (i) Tax liability for Angela Lopez for the year ended 31 December 2019 in accordance with her tax obligation. (2 marks)
- (ii) Advise Angela Lopez on tax due dates and applicable rate for her rental business. (2 marks)
- (iii) Explain to Angela Lopez the penalty payable (if any) assuming she paid her total tax liability for the year 2019 on 10 January 2020. (2 marks)
- (b) Josphat Kakah is employed as a Finance Manager for Daima Ltd. The following information has been availed in relation to the income and benefits received by Josphat Kakah for the year ended 31 December 2019:
- Basic salary Sh.309,000 per month (PAYE Sh.85,000 per month).
 - The company provided him with a 2000cc saloon car, driver and fuel for official and private use. The car had been leased from Avenue Motors at Sh.45,000 per month.
 - He stays in a fully furnished company's house at Eastpark Estate. The company furnished the house at a cost of Sh.230,000. He is deducted Sh.20,000 per month from his salary as rent for the house. The fair rental value of such houses in the estate is Sh.45,000 per month.
 - The following deductions were made from his salary during the year:

| | Sh. |
|---|---------|
| • Contributions to registered pension scheme: | |
| Compulsory contribution | 12,960 |
| Voluntary contribution | 150,000 |
| • Loan repayment | 840,000 |
| • Life assurance premiums | 600,000 |
| • Subscription to Golf club | 80,000 |
| • Contribution to home ownership saving plan (HOSP) | 128,000 |
 - His annual grocery bills amounting to Sh.68,000 were settled by the company.
 - He worked out of office for eight days in December 2019 and the company paid him daily subsistence allowance of Sh.4,500 for each of the eight days.
 - During the year, he received Sh.480,000 as a reimbursement for medical expenses incurred. The company operates a medical scheme for its senior managers only.
 - He was entitled to the following monthly allowances with effect from 1 July 2019:

| | Sh. |
|-------------------------|--------|
| Entertainment allowance | 17,500 |
| Risk allowance | 10,000 |
| Attendance allowance | 16,000 |
 - He received a year end bonus in December 2019 of Sh.180,000 payable to executive staff and the best employee of the year.

Required:

- (i) Taxable income for Josphat Kakah for the year ended 31 December 2019. (12 marks)
- (ii) Tax payable (if any) on the income computed in (b) (i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Explain the term "pre-shipment inspection" as used under customs duty. (2 marks)
- (b) Outline four categories of goods and services that are not chargeable to excise duty as per section 7 of the Excise Duty Act, 2015. (4 marks)
- (c) Karim, Hasan and Mohamed are partners operating as Kahamo Enterprises. They share profits and losses in the ratio of 2:2:1 respectively.

The following is the income statement for the partnership for the year ended 31 December 2019:

| Income | Sh. | Sh. |
|-----------------------------|-----|----------------|
| Gross profit | | 6,000,000 |
| Discount received | | 240,000 |
| Profit on sale of machinery | | 350,000 |
| Trading receipts | | 160,000 |
| Interest on drawings | | <u>420,000</u> |
| | | 7,170,000 |

| | Sh. | Sh. |
|------------------------------------|------------------|---------------------|
| Expenditure | | |
| Purchases | 4,000,000 | |
| Legal fees | 480,000 | |
| Interest on capital: | | |
| Karim | 240,000 | |
| Hasan | 180,000 | |
| Mohamed | 200,000 | |
| Value added tax (VAT) | 212,000 | |
| Provision for legal claims | 340,000 | |
| Office expenses | 400,000 | |
| Salaries and wages | 2,400,000 | |
| Advertisement expenses | 382,000 | |
| Instalment tax | 500,000 | |
| Subscription to trade associations | 180,000 | |
| Conveyance fees | 56,000 | |
| Drawings by partners: | | |
| Karim | 82,000 | |
| Hasan | 120,000 | |
| Debt collection expenses | 72,000 | |
| General expenses | <u>1,600,000</u> | <u>(11,444,000)</u> |
| Reported loss | | <u>(4,274,000)</u> |

Additional information:

1. Legal fees included Sh.140,000 paid as a penalty for dealing in illegal goods and Sh.340,000 for drafting the partnership deed.
2. Advertisement expenses included Sh.250,000 for erecting a billboard.
3. Salaries and wages included partners' salaries as follows:

| | Sh. |
|---------|---------|
| Karim | 300,000 |
| Hasan | 400,000 |
| Mohamed | 280,000 |

4. General expenses include:

| | Sh. |
|-----------------------------------|---------|
| Cash embezzled by cashier | 260,000 |
| Office partitioning | 420,000 |
| Partners' medical expenses | 800,000 |
| School fees for partners children | 120,000 |

5. Interest on drawings related to Sh.180,000 and Sh.240,000 charged to Hasan and Mohamed on their drawings.

Required:

- (i) Adjusted partnership profit or loss for the year ended 31 December 2019. (10 marks)
 - (ii) Distribution schedule of the profit or loss calculated in (c) (i) above. (4 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Victor Mahugu obtained a personal identification number (PIN) during the year 2019. He did not commence his intended business operation. He has approached you for an advice on whether he is expected to file any return or not for the financial year 2019.

Required:

Advise Victor Mahugu on whether he is required to file any return. (2 marks)

- (b) Identify four circumstances under which a late objection could be accepted by commissioner of domestic taxes. (4 marks)

(c) Mwangazi PLC is a manufacturing company. The company commenced operations after having incurred the following expenditure on 1 October 2018:

| | Sh. |
|---------------------------------|------------|
| Factory building | 4,840,000 |
| Processing machinery | 3,200,000 |
| Staff canteen | 1,280,000 |
| Godown | 720,000 |
| Borehole | 960,000 |
| Trailer | 280,000 |
| Tractor | 784,000 |
| Computers | 150,000 |
| Fax machine | 42,000 |
| Generator | 168,000 |
| Water pump | 70,000 |
| Wheelbarrows | 24,000 |
| Motor bike | 145,000 |
| Saloon cars (each Sh.2,500,000) | 5,000,000 |
| Pick up | 820,000 |
| Furniture and fittings | 360,000 |
| Weighing scale | 90,000 |

Additional information:

1. Factory building includes space for a store Sh.40,000, warehouse Sh.560,000, offices Sh.320,000 and retail shop Sh.250,000.
2. The Godown was fitted with air conditioning machines amounting to Sh.270,000.
3. During the year 2019, the company constructed a factory extension at Sh.1,800,000 which was put into use as packaging section. A packaging machine was installed at a cost of Sh.480,000.
4. One of the saloon car was involved in an accident in July 2019 and the company received insurance compensation of Sh.1,000,000.
5. Purchased forklift on 1 July 2019 for Sh.700,000.
6. All assets in class II were disposed of for Sh.490,000 on 1 September 2019.

Required:

Capital allowances due to Mwangazi PLC for the years ended 31 December 2018 and 31 December 2019.

(14 marks)

(Total: 20 marks)

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**ATD LEVEL III
DCM LEVEL III**

PRINCIPLES OF PUBLIC FINANCE AND TAXATION

WEDNESDAY: 27 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 (Sh.) | Annual rates (Sh.) |
|--|--|--------------------------------|-------------------------------|
| Capital allowance: | | | |
| Wear and tear allowance: | | | |
| Class I | 37.5% | | |
| Class II | 30% | | |
| Class III | 25% | | |
| Class IV | 12.5% | | |
| Software | 20% | | |
| Industrial building allowance: | | | |
| Up to 2009 | 2.5% | | |
| From 1 January 2010 | 10% | | |
| Hotels | 10% | | |
| Hostels/Education/Film producers buildings | 100% | | |
| From 1 January 2010 - Commercial building: | | | |
| (Shop, office or show room) | 25% | | |
| Farm works allowance | 100% | | |
| Investment deduction allowance | 100% | | |
| Shipping investment deduction (Ships over 125 tonnes) | 100% | | |
| Extraction expenditure: | | | |
| Written off over 5 years (20%) | | | |
| Commissioner's prescribed benefit rates | | | |
| Services | | Monthly rates (Sh.) | Annual rates (Sh.) |
| (i) | Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) | Water (Communal or from a borehole) | 500 | 6,000 |
| Agriculture employees: Reduced rates of benefits | | | |
| (i) | Water | 200 | 2,400 |
| (ii) | Electricity | 900 | 10,800 |

(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 |
|-------|--------|

QUESTION ONE

- (a) Explain the meaning of the following terms as used in public finance management:
- (i) Contingencies fund. (2 marks)
 - (ii) Intergovernmental budget and economic council. (2 marks)
 - (iii) Recurrent expenditure. (2 marks)
- (b) The responsibilities of the National Treasury with respect to the budget process include preparing annual budget policy statement.
- In light of the above statement, outline three aspects that should be included in the budget policy statement. (6 marks)
- (c) Summarise two similarities based on responsibilities of the following two tiers of government in relation to budget making process:
- (i) The National Treasury and the County Treasury. (4 marks)
 - (ii) The National Assembly and the County Assembly. (4 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) The internal audit function plays a vital role in public sector governance. In relation to public finance management, evaluate four roles of the internal audit department or such similar agency in your country. (4 marks)
- (b) Explain the following types of tax assessments:
- (i) Self-assessment. (2 marks)
 - (ii) Default assessment. (2 marks)
 - (iii) Advance assessment. (2 marks)
- (c) The following transactions took place during the month of December 2018 in respect to the operations of Blue Ltd., a company registered for value added tax (VAT) purposes:

| | Sh. |
|----------------------------|------------|
| Sales at standard rate | 12,000,000 |
| Sales at zero rate | 2,400,000 |
| Exempt sales | 700,000 |
| Purchases at zero rate | 1,200,000 |
| Purchases at standard rate | 9,600,000 |
| Audit fees | 128,000 |
| Legal fees | 94,000 |
| Electricity | 36,000 |
| Export sales to Zambia | 560,000 |

Additional information:

1. The company received credit notes for Sh.40,000 in respect to goods returned to suppliers and debit notes for Sh.28,000 from suppliers.
2. Purchases at standard rate included:
 - Catering services for Sh.140,000.
 - Spare parts for director's official car for Sh.160,000.
 - Hire of motor vehicles for Sh.60,000.
3. The company issued credit notes to customers worth Sh.140,000 in respect to goods sold at standard rate.
4. A debtor of goods valued at Sh.80,000 was declared bankrupt and the commissioner granted bad debt relief in the same month of December 2018.
5. Exempt supplies are not identifiable from taxable supplies.

