



CS FOUNDATION LEVEL

PRINCIPLES OF ACCOUNTING AND TAXATION

TUESDAY: 19 August 2025. 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 (For employment income including wife's employment, self-employment and professional income).

Year of income 2024.

Assume the following rates of tax applied throughout the year of income 2024:

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:	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
• 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 straight line basis		2001 - 3000 cc	8,600	103,200
• Commercial building	10% per year on straight line basis		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 straight line basis		(iii) Land Rovers/Cruisers	7,200	86,400
• Computer software, calculators, copiers and duplicating machines	25% per year on straight line basis				
• 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				
• 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 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

QUESTION ONE

(a) Explain the following terms as used by a company when issuing shares:

- (i) Issue of shares at par. (2 marks)
- (ii) Issue of shares at a premium. (2 marks)
- (iii) Issue of shares at a discount. (2 marks)

(b) Highlight **FOUR** sources of funds for non-profit making organisations. (2 marks)

(c) On 31 March 2024, Juma Enterprise balanced its accounts and found that the total trade receivables were Sh.3,360,000. Included in this figure were irrecoverable debts of Sh.168,000 owed by Amaddo Traders and Sh.224,000 owed by Great Enterprise which Juma Enterprise decided to write off. In addition, Juma Enterprise decided to create an allowance for doubtful debts of 5% of the remaining trade receivables.

In the following year which ended on 31 March 2025, trade receivables totalled Sh.2,800,000 and no bad debts were written off. Juma Enterprise maintained the allowance for doubtful debts at 5% of the current trade receivables.

Required:

- (i) Bad debts written off account. (2 marks)
- (ii) Allowance for doubtful debts account for the two years. (4 marks)
- (iii) An extract of the statement of profit or loss for the two years. (2 marks)
- (iv) An extract of statement of financial position for the two years. (4 marks)

(Total: 20 marks)

QUESTION TWO

Rachel, Sarah and Terry are partners, trading as RST Enterprises and sharing profits and losses in the ratio of 2:2:1 respectively. The particulars of the partnership business are provided as follows:

RST Enterprises**Statement of financial position as at 31 March 2025:**

Non-current assets:	Sh. "000"	Sh. "000"	Sh. "000"
Premises			648,600
Motor vehicles			577,200
Furniture and fittings			<u>196,200</u>
			1,422,000
Current assets:			
Inventories		189,800	
Trade receivables	132,800		
Less: Allowance for bad debt	<u>(25,600)</u>	107,200	
Bank		<u>110,600</u>	
			<u>407,600</u>
			<u>1,829,600</u>
Capital and liabilities:			
Capital accounts			
Rachel		400,000	
Sarah		320,000	
Terry		<u>180,000</u>	
			900,000
Current accounts:			
Rachel		108,400	
Sarah		(93,400)	
Terry		<u>47,800</u>	
			62,800
Non-current liabilities:			
Bank loan			700,000
Current liabilities:			
Trade payables		<u>166,800</u>	
			<u>166,800</u>
			<u>1,829,600</u>

Additional information:

The firm was dissolved on 1 April 2025 and the assets were disposed of as follows:

1. Inventories realised Sh.91,600,000.
2. A debtor owing Sh.16,400,000 was declared bankrupt and this amount was not recoverable. The rest of the trade receivables were paid in full.
3. Furniture and fittings were sold for Sh.163,000,000.
4. Rachel took over some of the motor vehicles at a valuation of Sh.50,000,000. The book value of this motor vehicles was Sh.69,200,000. The remaining motor vehicles were sold for Sh.300,000,000.
5. The premises realised Sh.787,400,000.
6. Trade payables were paid Sh.160,000,000 in full settlement while the bank loan was repaid in full plus Sh.19,000,000 accrued interest.
7. Dissolution expenses of Sh.42,800,000 were also paid and the balance of cash distributed to the partners.