All transactions are exclusive of VAT. The VAT is at the rate of 16% where applicable.

Required:

For the month of December 2018, compute for Blue Ltd:

- (i) Input tax. (5 marks)
- (ii) Output tax. (3 marks)
- (iii) VAT payable or refundable. (2 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Discuss four reasons that could cause the differences between "accounting profit" and "taxable profit". (8 marks)
- (b) Kevin Rono works as a production manager of a leading biscuit manufacturing company. He has provided the following information relating to his income for the year ended 31 December 2018:
1. Basic salary of Sh.160,000 per month (PAYE Sh.44,000 per month).
 2. He is living in a rented house where he pays a monthly rent of Sh.40,000. The company pays him Sh.50,000 per month as house allowance.
 3. During the year, his son was admitted in a private university and the company paid school fees amounting to Sh.240,000. This amount was disallowed for tax purposes in the company's books of accounts.
 4. He is a member of a registered pension scheme where he contributes Sh.25,000 per month with the employer contributing an equal amount for him.
 5. He was provided with a saloon car of 2,500cc on 1 July 2018 which had cost the company Sh.2,950,000.
 6. The company catered for his telephone bills and he was reimbursed Sh.48,500 during the year for the bills.
 7. The company has a medical scheme that covers all the senior managers. During the year, the company paid Sh.380,000 as medical bills in respect of his wife's illness.
 8. Kevin Rono is a member of a Home ownership saving plan and he contributes Sh.25,000 per month.
 9. During the year he was declared the best employee and the company rewarded him with Sh.90,000. He was also entitled to a monthly entertainment allowance of Sh.18,000 with effect from 1 October 2018.
 10. Interest on infrastructure bonds that he received during the year was Sh.108,000. In addition to that, he earned an interest of Sh.76,000 (net withholding tax) on fixed deposit from the Bank of Ceylon.
 11. He received the following dividend income during the year:

| | Sh. |
|-----------------------------|-----------------|
| Uwezo Ltd. | 75,000 (net) |
| Zawadi Co-operative Society | 150,000 (gross) |
 12. The employer contributed for him Sh.9,000 per month towards his children's education insurance policy.

Required:

- (i) Taxable income of Kevin Rono for the year of income 2018. (10 marks)
- (ii) Tax payable on the computed income in (b) (i) above if any. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Kalashaka Ltd., commenced manufacturing business on 2 January 2018 after incurring the following expenditure:

| Assets | Cost (Sh) |
|----------------------|-----------|
| Factory building | 4,800,000 |
| Processing machinery | 3,900,000 |
| Tractors | 2,000,000 |
| Computers | 800,000 |
| Partitions | 400,000 |
| Scanners | 300,000 |
| Staff quarters | 525,000 |
| Saloon car | 1,800,000 |
| Sports pavillion | 612,000 |
| Photocopiers | 250,000 |

Additional information:

- I. The following assets were acquired during the year:
- | Date | Asset | Cost (Sh.) |
|-------------|----------------------|------------------|
| 1 March | Computers | 400,000 |
| 4 May | Saloon cars (two) | 2,200,000 (each) |
| 24 July | Trailer | 400,000 |
| 13 October | Lorry (4 tonnes) | 1,200,000 |
| 19 November | Curtains and carpets | 100,000 |

2. The following assets were disposed of during the year:
- | Date | Asset | Original cost (Sh.) | Sales proceeds (Sh.) |
|-------------|------------|---------------------|----------------------|
| 2 June | Computer | 120,000 | 80,000 |
| 5 August | Saloon car | 1,800,000 | 735,000 |
| 9 September | Tractor | 700,000 | 450,000 |
3. Not included in the cost of assets at commencement is import duty on processing machinery and computers amounting to Sh.360,000 and Sh.186,000 respectively.
4. A flat-screen colour television was acquired for Sh.195,000 and affixed in the company's waiting lounge.

Required:

Capital allowance due to Kalashaka Ltd. for the year ended 31 December 2018.

(10 marks)

- (b) The management of Angaza Ltd. Has presented the following income statement for the year ended 31 December 2018:

| | Sh. | Sh. |
|----------------------------------|----------------|-------------------|
| Gross profit | | 12,800,000 |
| Import duty refund | | 4,500,000 |
| Discount received | | 200,000 |
| Foreign exchange gain | | 342,000 |
| Insurance compensation | | 2,500,000 |
| Gain on sale of motor vehicles | | <u>180,000</u> |
| | | 20,522,000 |
| Expenditure | | |
| Stationery and postage | 920,000 | |
| Amortisation of goodwill | 360,000 | |
| Interest on bank overdrafts | 130,000 | |
| Legal fees | 1,580,000 | |
| Depreciation | 240,000 | |
| Licenses and permits | 284,000 | |
| Loss on sale of financial assets | 168,000 | |
| Conveyance fees | 348,000 | |
| General expenses | 1,980,000 | |
| Stamp duty | 150,2000 | |
| Rent and rates | <u>280,000</u> | (6,440,200) |
| Net profit | | <u>14,081,800</u> |

Additional information:

- The insurance compensation relates to the amount received from Haki Insurance Company Ltd. as compensation for the company's stolen motor vehicle.
- Rent and rates includes Sh.120,000 for the month of January and February 2019.
- Legal fees comprised the following:

| | Sh. |
|---|------------------|
| Drafting a 100 year's lease agreement | 420,000 |
| Facilitating collection of debts from customers | 140,000 |
| Compensation for breach of a contract | 280,000 |
| City County parking fees for the company | 82,000 |
| Preparation of tender documents | 550,000 |
| Drafting of loan agreements with banks | <u>108,000</u> |
| | <u>1,580,000</u> |

4. General expenses comprised the following:

| | Sh. |
|--|------------------|
| Office partitions | 360,000 |
| Cost of relocating to the new offices | 170,000 |
| Director's christmas party | 480,000 |
| Repairs on machinery | 250,000 |
| Redundancy payments to employees | 300,000 |
| Compensation to insured employee while on duty | <u>420,000</u> |
| | <u>1,980,000</u> |

Required:

Adjusted taxable profit or loss for Angaza Ltd. for the year ended 31 December 2018.

(10 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Summarise four advantages of multiple tax systems over a single tax system. (4 marks)
- (b) Explain four circumstances under which duty paid on imports is refundable to an importer. (4 marks)
- (c) Unity Traders is a multi-business partnership of three brothers Abel, Ben and Charles. The partners share the profits and losses equally.

The following is the income statement for the partnership business for the year ended 31 December 2018:

| | Sh. | Sh. |
|---------------------------------------|------------------|---------------------|
| Gross profit | | 14,000,000 |
| Other income: | | |
| Profit on sale of machinery | | 1,780,000 |
| Discount received | | 960,000 |
| Interest from Abel on overdue account | | 620,000 |
| VAT refund | | 82,000 |
| Interest from bank savings | | <u>240,600</u> |
| | | 17,682,600 |
| Less expenses: | | |
| Salaries and wages | 2,300,000 | |
| Sundry expenses | 4,200,000 | |
| Office rent | 320,000 | |
| Medical expenses | 1,250,000 | |
| Depreciation | 480,000 | |
| Donations to a charity walk | 620,000 | |
| Income tax | 96,000 | |
| Drawings by Ben | 140,600 | |
| Specific provision for bad debts | 280,000 | |
| Interest on capital: | | |
| Abel | 100,000 | |
| Ben | 175,000 | |
| Charles | 140,000 | |
| Repairs and maintenance | 520,000 | |
| Loan repayment | <u>1,200,000</u> | <u>(11,821,600)</u> |
| Net profit | | <u>5,861,000</u> |

Additional information:

- The office rent was paid to the partners who owned the building.
- Salaries and wages include salaries paid to partners as follows:

| | Sh. |
|---------|---------|
| Abel | 650,000 |
| Charles | 520,000 |
| Ben | 480,000 |
- Half of medical expenses were incurred for the treatment of the partners and their families.
- Sundry expenses comprised of the following:

| | Sh. |
|---|---------|
| Conveyance fee for purchase of land | 800,000 |
| Settling customer disputes | 720,000 |
| General provision for bad debts | 880,000 |
| Drafting tender documents | 440,000 |
| Parking fines paid to county authority | 220,000 |
| Drafting lease documents (90 years lease) | 140,000 |
- Capital allowances were agreed with the commissioner of tax at Sh.284,000.

Required;

- (i) Adjusted taxable profit or loss for the partnership for the year ended 31 December 2018. (8 marks)
- (ii) A schedule showing the allocation of the adjusted profit or loss in (c) (i) above. (4 marks)

(Total: 20 marks)



kasneb

ATD LEVEL III

DCM LEVEL III

PRINCIPLES OF PUBLIC FINANCE AND TAXATION

TUESDAY: 21 May 2019.

Time Allowed: 3 hours.

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

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

Year of income 2018.

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

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

Prescribed benefit rates of motor vehicles provided by employer
Monthly rates (Sh.) Annual rates (Sh.)