Required:

Prepare the following accounts:

- (a) Realisation account. (8 marks)
 - (b) Bank account. (6 marks)
 - (c) Partners' capital account. (6 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Outline **FOUR** purposes of International Financial Reporting Standards (IFRS). (4 marks)
- (b) Explain **THREE** external users of accounting information of a business entity. (6 marks)
- (c) Rangers Ltd. has an authorised capital of Sh.30,000,000 divided into 300,000 ordinary shares of Sh.100 each. All the shares were offered at par as follows:
 - Payable on application. Sh.10
 - Payable on allotment Sh.30
 - Payable on first call Sh.40
 - Payable on second call Sh.20

Additional information:

1. Applications were received for 456,000 shares. It was decided to refund application monies on 6,000 shares and to allot the remaining shares on the basis of two shares for every three shares applied for. The excess application monies received from successful applicants was not refunded but was to be applied to reduce the amount payable on allotment.
2. The calls were made and paid in full with the exception of one member holding 10,000 shares who paid neither the first nor the second call and another member who did not pay the second call on 2,000 shares. After requisite action by directors the shares were forfeited. They were later re-issued to Bernard Mwau at a price of Sh.80 per share.

Required:

Prepare the following accounts:

- (i) Application and allotment account. (2 marks)
 - (ii) First call account. (2 marks)
 - (iii) Second call account. (2 marks)
 - (iv) Bank account. (2 marks)
 - (v) Forfeited shares account. (2 marks)
- (Total: 20 marks)**

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QUESTION FOUR

- (a) Distinguish between “a single tax system” and “a multiple tax system” adopted by different countries. (4 marks)
- (b) Explain **FOUR** principles of taxation as advocated by Adam Smith. (8 marks)
- (c) Discuss **FOUR** measures that could be used by custom and excise duty department in your country to prevent dumping. (8 marks)

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

- (a) Explain **THREE** factors that could influence tax shifting in your country. (6 marks)
- (b) Smart Farm Ltd. commenced farming business on 1 January 2024 after incurring the following expenditure:

	Sh.
• Construction of granary	480,000
• Construction of livestock troughs	90,000
• Acquired irrigation system	480,000
• Erection of a labour line	1,240,000
• Building of poultry house	240,000
• Purchase of furniture	78,000
• Construction of cattle dip	640,000

Required:

Calculate farm works deduction due to Smart Farm Ltd. for year ended 31 December 2024. (4 marks)

- (c) Machero Ltd. is a manufacturing company, dealing in leather products. The following information was obtained from the books of the company for the year ended 31 December 2024:

1. The following assets were acquired on 4 January 2024:

	Sh.
• Computer	390,000
• Tractors	3,940,000
• Furniture and fittings	140,000
• Motor vehicle (pick-up)	2,750,000
• Delivery van	2,960,000

2. The factory building was constructed on 31 December 2023 and put into use on 2 January 2024. The value of the factory building was Sh.36,500,000 including the cost of land of Sh.5,300,000.

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

Asset	Cost
	Sh.
• Warehouse	784,000
• Plant and machinery	8,640,000
• Security wall	4,160,000
• Showroom	2,348,000
• Computers	296,000
• Motor vehicle (saloon car)	3,450,000
• Lorry (4 tonnes)	5,290,000
• Office cabinets	84,000
• Conveyor belts	780,000
• Processing machinery	2,680,000

4. During the year, the motor vehicle (saloon) was disposed of for Sh.2,800,000.
5. The company constructed a factory extension in July 2024 at a cost of Sh.2,100,000.
6. The company sunk a water borehole at a cost of Sh.560,000 and bought a water pump for Sh.480,000. Both were put into use on 1 September 2024.
7. The company replaced the motor vehicle (pick-up) purchased on 4 January 2024. The company paid Sh.1,650,000 after obtaining a trade in allowance of Sh.1,500,000 for the old car to obtain the new pick up which was bigger.

Required:

Compute investment allowance due to Machero Ltd. for the year ended 31 December 2024. (10 marks)

(Total: 20 marks)

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CS FOUNDATION LEVEL

PRINCIPLES OF ACCOUNTING AND TAXATION

WEDNESDAY: 23 April 2025. 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 (For employment income including wife's employment, self-employment and professional income).