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

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

| | |
|---------------------------------------|------|
| Farm works allowance | 100% |
| 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

| | Monthly rates Sh. | Annual rates Sh. |
|---|----------------------|---------------------|
| 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 |

QUESTION ONE

- (a) Outline five responsibilities of the parliamentary budget office as provided under the Public Finance Management Act. (5 marks)
- (b) In a tax seminar, one of the facilitators noted that “the Public Finance Management Act prevails in case of any inconsistency on certain matters with any other legislation”.
- With reference to the above statement, highlight five such matters where the Act prevails. (5 marks)
- (c) Identify five key county budget documents citing their importance in the budget process. (10 marks)
- (Total: 20 marks)

QUESTION TWO

- (a) Discuss five benefits that a country stands to gain by adopting an Integrated Financial Management Information System (IFMIS) in the management of public funds. (5 marks)
- (b) The Tax Procedures Act 2015, specifies information that the Commissioner should include in the default assessment to a taxpayer.
- In light of the above statement, describe five categories of such information. (5 marks)
- (c) The following are the transactions of Wasafi Traders for the month of November 2018. The business was registered for value added tax (VAT) on 1 June 2018:

| | Sh. | Sh. |
|---|---------------|--------------------|
| Income: | | |
| Sales | | 6,800,000 |
| Expenditure: | | |
| Purchases from VAT registered suppliers | 3,480,000 | |
| Purchases from VAT unregistered suppliers | 1,800,000 | |
| Depreciation | 350,000 | |
| Electricity | 58,000 | |
| Printing and stationery | 250,560 | |
| Motor vehicle parking charges | 62,640 | |
| Hotel accommodation | 275,500 | |
| Computer software | 69,600 | |
| Salaries and wages | 1,800,000 | |
| Water bill | 17,400 | |
| Legal fees | 139,200 | |
| Repairs and maintenance | 870,000 | |
| Motor vehicle fuel | <u>58,000</u> | |
| | | <u>(9,230,900)</u> |
| | | <u>2,430,900</u> |

Additional information:

- The reported sales include goods sold to a customer in Rwanda of Sh.536,000.
- An invoice of Sh.1,002,240 issued to Salama Traders had been omitted from the records during the month.
- Motor vehicle fuel and repairs and maintenance relates to the van used to supply goods to customers.
- All transactions are inclusive of value added tax (VAT) at the standard rate of 16% where applicable.

Required:

- A value added tax (VAT) account for the month of November 2018 for Wasafi Traders. (10 marks)
- (Total: 20 marks)

QUESTION THREE

- (a) Propose four ways through which the revenue authority in your country could use to prevent tax evasion. (4 marks)
- (b) Outline four objectives of fiscal policies in your country. (4 marks)
- (c) Hawa Hamandi who holds a dual citizenship, had been living in Australia since May 2012. She returned to the country on 9 December 2017 and opened a beauty and cosmetics shop on 5 January 2018.

On 1 July 2018, she got formal employment with Ncallay Ltd., a food processing industry as a chief nutritionist.

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

1. Basic salary Sh.150,000 per month (PAYE Sh.45,000 per month).
2. She was paid overtime amounting to Sh.29,000 during the year and hardship allowance of Sh.22,000 per month.
3. The employer provided her with free lunch worth Sh.6,000 per month.
4. House allowance Sh.80,000 per month.
5. Up to 30 September 2018, she used her personal vehicle for official duties and the employer reimbursed a monthly mileage allowance of Sh.38,000.
6. On 1 October 2018, she was provided with a saloon motor vehicle (2400cc) purchased by the company on 1 March 2017, at a cost of Sh.2,500,000.
7. She attended a seminar for five days outside her workstation and received a per diem of Sh.14,000 from the employer.
8. The company paid Sh.90,000 school fees for each of her three children during the year. This was treated as an allowable deduction in the company's books.
9. The employer bought a Sh.105,000 air ticket to facilitate Hawa Hamandi to visit the rest of her family in Australia during her annual leave.
10. The company paid for her Sh.15,000 and Sh.92,000 as pension contribution and life insurance premium respectively during the year. The pension fund was non-contributory.
11. She bought a residential house on 31 August 2018 through mortgage of Sh.6,000,000 provided by Pearl Bank Ltd. at an interest rate of 18% per year. She moved into the house on 2 September 2018.
12. She offers part time professional services. During the year, she received Sh.142,500 (net) as professional fees.
13. The net loss from the beauty and cosmetic shop amounted to Sh.375,000. This was after deducting the following:

| | Sh. |
|---|-----------|
| Salaries (including to self Sh.300,000) | 1,050,000 |
| VAT paid | 108,000 |
| Pilferage by shop attendant | 420,000 |
| Rent | 240,000 |
| Electricity | 31,000 |
| Furniture and fittings | 200,000 |

Required:

- (i) Total taxable income of Hawa Hamandi for the year ended 31 December 2018. (10 marks)
- (ii) Tax payable (if any) from the income computed in (c) (i) above. (2 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Citing four reasons, justify why the government levies excise duty in your country. (4 marks)
- (b) Describe four drawbacks of capital allowances as tax incentives in your country. (4 marks)
- (c) Boma Ltd., a manufacturing company, commenced its operations on 1 March 2018 after incurring the following expenditure:

| | Sh. |
|--|-----------|
| Land | 7,000,000 |
| Factory building | 6,200,000 |
| Standby generator | 135,000 |
| Staff quarters | 1,800,000 |
| Processing machinery | 4,500,000 |
| Pick-up | 1,400,000 |
| Computers | 160,000 |
| Processing machinery installation cost | 80,000 |
| Perimeter wall | 840,000 |
| Sign board | 100,000 |
| Warehouse | 1,020,000 |
| Electrical wiring (factory building) | 350,000 |
| Commissioning cost (factory building) | 220,000 |
| Dam | 690,000 |
| Scanner | 56,000 |
| Truck (5 tonnes) | 3,000,000 |

Additional information:

- The pick-up was traded-in on 6 June 2018 at a cost of Sh.1,100,000 for a Toyota Prado. The company paid a balance of Sh.1,700,000 in cash.
- The following buildings were constructed and put into use on 3 July 2018:

| | Sh. |
|-------------------|---------|
| Staff social hall | 990,000 |
| Staff canteen | 760,000 |

- On 8 August 2018, the following assets were acquired on hire purchase terms:

| Asset | Hire Purchase Price Sh. | Cash Price Sh. |
|--------------------|----------------------------|-------------------|
| Equipment | 2,250,000 | 1,310,000 |
| Workshop machinery | 1,900,000 | 1,200,000 |
| Forklift | 1,050,000 | 620,000 |

Required:

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

(12 marks)

(Total: 20 marks)**QUESTION FIVE**

- Outline four types of income subject to withholding tax, indicating the applicable rates for a resident person. (4 marks)

- Relcy Importers Ltd. buys and sells electronic goods. During the year ended 31 December 2018, the company imported goods whose cost at country of export was Sh.400,000. The importer incurred freight charges Sh.80,000, insurance Sh.40,000 and demurrage charges of Sh.20,000. Clearing agents fees was Sh.30,000. The goods were later sold for Sh.925,000 inclusive of value added tax. Assume the duty rate was 25%.

Required:

- Duty paid. (2 marks)
- Input tax paid. (1 mark)
- Value added tax payable. (1 mark)

- Hazina Industries Limited, construction engineers submitted the following income statement for the year ended 31 December 2018:

| | Sh. | Sh. |
|---------------------------|----------------|---|
| Gross profit | | 9,600,000 |
| Dividends | | 700,000 |
| Rent income | | <u>1,800,000</u> |
| | | 12,100,000 |
| Less expenses: | | |
| Office rent | 1,240,000 | |
| Salaries and wages | 4,200,000 | |
| Repairs and maintenance | 930,000 | |
| Depreciation | 118,000 | |
| Legal fees | 800,000 | |
| Registration and licences | 350,000 | |
| Computer software | 180,000 | |
| Impairment loss | 500,000 | |
| Director's remuneration | 1,800,000 | |
| General expenses | <u>220,000</u> | |
| Net profit | | <u>(10,338,000)</u> <u>1,762,000</u> |

Additional information:

- Repairs and maintenance comprised the following:

| | Sh. |
|--|----------------|
| Motor vehicle repair | 380,000 |
| Replacement of the iron gate in Director's residence | 100,000 |
| New tiles for the office floor | <u>450,000</u> |
| | <u>930,000</u> |

- Legal expenses include:

| | Sh. |
|---|----------------|
| Formation of the business | 280,000 |
| Defending the Director in an assault case | 150,000 |
| Debt collection | <u>370,000</u> |
| | <u>800,000</u> |

3. Director's remuneration comprised the following:

| | Sh. |
|--|------------------|
| Director's fees | 800,000 |
| Compensation for wrongful contract termination | 450,000 |
| Contribution to pension scheme | 320,000 |
| Subscriptions to golf club | <u>230,000</u> |
| | <u>1,800,000</u> |

4. General expenses include:

| | Sh. |
|---------------------------------|----------------|
| General provision for bad debts | 120,000 |
| Cash embezzled by the cashier | 50,000 |
| Other expenses | <u>50,000</u> |
| | <u>220,000</u> |

5. The company paid installment tax during the year amounting to Sh.240,000.

6. Capital allowances had been agreed with the Commissioner of Income Tax to be Sh.430,000.

Required:

(i) Adjusted taxable profit or loss for Hazina Industries Limited for the year ended 31 December 2018.

(10 marks)

(ii) Tax payable by Hazina Industries Limited (if any) for the year ended 31 December 2018.

(2 marks)

(Total: 20 marks)

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ATD LEVEL III

DCM LEVEL III

PRINCIPLES OF PUBLIC FINANCE AND TAXATION

TUESDAY: 27 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.) |
|--|-------|---|-----------------------|
| 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 | 100% | | |
| Investment deduction allowance | 100% | | |
| Shipping investment deduction (Ships over 125 tonnes) | 100% | | |
| | | (i) Saloons, Hatch Backs and Estates | |
| | | Up to 1200 cc | 3,600 |
| | | 1201 1500 cc | 4,200 |
| | | 1501 1750 cc | 5,800 |
| | | 1751 2000 cc | 7,200 |
| | | 2001 3000 cc | 8,600 |
| | | Over 3000 cc | 14,400 |
| | | (ii) Pick-ups, Panel Vans (unconverted) | |
| | | Up to 1750 cc | 3,600 |
| | | Over 1750 cc | 4,200 |
| | | (iii) Land Rovers/Cruisers | |
| | | | 7,200 |
| | | | 86,400 |

| | |
|--|-------|
| 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 | 100% |
| Investment deduction allowance | 100% |
| Shipping investment deduction (Ships over 125 tonnes) | 100% |
| Extraction expenditure: | |
| Written off over 5 years (20%) | |

Commissioner's prescribed benefit rates

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

QUESTION ONE

- (a) Explain the term "financial regulations" as used in public finance management. (2 marks)
- (b) Describe the stages of the annual budget process for the county government. (8 marks)
- (c) Discuss five roles played by the controller of budget as envisaged by the Constitution and the Public Finance Management Act. (10 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Financial controls in public sector entities involve the overall process of reviewing and controlling financial resources. In relation to the above statement, highlight four benefits of financial controls in public finance management. (4 marks)
- (b) Outline six factors that determine taxable capacity in your country. (6 marks)
- (c) The following information was extracted from the records of Kuza Enterprises a registered business for value added tax (VAT) purposes for the month of May 2018:

| Bank Account | | | |
|-------------------|------------------|-----------------------|------------------|
| | Sh. | | Sh. |
| Trade receivables | 1,740,000 | Balance b/f | 260,000 |
| Loan proceeds | 4,200,000 | Stationery | 125,280 |
| Balance c/d | 1,332,760 | Trade payables | 1,102,000 |
| | | Audit fee | 232,000 |
| | | Salaries and wages | 4,408,000 |
| | | Consultancy fee | 116,000 |
| | | Loan repayment | 270,840 |
| | | Garbage collection | 62,640 |
| | | Purchase of furniture | 696,000 |
| | <u>7,272,760</u> | | <u>7,272,760</u> |

Additional information:

- Cash sales and purchases during the month of May 2018 amounted to Sh.1,740,000 and Sh.1,566,000 respectively.
- Trade receivables and trade payables balances were as follows:

| | 1 May 2018 | 31 May 2018 |
|-------------------|------------|-------------|
| | Sh. | Sh. |
| Trade receivables | 139,200 | 278,400 |
| Trade payables | 275,500 | 435,000 |
- During the month of May 2018, goods worth Sh.928,000 were exported to Rwanda. The export sales were not recorded in books of account.
- Electricity and water bills paid in cash during the month amounted to Sh.8,700 and Sh.6,960 respectively.
- Goods worth Sh.38,080 were returned to suppliers by Kuza Enterprises during the month of May 2018.
- All transactions are inclusive of value added tax (VAT) at the rate of 16% where applicable.

Required:

- A value added tax (VAT) account for the month of May 2018 for Kuza Enterprises. (10 marks)
- (Total: 20 marks)

QUESTION THREE

- (a) In a tax seminar, one of the facilitators noted that "modern tax practice and laws provide aggrieved taxpayers with an opportunity to appeal decisions made by the tax administration and ensure that the laws are applied consistently and fairly". With reference to the above statement, describe three appeal bodies available to an aggrieved taxpayer. (6 marks)
- (b) Bickam Okabo works for Baraka Trust Ltd. as an operations manager. He has provided the following information relating to his income for the year ended 31 December 2017:
- Basic salary Sh.180,000 per month (PAYE Sh.52,000 per month).
 - He was provided with a fully furnished house, rented by the company for Sh.45,000 per month. The cost of furniture was Sh.120,000 and the company deducted him Sh.15,000 per month as the rent for the house.

3. He was entitled to the company Land Rover of 3000cc for both official and private use. The car had been bought at a cost of Sh.2,500,000 in June 2010.
4. During the year, he contributed 15% of his monthly basic salary towards the company's Provident Fund which has been approved by the National Pension Authority.
5. He was provided with two house servants each on a monthly salary of Sh.18,000. The amount was paid directly to the house servants' account by the company.
6. He was entitled to meals in the company's cafeteria up to a limit of Sh.3,800 per month. During the year, he spent Sh.38,400 on meals at the cafeteria.
7. The company paid for his insurance policies as indicated below:

| Policy | Effective date | Sum assured Sh. | Monthly premiums Sh. |
|----------------|----------------|--------------------|-------------------------|
| Education | 1 July 2017 | 820,000 | 5,200 |
| Life Assurance | 1 October 2017 | 1,600,000 | 9,000 |

8. On 1 October 2017, he was promoted to the Regional Head of Operations position and was entitled to the following allowances per month:

| | Sh. |
|--------------------------|--------|
| Responsibility allowance | 25,000 |
| Entertainment allowance | 15,000 |
| Travelling allowance | 18,000 |

9. The company operates a medical scheme for all employees. The company paid Sh.180,000 as medical bills for Bickam Okabo's daughter during the year.
10. The company paid Bickam Okabo's children school fees amounting to Sh.150,000 during the year. This amount was expensed in the company's books of account.
11. During the first week of October 2017, he was sent outside the Head Office on official duties. He was paid daily subsistence allowance amounting to Sh.45,000 for the five days. The Commissioner was not satisfied that the per diem solely represented reimbursement of cost incurred by the employee.
12. He is a member of a home ownership saving plan and he contributed Sh.15,000 per month towards the scheme.
13. During the year, the company paid Bickam Okabo's monthly utility bills as follows:

| | Sh. |
|-------------|-------|
| Electricity | 8,000 |
| Telephone | 4,200 |
| Cooking gas | 7,500 |

Required:

- (i) Taxable income for Bickam Okabo for the year ended 31 December 2017. (12 marks)
 - (ii) Tax payable (if any) on the income computed in (b) (i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Outline four grounds under which the Commissioner might cancel the personal identification number (PIN) in your country. (4 marks)

- (b) Tosha Ltd., a manufacturing company, presented the following information for the year ended 31 December 2017:

Net profit for the year was Sh.5,850,000 after deducting the following expenses:

| | Sh. |
|----------------------------------|-----------|
| Salaries and wages | 1,480,000 |
| Depreciation | 65,000 |
| Rent | 1,020,000 |
| Goodwill amortisation | 289,000 |
| Value added tax | 36,000 |
| General expenses | 535,000 |
| Donations to a political party | 1,120,000 |
| General provisions for bad debts | 175,000 |
| Advertising | 301,000 |
| Bad debts written off | 180,000 |

Additional information:

1. The written down value of assets for tax purposes as at 1 January 2017 were as follows:

| CLASS I | CLASS II | CLASS III | CLASS IV |
|-----------|----------|-----------|----------|
| Sh. | Sh. | Sh. | Sh. |
| 1,950,000 | 350,000 | 1,800,000 | 235,000 |

2. Included as income while computing the net profit was a major renovation of Sh.450,000 undertaken on a factory building acquired on 1 January 2015 at a cost of Sh.2,000,000.
3. Included in advertising expense is a cost of installing a neon sign Sh.54,000.
4. A saloon motor vehicle purchased on 2 February 2016 at a cost of Sh.2,400,000 was involved in an accident on 1 July 2017. An insurance claim of Sh.1,200,000 was received in relation to the vehicle. This has been included as income while computing the net profit for the year.
5. The following assets were acquired on 1 March 2017:

| | Sh. |
|----------------------|-----------|
| Delivery van | 1,700,000 |
| Duplicating machine | 62,000 |
| Processing machinery | 600,000 |
| Calculators | 38,000 |
| Generator | 52,000 |
| Saloon motor vehicle | 1,800,000 |
| Water pump | 27,000 |
| Carpet | 21,000 |
| Boiler | 29,000 |

6. The following buildings were constructed and put to use on 4 April 2017:

| | Sh. |
|-------------------|-----------|
| Godown | 510,000 |
| Factory extension | 1,970,000 |
| Staff quarters | 910,000 |

7. The cost of factory extension included cost of a warehouse Sh.630,000 and showroom Sh.540,000.
8. All assets in CLASS II were sold for Sh.500,000 during the year.

Required:

- (i) Capital allowances due to Tosha Ltd. for the year ended 31 December 2017. (10 marks)
- (ii) Statement of taxable income or loss for the year ended 31 December 2017. (5 marks)
- (iii) Tax payable (if any) from the income computed in (b) (ii) above. (1 mark)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Explain the following terms in the context of customs duty and excise duty:
- (i) Prohibited goods. (2 marks)
- (ii) Restricted goods. (2 marks)
- (b) Identify four ways in which an individual or firm could engage in tax avoidance. (4 marks)
- (c) Rudop and Jutoh are partners trading as Subline Enterprises.

The partnership agreement provided for the following:

| | Rudop | Jutoh |
|----------------------------------|------------|------------|
| Share of profits | 2/3 | 1/3 |
| Capital | Sh.500,000 | Sh.250,000 |
| Interest on capital (per annum) | 10% | 5% |
| Salaries to partners (per month) | Sh.35,000 | Sh.25,000 |
| Interest on drawings | 5% | 5% |

The accounts of Subline Enterprises for the year ended 31 December 2017 were as follows:

| | Sh. | Sh. |
|-----------------------|----------------|--------------------|
| Gross profit | | 2,800,000 |
| Discount received | | 120,000 |
| Bad debts recovered | | <u>140,000</u> |
| | | 3,060,000 |
| Less expenses: | | |
| Salaries and wages | 1,430,200 | |
| Electricity and water | 160,000 | |
| Purchase of furniture | 120,000 | |
| Bank charges | 30,000 | |
| Maintenance costs | 180,200 | |
| Depreciation | 410,000 | |
| Income tax paid | 230,000 | |
| Legal expenses | 340,000 | |
| General expenses | 420,000 | |
| Interest expense | 360,000 | |
| Drawings - Rudop | <u>100,000</u> | <u>(3,780,400)</u> |
| Net loss | | (720,400) |

Additional information:

1. Salaries and wages include the salaries paid to the partners and other staff.
2. Electricity and water includes Sh.90,000 paid in relation to Jutoh's residential house.
3. Legal expenses include Sh.180,000 incurred in defending Rudop in an assault case.
4. Bad debts recovered were in respect to bad debts written off in the last financial period.
5. Interest expense includes interest paid on the partners' capital contribution during the year.
6. General expenses included the following:

| | Sh. |
|--|---------|
| Partitioning of the shop | 120,000 |
| Cash embezzled by the cashier | 60,000 |
| Donations to National Disaster Council | 240,000 |

Required:

- (i) Adjusted partnership taxable profit or loss for the year ended 31 December 2017. (10 marks)
 - (ii) Allocation of the taxable partnership profit or loss computed in (c) (i) above (2 marks)
- (Total: 20 marks)**
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ATD LEVEL III

DCM LEVEL III

PRINCIPLES OF PUBLIC FINANCE AND TAXATION

TUESDAY: 22 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.) |
|---|------------------------|-----------------------|
| Capital allowance: | | |
| Wear and tear allowance: | | |
| Class I | 37.5% | |
| Class II | 30% | |
| Class III | 25% | |
| Class IV | 12.5% | |
| Software | 20% | |
| (i) Saloons, Hatch Backs and Estates | | |
| Up to 1200 | 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%

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 |

| | | |
|--|---------|-------|
| (ii) Pick-ups, Panel Vans (unconverted) | | |
| Up to | 1750 cc | 3,600 |
| Over | 1750 cc | 4,200 |

(iii) Land Rovers/Cruisers 7,200 86,400

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QUESTION ONE

- (a) Outline six roles of county assembly in relation to management of public finance. (6 marks)
- (b) Citing four reasons, justify why the national government might borrow a loan within the country or outside the country as envisaged by the Public Finance Management Act. (4 marks)
- (c) It is the responsibility of the National Treasury to manage national government public finance in accordance with the Constitution. In doing so, it has to enforce fiscal responsibility principles.
- In relation to the above statement, describe six such fiscal principles. (6 marks)
- (d) Summarise four roles of the senate as an oversight function in public finance management. (4 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) (i) Explain the meaning of the term "budget circular" as used in public finance management. (2 marks)
- (ii) The National Treasury is mandated with the preparation of annual estimates and coordinating preparation of the national government's budget. Towards this function, the Cabinet Secretary issues out a circular.
- In relation to the above statement, summarise four contents of Treasury budget circular. (4 marks)
- (b) Outline four responsibilities of an accounting officer of a public entity in relation to the preparation of annual estimates of expenditure in the budget preparation process. (4 marks)
- (c) Pie General Merchant Ltd. is registered for value added tax (VAT) purpose. During the month of November 2017, the company made the following transactions:

| | |
|--------------|--|
| November 1: | Sold goods to Keita Ltd. for Sh.300,000 on credit |
| November 2: | Purchased goods on credit from Hawa Traders for Sh.150,000 |
| November 3: | Keita Ltd. returned goods valued at Sh.45,000 and received a credit note |
| November 4: | Exported goods to Upendo Ltd. a company based in Tanzania for Sh.225,000 |
| November 5: | Purchased goods for Sh.600,000 from Katunda Ltd. on credit |
| November 6: | Imported goods from China exclusive of import duty and VAT for Sh.675,000 |
| November 7: | Received debit note from Katunda Ltd. worth Sh.36,000 |
| November 8: | Bought spare parts for repair of motor vehicle for use in business for Sh.90,000 |
| November 9: | Sold goods to John on credit amounting to Sh.600,000 |
| November 15: | Sold goods to various customers on cash for Sh.150,000 |
| November 20: | Paid the following expenses: |
| | Sh. |
| | Catering 51,000 |
| | Stationery 63,000 |
| | Electricity bills 18,000 |
| | Audit fee 45,000 |
| November 25: | Received cash Sh.255,000 from Keita Ltd. in full settlement of debt |
| November 30: | Closing stock was valued at Sh.560,000 |

All transactions are stated inclusive of VAT at the rate of 16% where applicable unless otherwise stated. Import duty was agreed to be 25% of the value of the goods imported.

Required:

A value added tax (VAT) account for the month of November 2017.

(10 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Mwangaza Ltd. manufactures candles for the local market and export to neighboring countries. The company has submitted the following income statement for the year ended 31 December 2017:

| | Sh. | Sh. |
|---|-----|------------------|
| Gross profit | | 6,608,000 |
| Dividends (net) | | 360,000 |
| Rental income | | 820,000 |
| Foreign exchange gains realised | | 760,000 |
| Insurance compensation for stolen inventory | | 480,000 |
| | | <u>9,028,000</u> |

Less expenses:

| | | |
|-------------------------------|----------------|--------------------|
| Salaries and wages | 2,440,000 | |
| Subscriptions and donations | 120,000 | |
| Bank charges | 340,000 | |
| Depreciation | 280,000 | |
| Office rent | 1,720,000 | |
| Electricity and water | 960,000 | |
| Advertisement costs | 130,000 | |
| Amortisation of goodwill | 420,000 | |
| Repairs and maintenance | 640,000 | |
| Audit fees | 320,000 | |
| General expenses | 2,400,000 | |
| Provision for corporation tax | <u>180,000</u> | <u>(9,950,000)</u> |
| Net loss | | (922,000) |

Additional information:

1. General expenses comprised the following:

| | |
|-----------------------------------|------------|
| | Sh. |
| Legal fees for breach of contract | 180,000 |
| Stamp duty on land | 1,200,000 |
| Passages to one of the directors | 420,000 |
| General provision for bad debts | 600,000 |

2. Repairs and maintenance included:

| | |
|-----------------------------------|------------|
| | Sh. |
| Replacement of an old computer | 82,000 |
| Re-roofing the factory with tiles | 420,000 |
| General repairs | 138,000 |

3. Advertisement costs included the following:

| | |
|---------------------------------|------------|
| | Sh. |
| Placing advertisements in media | 48,000 |
| Erection of a new billboard | 24,000 |
| Publicity for Christmas sales | 58,000 |

4. Subscriptions and donations related to the following:

| | |
|---|------------|
| | Sh. |
| Donations to political parties | 90,000 |
| Subscription to Federation of Employers | 30,000 |

Required:

- (i) Adjusted taxable profit or loss of Mwangaza Ltd. for the year ended 31 December 2017. (8 marks)
- (ii) Tax payable (if any) by Mwangaza Ltd. for the year ended 31 December 2017 from the adjusted income in (a)(i) above. (2 marks)
- (b) Nandy Ltd. is a meat processing company that was incorporated on 30 December 2014. The company started its operations on 10 January 2015 after incurring the following capital expenditure:

| | |
|-------------------------|-------------|
| Assets | Cost |
| | Sh. |
| Land | 6,500,000 |
| Processing machinery | 4,200,000 |
| Factory building | 2,800,000 |
| Tractors | 4,600,000 |
| Trailer for the tractor | 1,200,000 |
| Furniture | 860,000 |
| Labour quarters | 3,200,000 |
| Computer software | 280,000 |
| Photocopiers | 160,000 |
| Air conditioners | 980,000 |
| Isuzu pick-up | 1,800,000 |
| Sports pavilion | 640,000 |
| Lorry (3 tonnes) | 3,800,000 |
| Staff canteen | 960,000 |

Additional information:

1. A new pick-up was purchased for business travelling on 1 November 2017 at a cost of Sh.2,400,000 after disposing the old Isuzu pick-up to one of the directors for Sh.960,000.
2. During the year ended 31 December 2017 the company expanded its operations and incurred the following additional expenditures:

| Assets | Cost Sh. | Date of first use |
|----------------------|-------------|-------------------|
| Factory extension | 3,800,000 | 2 February 2017 |
| Saloon car (3,000cc) | 2,500,000 | 1 April 2017 |
| Generator | 580,000 | 2 May 2017 |
| Warehouse | 800,000 | 1 July 2017 |
| Water tank | 180,000 | 10 August 2017 |
| Forklifts | 920,000 | 10 August 2017 |
| Cash registers | 180,000 | 1 September 2017 |
| Office partitions | 340,000 | 10 December 2017 |

3. The company sunk a borehole at a cost of Sh.1,500,000 which was utilised from 1 September 2017. A water pump costing Sh.180,000 was purchased and utilised from the same date.
4. A perimeter wall was constructed at a cost of Sh.620,000 and put in use on 1 December 2017.

Required:

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

(10 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Outline four measures that the National Revenue Authority in your country could use to enhance tax compliance. (4 marks)

- (b) Identify four transactions for which personal identification number (PIN) is mandatory in your country. (4 marks)

- (c) Bonnie Ekeno is employed by Afropos Group Limited as the chef. The group runs a chain of five star hotels both locally and in foreign countries. Information relating to his earnings for the year ended 31 December 2017 was as follows:

1. Basic salary Sh.120,000 per month (PAYE Sh.32,500 per month).
2. The company provides him with a 2650cc vehicle for his private use. The car was acquired at a cost of Sh.2,300,000 on 1 January 2015.
3. He earned bonus pay of Sh.180,000 and overtime allowance of Sh.140,000 as per the terms of his contract, during the year.
4. Bonnie contributes Sh.18,000 per month towards a registered defined benefit fund that is operated by the employer. The employer contributes Sh.20,000 per month on his behalf towards the fund.
5. He contributed Sh.8,000 per month toward a home ownership savings plan (HOSP) with effect from 1 March 2017. The plan was registered and the funds were deposited in an approved institution.
6. Afropos Ltd. runs a scheme providing free medical services to all employees and their dependants. During the year, Bonnie and his wife received services worth Sh.90,000 while their three children (aged fourteen, eighteen and twenty two years) received medical services amounting to Sh.60,000 each.
7. He was provided with a self-contained house by the employer in the staff quarters. He also takes free meals at the hotel.
8. As part of the terms of his employment he was paid a holiday allowance of Sh.70,000 for his holiday to a foreign destination and back home.
9. Bonnie Ekeno has a rental business whose details for the year ended 31 December 2017 were as follows:

| | Sh. |
|---|-----------|
| Gross rent | 1,200,000 |
| Repairs and maintenance | 90,000 |
| Renovations and renewals so as to increase rent | 420,000 |
| Interest on mortgage | 250,000 |
| Purchase of furniture for use by tenants | 530,000 |
| Withholding tax paid on gross rent | 120,000 |

10. In the month of August 2017, Afropos Ltd. sent Bonnie Ekeno to their hotel in Cairo for a three-week training course to further his culinary skills. Towards this end, they paid for his return ticket Sh.97,000 and Sh.320,000 for his upkeep.

Required:

- (i) The total taxable income of Bonnie Ekeno for the year ended 31 December 2017.

(8 marks)

- (ii) The tax liability (if any) from the income computed in (c)(i) above. (2 marks)
- (iii) Comment on information not utilised in your computations under (c)(i) and (c)(ii) above. (2 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Propose four measures that could be used by the customs and excise duty departments of your country to prevent dumping. (4 marks)
- (b) Summarise four circumstances under which a tax payer dissatisfied with the commissioner's decision could appeal to the local committees. (4 marks)
- (c) Karara and Katoo are in partnership trading as Kaka Traders. They share profits and losses in the ratio of 2:3 respectively. The partnership statement of income for the year ended 31 December 2017 was as follows:

| | Sh. | Sh. |
|--------------------------------|----------------|--------------------------------------|
| Gross profit | | 5,130,600 |
| Sale of motor vehicle | | 136,700 |
| Foreign exchange gain | | <u>72,800</u> |
| | | 5,340,100 |
| Less expenses: | | |
| Purchase of furniture | 147,000 | |
| Depreciation | 180,000 | |
| Conveyance fee for a plot | 369,600 | |
| Excise tax | 23,100 | |
| Salaries and wages | 1,050,000 | |
| Travelling expenses | 112,200 | |
| Legal expenses | 540,000 | |
| Loss on disposal of shares | 60,000 | |
| Stamp duty | 96,750 | |
| Interest expense | 420,000 | |
| Subscriptions to a social club | 36,900 | |
| General expenses | 1,320,000 | |
| Katoo farming expenses | 141,900 | |
| Bad debts | <u>121,300</u> | |
| Net profit | | <u>(4,618,750)</u> <u>721,350</u> |

Additional information:

1. Interest expense comprised the following:

| | Sh. |
|-----------------------------|---------|
| Interest on capital: Karara | 120,000 |
| : Katoo | 90,000 |
| Farm loan expenses | 54,600 |
| Negotiation fees for loans | 33,900 |

2. General expenses comprised:

| | Sh. |
|----------------------------|---------|
| Partners end of year party | 180,000 |
| Purchase of photocopier | 225,000 |
| Foreign exchange losses | 33,000 |
| Embezzlement by cashier | 360,000 |
| Staff catering services | 450,000 |
| Printing and stationery | 72,000 |

3. Salaries and wages included:

| | Sh. |
|-----------------------------|---------|
| Salaries to: Karara | 222,000 |
| : Katoo | 123,000 |
| Accrued wages for year 2016 | 210,000 |

4. Legal expenses comprised:

| | Sh. |
|---------------------------------|--------|
| Parking fines by County Council | 27,600 |
| Breach of contract | 51,900 |
| Drafting tender documents | 40,200 |
| Preparation of lease documents | 22,500 |
| Traffic offence | 12,000 |

5. Conveyance fees include mortgage interest of Sh.183,000 in respect of a house acquired by Karara for residential purpose.
6. It was estimated that 40% of bad debts related to specific bad debts.
7. Capital allowances were agreed with the Commissioner of revenue authority at Sh.279,575 for the year.

Required:

- (i) Adjusted taxable profit or loss for the partnership business for the year ended 31 December 2017. (10 marks)
 - (ii) The allocation of the taxable profit or loss in (c)(i) above to the partners. (2 marks)
- (Total: 20 marks)**
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ATD LEVEL III

DCM LEVEL III

PRINCIPLES OF PUBLIC FINANCE AND TAXATION

TUESDAY: 23 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.) |
|---------------------------------|--------------------------------------|-----------------------|
| Capital allowance: | | |
| Wear and tear allowance: | | |
| Class I | 37.5% | |
| Class II | 30% | |
| Class III | 25% | |
| Class IV | 12.5% | |
| Software | 20% | |
| | (i) Saloons, Hatch Backs and Estates | |
| | Up to 1200 cc | 3,600 |
| | 1201 - 1500 cc | 4,200 |
| | 1501 - 1750 cc | 5,800 |
| | 1751 - 2000 cc | 7,200 |
| | 2001 - 3000 cc | 8,600 |
| | Over 3000 cc | 14,400 |

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

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

QUESTION ONE

- (a) Explain the meaning of the following terms as used in public finance management:
- (i) Supplementary bill. (2 marks)
 - (ii) County revenue fund. (2 marks)
- (b) Explain two objectives of the Public Finance Management Act. (4 marks)
- (c) Outline six oversight functions undertaken by the National Assembly Budget Committee in the management of public finance. (6 marks)
- (d) Evaluate three fiscal policy tools in your country. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Outline six general responsibilities of National Treasury with respect to public funds. (6 marks)
- (b) Propose four strategies that a county government might apply in order to enhance public participation in the planning and budget process. (4 marks)
- (c) The following transactions were extracted from the books of Plainview Traders for the month of November 2016:
1. Cash purchases from Imara Traders Sh.102,225.
 2. Purchase of goods on credit from Imani Traders Sh.113,825.
 3. Sale of standard rated goods to Umoja Enterprises Sh.211,700.
 4. Purchase of office furniture Sh.95,700.
 5. Repairs and maintenance cost for delivery van Sh.26,825.
 6. Sold goods to Mawaza Agency Sh.181,975.
 7. Credit sales to National Youth Service (NYS) amounting to Sh.264,625.
 8. Imported goods from Moseli Ltd., a company based in Egypt Sh.193,575.
 9. Exported goods to Tanzania Sh.114,550.
 10. Sold goods to unregistered customers Sh.70,470.
 11. Mawaza Agency returned goods worth Sh.41,325 and was issued with a credit note.
 12. The owner of the business took some goods for own use worth Sh.55,825.
 13. Received a debit note from Imani Traders worth Sh.35,525.
 14. Other expenses during the month were as follows:

| | Sh. |
|--------------------------------|---------|
| Electricity bill | 17,400 |
| Water bill (County Government) | 11,600 |
| Salaries and wages | 172,550 |
| Stationery | 20,300 |

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

Required:

- A value added tax (VAT) account for Plainview Traders for the month of November 2016. (10 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Discuss the four principles of an optimal tax system as advocated by Adam Smith. (8 marks)
- (b) Shokoh Manajah works as a Finance Manager for Zaylam Motors Ltd. He has provided the following information relating to his income for the year ended 31 December 2016:
1. Basic monthly salary Sh.180,000 payable in arrears. (PAYE Sh.42,000 per month).
 2. He was provided with free clothing from the company's clothing line worth Sh.250,000 semi-annually to enable him maintain the company dress code.
 3. The company caters for medical expenses up to the tune of Sh.80,000 per month under a medical scheme for the senior staff. In the event the amount is not fully utilised at the end of the year, the senior staff receive the balance in cash. He spent Sh.420,000 on medical expenses during the year and claimed the balance.
 4. The company caters for staff lunch on an equal basis at the staff canteen. During the year, the company spent Sh.320,000 on his lunch.

5. He contributes 5% of his monthly basic salary to a registered pension scheme while the company contributes a further 10% on his behalf.
6. He was provided with a company car of 2,500 cc which was acquired by the company on 1 July 2016 at the cost of Sh.3,500,000.
7. He was paid a hardship allowance of Sh.280,000 during the year when he was deployed to supervise the company's branches in remote parts of the country in addition to the normal subsistence allowance.
8. He was reimbursed private entertainment expenses of Sh.120,000 during the year.
9. The company paid his monthly rent of Sh.85,000.
10. The following domestic expenses were paid for him by the company during the year:

| | Sh. |
|-------------------|---------|
| Electricity bills | 65,000 |
| Telephone bills | 140,000 |
| Furniture | 280,000 |

11. The company paid subscription fees on his behalf to the golf sports club amounting to Sh.180,000.
12. He has a life insurance cover for self and family for which he paid premiums of Sh.48,000 per month.

Required:

- (i) Taxable income for Shokoh Manajah for the year ended 31 December 2016. (10 marks)
 - (ii) Tax payable (if any) on the income computed in (b)(i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) (i) Explain the term "turnover tax" as used in taxation. (2 marks)
- (ii) John Moseti is a fresh farm produce trader based in Kiderby. He has informed you that he was recently registered as a taxpayer under the turnover tax (TOT) regime. He has provided you with the following information on his trading activities for the year ended 31 December 2016:

| Month(s) | Sales (Sh.) | Purchases (Sh.) |
|---------------------|-------------|-----------------|
| January - April | 123,750 | 74,000 |
| May - July | 98,000 | 130,000 |
| August - October | 120,000 | 62,000 |
| November - December | 84,000 | 100,000 |

Additional information:

1. The sales and purchases as given above are the monthly average for the relevant time period.
2. John Moseti incurred the following operation expenses during the year ended 31 December 2016:

| | Sh. |
|-------------------------------|---------|
| Telephone and electricity | 64,000 |
| Rent and rates | 36,000 |
| Shop assistant's wages | 108,000 |
| Transport and travel expenses | 19,000 |
| General expenses | 42,000 |

Required:

- Compute the turnover tax payable if any by John Moseti for the year ended 31 December 2016, showing the dates on which it is due and payable. (6 marks)

- (b) Balozi Ltd. is a coffee processing company. The company commenced its operations on 4 January 2016 after incurring the following expenditure:

| | Sh. |
|------------------------------|-----------|
| Factory building | 9,600,000 |
| Coffee milling machinery | 2,500,000 |
| Motor vehicle (Toyota Prado) | 3,200,000 |
| Furniture and fittings | 800,000 |
| Sports pavilion | 1,600,000 |
| Delivery vans | 2,800,000 |
| Staff canteen | 620,000 |
| Parking bay | 380,000 |
| Computers | 150,000 |
| Land | 2,500,000 |
| Mobile forklift | 1,200,000 |

Additional information:

1. A recreation hall was constructed at a cost of Sh.800,000 and utilised with effect from 2 October 2016.
2. The cost of computers includes Sh.80,000 spent on acquisition of computer software.
3. A lorry (4 tonnes) was acquired on 30 June 2016 at a cost of Sh.2,500,000.
4. The following assets were disposed of on 31 December 2016:

| Asset | Disposal proceeds Sh. |
|------------------|--------------------------|
| Computers | 30,000 |
| Delivery van | 600,000 |
| Office furniture | 120,000 |

5. A borehole was drilled at a cost of Sh.1,800,000 and utilised with effect from 1 July 2016 after fitting a water pump costing Sh.600,000.

Required:

Capital allowances due to Balozi Ltd. for the year ended 31 December 2016.

(12 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Outline four items that the Commissioner of Tax is required to specify in writing, while notifying the taxpayer assessed under default assessment. (4 marks)
- (b) Describe four ways through which the government might prevent loss of revenue from imports. (4 marks)
- (c) Asman and Kamanda have been trading as partners for the last several years under the name Askam Traders. They have provided you with the following income statement for the year ended 31 December 2016:

| Income: | Sh. | Sh. |
|--|------------------|--------------------|
| Sales | 10,290,000 | |
| Closing inventory | <u>1,310,000</u> | 11,600,000 |
| Rental income | | 1,200,000 |
| Discount received | | 108,000 |
| Foreign exchange gain (unrealised) | | <u>240,000</u> |
| | | 13,148,000 |
| Less Expenses: | | |
| Salaries and wages | 2,600,000 | |
| Office expenses | 720,000 | |
| Telephone and postage | 340,000 | |
| Depreciation | 500,000 | |
| Marketing and promotion | 240,000 | |
| Rent and rates (relate to rental income) | 480,000 | |
| Consultancy and professional fees | 840,000 | |
| Loss on disposal of a motor vehicle | 400,000 | |
| Insurance | 250,000 | |
| Customs duty paid | 204,000 | |
| Legal expenses | 820,000 | |
| Permits and licences | 200,000 | |
| Interest on bank overdraft | 160,000 | |
| Contributions to National Social Security Fund | 198,000 | |
| Computer repairs and maintenance | <u>946,000</u> | <u>(8,898,000)</u> |
| Net Profit | | 4,250,000 |

Additional information:

1. Salaries and wages include salaries to partners of Sh.900,000 and Sh.700,000 to Asman and Kamanda respectively.
2. Marketing and promotion expenses represent the cost of putting up a huge billboard in a conspicuous location of the central business district.
3. Consultancy and professional fees include Sh.700,000 paid to tax law expert to defend the partnership in a tax dispute.
4. Included in the rent and rates is Sh.180,000 stamp duty in relation to lease of the rental premises. The lease is for a period of less than 100 years.
5. Capital allowances were agreed to be Sh.1,750,000 by the Commissioner of Domestic Taxes.

Required:

- (i) Adjusted taxable profit or (loss) for Askam Traders for the year ended 31 December 2016. (10 marks)
- (ii) Allocation of the profit or (loss) in (c)(i) above to the partners. (2 marks)

(Total: 20 marks)

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ATD LEVEL III

DCM LEVEL III

PRINCIPLES OF PUBLIC FINANCE AND TAXATION

TUESDAY: 24 May 2016.

Time Allowed: 3 hours.

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

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

Year of income 2015.

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

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

Prescribed benefit rates of motor vehicles provided by employer

| | Monthly rates (Sh.) | Annual rates (Sh.) |
|--|------------------------|-----------------------|
| Capital allowance: | | |
| Wear and tear allowance: | | |
| Class I | 37.5% | |
| Class II | 30% | |
| Class III | 25% | |
| Class IV | 12.5% | |
| Software | 20% | |
| 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% | |
| (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 |

Extraction expenditure:

Written off over 5 years (20%)

Commissioner's prescribed benefit rates

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

QUESTION ONE

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

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

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

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

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

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

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

(Total: 20 marks)

QUESTION TWO

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

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

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

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

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

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

(Total: 20 marks)

QUESTION THREE

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

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

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

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

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

Additional information:

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

Required:

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

QUESTION FOUR

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

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

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

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

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

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

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

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

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

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

Required:

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

(10 marks)

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

Cash book Extract

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

Additional information:

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

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

Required:

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

(10 marks)

(Total: 20 marks)

QUESTION FIVE

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

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

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

Additional information:

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

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

- General expenses include:

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

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

- Bad debts comprised the following:

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

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

Required:

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

(Total: 20 marks)

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KASNEB

ATD LEVEL III

DCM LEVEL III

PRINCIPLES OF 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.) |
|---|------------------------------|-----------------------------|
| 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 buildings | 50% | |
| From 1 January 2010- | | |
| Commercial building: | | |
| (Shop, office or show room) | 25% | |
| Farm works allowance | 100% | |
| Investment deduction allowance | 100% | |
| Shipping investment deduction | 40% | |
| Mining allowance: | | |
| Year 1 | - 40% | |
| Years 2 - 7 | - 10% | |
| Commissioner's prescribed benefit rates | | |
| Services | Monthly rates Sh. | Annual rates Sh. |
| (i) Electricity (Communal or from a generator) | 1,500 | 18,000 |
| (ii) Water (Communal or from a borehole) | 500 | 6,000 |
| Agriculture employees: Reduced rates of benefits | | |
| (i) Water | 200 | 2,400 |
| (ii) Electricity | 900 | 10,800 |

QUESTION ONE

- (a) State six sources of revenue for the county government as envisaged in the Constitution. (6 marks)
- (b) Explain the stages involved in the budgeting cycle in county governments. (8 marks)
- (c) Outline the advantages of public participation in the county budgeting process. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Specify the role of the Auditor General in both the national and county government. (10 marks)
- (b) The Constitution has set out the criteria to be followed when sharing the revenue between the national government and the county government.
- Outline the various principles that define the constitutional threshold for a fair sharing of revenue between the national government and the county government as well as among the counties. (10 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Using appropriate examples, cite any two types of taxes classified based on the administrative collection arrangements. (4 marks)
- (b) Kariandusi Ltd. processes raw diatomite into an industrial product called lime. The company had begun operations in January 2014 when they completed constructing a new factory building at a cost of Sh.40,000,000. The cost of the building included the cost of land amounting to Sh.5,000,000.

In the same year, the company added the following which were put to use on 1 July 2014:

1. Storage house at a cost of Sh.6,000,000.
2. Staff quarters costing Sh.14,000,000.
3. Extension to the factory building costing Sh.12,000,000

Before commencing manufacturing on 1 January 2014, the company had acquired the following assets:

| | Sh. |
|-----------------------------|------------|
| Processing machinery | 15,000,000 |
| Conveyor belt | 5,400,000 |
| 15 ton lorry | 2,600,000 |
| Tractor | 4,000,000 |
| Furniture and fittings | 2,100,000 |
| Computers | 800,000 |
| Photocopier | 280,000 |
| Saloon car | 2,700,000 |
| Pick-up trucks (4 in total) | 9,400,000 |
| CCTV cameras | 500,000 |
| Wheelbarrows | 50,000 |
| Trolleys | 450,000 |
| Workshop machinery | 5,000,000 |

The company decided to strengthen the security at the factory by building a stone perimeter fence at a cost of Sh.3,800,000. This was brought to use with effect from 1 November 2014.

Required:

- (i) Kanandusi Ltd.'s capital allowances for the year ended 31 December 2014. (14 marks)
- (ii) Obtain the written down values of the assets as at 31 December 2014. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Explain the major difference between the assessment of partnerships and that of companies for taxation purposes. (2 marks)

- (b) Billy and Mary are in partnership operating under the name BIMA Enterprises. They import second-hand shoes which they sell in the local market. In the year ended 31 December 2014, they presented the following accounts:

| Particulars | Sh. |
|--|------------------|
| Sales | 6,000,000 |
| Closing stock | 1,500,000 |
| Sundry receipts | 450,000 |
| Interest on a deposit account (Net) | 816,000 |
| Interest on drawings | 300,000 |
| Dividend from ABC Mining | 90,000 |
| Gain on sale of old truck | 44,000 |
| Discount received from foreign suppliers | 20,000 |
| Foreign exchange gain | 80,000 |
| Insurance compensation for vandalised shop | <u>200,000</u> |
| | <u>9,500,000</u> |

| Particulars | Sh. |
|---------------------------------------|------------------|
| Opening stock | 800,000 |
| Purchases | 3,500,000 |
| Wages | 2,200,000 |
| Carriage inwards | 280,000 |
| Rent and rates to county government | 40,000 |
| Cargo clearance fees | 85,000 |
| Depreciation | 300,000 |
| Insurance premium | 78,000 |
| Advertising expenses | 420,000 |
| Transport to the outlets | 86,000 |
| Customs duty paid | 46,000 |
| Fines for late payment of import duty | 70,000 |
| Interest on capital paid to partners | 300,000 |
| VAT paid | 145,000 |
| Commissions paid to partners | 160,000 |
| Donations to county governments | 900,000 |
| Salaries to partners | 800,000 |
| Legal expenses | 94,000 |
| Net loss | <u>(804,000)</u> |
| | <u>9,500,000</u> |

Additional information:

1. The partners' capital contribution was Sh.2,000,000 and Sh.4,000,000 for Billy and Mary respectively and the interest on capital is based on the proportion of capital contributed.
2. Profits are share in the ratio 2:1 as per their partnership deed.
3. The commission to partners was as follows:

| | Sh. |
|-------|--------|
| Billy | 82,000 |
| Mary | 78,000 |

4. The salary to partners was as follows:

| | Sh. |
|-------|---------|
| Billy | 200,000 |
| Mary | 600,000 |

5. Legal expenses relate to arbitration of personal dispute between Billy and Mary's husband.
6. Interest on drawings was as follows:

| | Sh. |
|-------|---------|
| Billy | 220,000 |
| Mary | 80,000 |

7. Ignore capital allowances.

Required:

- (i) Adjusted partnership profit for the year ended 31 December 2014. (10 marks)
- (ii) A distribution statement showing each partners' share of adjusted profit/loss. (4 marks)

(iii) Compute the tax payable by each partner.

(4 marks)

(Total: 20 marks)

QUESTION FIVE

(a) State any five factors that influence tax shifting.

(5 marks)

(b) Sylvia Anderson is currently employed as an engineer with Nokia Siemens Networks Ltd (NSN). In the year ended 31 December 2014, she received the following emolument from her employment:

1. Basic salary per month Sh.225,000 net of PAYE deducted of Sh.75,000.
2. She is housed by the company in a house whose market rental value is Sh.80,000 per month. The house is supplied with water and electricity. She pays a nominal rent of Sh.16,000 per month. Water consumed was for Sh.17,500 and electricity consumed was for Sh.38,000 during the year.
3. She receives responsibility allowance amounting to Sh.40,000 per month.
4. She has free use of a vehicle assigned to her by the company since at times she works late. The vehicle, with an engine capacity of 2,200 cc is leased from Jayz Services Ltd., a car hire company, at an annual lease charge of Sh.600,000. The car had cost Jayz Ltd. Sh.3,600,000 in the year 2013.
5. On 1 July 2014, Sylvia Anderson obtained a loan of Sh.2,000,000 from the company at an interest rate of 7% per annum repayable in 2 years.
6. She is a member of the company's pension scheme where she contributes 5% of her basic pay and the employer contributes an equal amount for her. The scheme is registered with the Commissioner.
7. The company provided her with free meals at the work place worth Sh.27,500 monthly.
8. The other benefits that she enjoyed from her employment during the year were:

(a) Free medical treatment valued at Sh.255,000 for the year. The company has a similar facility for all other staff members.

(b) A paid holiday to Dubai which cost the company Sh.450,000.

The prescribed rate of interest for the year 2014 was 13% p.a.

Required:

(i) Taxable income of Sylvia Anderson for the year ended 31 December 2014.

(12 marks)

(ii) Tax payable by Sylvia Anderson for the year ended 31 December 2014.

(3 marks)

(Total: 20 marks)

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KASNEB

ATD LEVEL III

DCM LEVEL III

PRINCIPLES OF PUBLIC FINANCE AND TAXATION

TUESDAY: 22 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.) |
|--|------------------------|-----------------------|
| 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 | 100% | |
| Investment deduction allowance | 100% | |
| Shipping investment deduction (Ships over 125 tonnes) | 100% | |
| (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 |

Extraction expenditure:

Written off over 5 years (20%)

Commissioner's prescribed benefit rates

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

QUESTION ONE

- (a) Outline the stages to be followed in the budget process for the national government in any financial year. (10 marks)
- (b) Discuss five roles played by the controller of budget as envisaged by the Constitution and the Public Finance Management Act. (10 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Explain the meaning of the following terms as used in Public Finance Management:
- (i) Appropriation Act. (2 marks)
- (ii) County government security. (2 marks)
- (b) In a tax seminar one of the facilitators noted that, "Raising revenue is not the only purpose for which taxes are levied". With reference to the above statement, explain four other purposes of levying taxes in your country. (8 marks)
- (c) Fedha Enterprises provided the following summary of transactions for the month of June 2016:

| | Sh. |
|--|------------|
| Sales | 6,960,000 |
| Purchases | 4,408,000 |
| Credit notes issued to customers | 62,640 |
| Oil and fuels for delivery van | 34,800 |
| Stationery | 27,840 |
| Audit fees | 58,000 |
| Catering expenses | 4,760 |
| Debit notes received from suppliers for goods under invoiced | 17,400 |

Additional information:

- Sales include goods exported to South Sudan amounting to Sh.232,000 and exempt supplies of Sh.406,000.
- Purchases at standard rate could not be directly identified from exempt supplies and therefore the business restricted deductible input tax.
- All transactions are inclusive of value added tax (VAT) at the rate of 16% where applicable.

Required:

Calculate for Fedha Enterprises for the month of June 2016:

- (i) Deductible input tax. (6 marks)
- (ii) VAT payable (or refundable). (2 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Outline five reasons why a country might impose prohibitions and restriction measures on imports. (5 marks)
- (b) Identify three circumstances when the Commissioner of Domestic Taxes might issue an estimated assessment to a tax payer in your country. (3 marks)
- (c) Amina Moraa works for Executive Motors Ltd. as a financial controller. She provided the following details relating to her income for the year ended 31 December 2015:
- Basic salary Sh.120,000 per month (PAYE Sh.32,000 per month).
 - During the year she was provided with a brand new saloon car of 3,000cc rating by the company. The car was purchased for Sh.1,800,000 and the company claimed expenditure for maintenance of the car in its books of account.
 - The company has a registered pension scheme for its employees whereby it contributes 15% of each employee's basic salary. Amina Moraa contributed 5% of her monthly basic salary towards the scheme.
 - She was enrolled to a medical scheme with Uzima Insurance Ltd. for Sh.480,000 annually. The medical scheme catered for senior managers only.
 - She was provided with a fully furnished residential house where the value of furniture amounted to Sh.260,000. The market rental value of the house was Sh.45,000 per month.

6. The employer paid the following bills for Amina Moraa during the year:

| | Sh. |
|-------------|---------|
| Electricity | 180,000 |
| Telephone | 96,000 |
| Water | 42,000 |

7. She is a member of a home ownership savings plan (HOSP) where she contributed Sh.12,000 per month towards the plan.
8. She received an entertainment allowance of Sh.220,000 during the year. Half of this amount was spent on entertaining her family, while the balance was utilised in entertaining customers.
9. She was provided with a gardener and a security guard who are on the company's payroll and receive Sh.18,000 and Sh.22,000 per month respectively.
10. She received interest on a 10-year Government Infrastructure Bond of Sh.78,000 during the year.

Required:

- (i) Total taxable income for Amina Moraa for the year ended 31 December 2015. (10 marks)
- (ii) The tax payable (if any) on the taxable income computed in (c)(i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

(a) Explain the following terms as used in the context of value added tax (VAT):

- (i) Time of supply. (2 marks)
- (ii) Withholding VAT. (2 marks)

(b) Joshua and Kefa are partners trading as Joka Associates and sharing profits and losses in the ratio of 2:1 respectively.

Their income statement for the year ended 31 December 2015 reflected the following:

| | Sh. | Sh. |
|------------------------------|----------------|--------------------|
| Gross profit | | 3,652,000 |
| Sale of delivery van | | 400,000 |
| Advertisement | 38,400 | |
| Depreciation | 144,000 | |
| Repairs and maintenance | 175,200 | |
| Rent and rates | 78,000 | |
| Legal fees | 34,720 | |
| Value added tax (VAT) | 38,400 | |
| General expenses | 241,280 | |
| Insurance premiums | 52,800 | |
| Salaries and wages | 913,600 | |
| Interest on capital - Joshua | 252,000 | |
| - Kefa | 284,000 | |
| Bad debts | 25,600 | |
| NSSF contribution | 32,800 | |
| Purchase of furniture | 96,000 | |
| Goodwill written off | 225,600 | |
| Mortgage interest | <u>240,000</u> | <u>(2,872,400)</u> |
| Net profit | | <u>1,179,600</u> |

Additional information:

- Advertisement expenses include Sh.21,200 spent on acquisition of a neon sign.
- Insurance premiums expense include Sh.25,200 paid for Joshua's private car.
- Legal fees comprised the following:

| | Sh. |
|--|--------|
| • Parking fine | 4,000 |
| • Securing a bank overdraft | 6,400 |
| • Settling a dispute with the customer | 15,600 |
| • Appeal on a tax assessment | 8,720 |

4. Salaries and wages included salaries to partners as follows:

| | Sh. |
|----------|---------|
| • Joshua | 248,000 |
| • Kefa | 496,000 |

5. General expenses comprised:

| | Sh. |
|------------------------------------|--------|
| • Partners end of year party | 60,000 |
| • Embezzlement by the cashier | 24,080 |
| • Staff catering services | 16,000 |
| • Foreign exchange losses realised | 44,000 |
| • Preparation of tender documents | 97,200 |

6. Bad debts represented the general provision as at the end of the year.

7. Half of the rent paid related to the amount paid to Joshua for letting part of his building to the partnership.

8. Mortgage interest relates to a partner's residential house.

9. It was discovered that opening stock and closing stock were overvalued by Sh.16,820 and Sh.14,340 respectively.

10. The asset register of the partnership reflected written down value of assets as at 1 January 2015 as follows:

| | Sh. |
|--------------------------|-----------|
| • Lorry (3 tonnes) | 1,680,000 |
| • Computers | 440,000 |
| • Delivery vans | 1,040,000 |
| • Furniture and fittings | 648,800 |
| • Wheelbarrows | 150,000 |

Required:

(i) Taxable profit or loss of the partnership for the year ended 31 December 2015. (12 marks)

(ii) The allocation of the taxable profit or loss in (b)(i) above to the partners. (4 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Most developing countries are undertaking tax reforms and modernisation of their tax systems.

In relation to the above statement, summarise four reasons for carrying out tax reforms in your country. (8 marks)

(b) Kivu Industries Ltd., a manufacturer of leather products was established on 1 December 2013.

The company commenced its operations on 1 January 2014 after incurring the following capital expenditure:

| | Sh. |
|-----------------------------------|-----------|
| Factory building | 6,800,000 |
| Drainage system | 320,000 |
| Saloon car (for finance director) | 2,800,000 |
| Office furniture | 120,000 |
| Tractor | 5,800,000 |
| Fax machine | 150,000 |
| Conveyor belts | 680,000 |
| Staff canteen | 700,000 |
| Generator | 350,000 |
| Delivery van | 1,900,000 |
| Computers | 660,000 |

Additional information:

1. A godown was constructed and utilised with effect from 1 October 2014. The total construction cost was Sh.960,000.

2. The company acquired processing machinery from Japan at a cost of Sh.5,600,000 and was installed in the factory building on 2 February 2014.

3. The director's saloon car was disposed of for Sh.1,600,000 in November 2014.

4. On 1 January 2015, the company acquired the following assets:

| | Sh. |
|-------------------------|-----------|
| Water pump | 120,000 |
| Air filters | 360,000 |
| Trailer for the tractor | 1,200,000 |
| Boilers | 920,000 |
| 2 pick-ups | 5,600,000 |

5. A sports pavilion and labour quarters were constructed at a cost of Sh.780,000 and Sh.1,200,000 respectively. Both were utilised with effect from 1 April 2015.
6. A perimeter wall completed on 1 October 2015 was constructed at a cost of Sh.580,000.
7. During the year ended 31 December 2015, the following assets were disposed of:

| Asset | Disposal proceeds Sh. |
|------------------|----------------------------------|
| Computers | 360,000 |
| Fax machine | 80,000 |
| Office furniture | 64,000 |

Required:

Capital allowances due to Kivu Industries Ltd. for each of the two years ended 31 December 2014 and 31 December 2015.

(12 marks)

(Total: 20 marks)

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