Year of income 2024.

Assume the following rates of tax applied throughout the year of income 2024:

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:	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
• 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 straight line basis		2001 - 3000 cc	8,600	103,200
• Commercial building	10% per year on straight line basis		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 straight line basis		(iii) Land Rovers/Cruisers	7,200	86,400
• Computer software, calculators, copiers and duplicating machines	25% per year on straight line basis				
• 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				
• 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 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

QUESTION ONE

- (a) Outline **TWO** importance of source documents in preparation of financial statement. (2 marks)
- (b) The following information was obtained from the books of Mapping Enterprises:
- The balances of the following accounts on 1 January 2024 were as follows:
 - Motor vehicles account Sh.2,740,400,000.
 - Accumulated depreciation on motor vehicles Sh.1,227,200,000.
 - During the year ended 31 December 2024, motor vehicles which originally had cost Sh.1,224,600,000 were disposed of for Sh.286,000,000. The accumulated depreciation on the motor vehicles was Sh.800,800,000.
 - New motor vehicles were acquired at a cost of Sh.1,372,800,000 which was paid through bank transfers.
 - The closing balance on allowance for depreciation on motor vehicles account at 31 December 2024 was Sh.1,011,400,000.

Required:

Prepare the following accounts for Mapping Enterprise for the year ended 31 December 2024:

- Motor vehicles account. (4 marks)
 - Accumulated depreciation on motor vehicles account. (4 marks)
 - Motor vehicles disposal account. (4 marks)
- (c) On 31 December 2023, Josphat Mutua balanced his accounts and found that the balance in the accounts receivable was Sh.2,352,000. Included in this figure were unrecoverable debts of Sh.11,760 owed by Juma Mwendia and Sh.15,680 owed by Hadija Onyancha. Josphat Mutua decided to write off these debts. Josphat Mutua decided to create an allowance for credit loss of 15% of the balance of the accounts receivables. In the following year which ended 31 December 2024, accounts receivable totaled to Sh.1,960,000. No bad debts were written off but Josphat Mutua maintained the allowance for credit loss at 15% of the current trade receivable.

Required:

Prepare the following accounts:

- Bad debts written off account for the year ended 31 December 2023. (2 marks)
- Allowance for credit loss account for the years ended 31 December 2023 and 31 December 2024. (4 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain **THREE** features of public sector entities. (6 marks)
- (b) The accountant of Prestige Golf Club has prepared the following receipts and payments account for the year ended 31 December 2024.

Receipts	Sh. "000"	Payments	Sh. "000"
Balance brought forward	1,760	Amplifier purchase (1 July 2024)	700
		Music fees	900
		Coaching fees	820
Subscriptions	4,100	Hall rent	330
Annual dinner ticket sales	340	Rates	800
Sale of mobile vending carts	670	Decorating	110
Club festivals: admission fee	940	Cleaning	160
Sales: clothes	2,100	Annual club expedition	1,320
Refreshments	8,300	Annual dinner (hotel and catering)	410
		Club festivals:	
		Prizes	170
		Adjudicator's fees	90
		Clothes – payable	1,800
		Refreshments	7,000
		Balance carried forward	3,600
	<u>18,210</u>		<u>18,210</u>

Note: It is the policy of the society not to take into account subscriptions in arrears until they are paid.

Additional information:

1. The above receipts and payments account is a summary of the society's bank account for the year ended 31 December 2024; the opening and closing balances shown above were balances shown in the bank statements on 31 December 2023 and 31 December 2024 respectively.
2. The mobile vending carts which were sold during the year 2024 had been valued at Sh.800,000 on 31 December 2023 and were used for society's activities until when they were sold on 30 June 2024.
3. From 1 July 2024, the society rented a new hall at Sh.330,000 per annum.
4. The club accumulated fund as at 1 January 2024 were Sh.3,100,000.
5. All cash is banked immediately and all payments are made by cheque.
6. A cheque for Sh.200,000 drawn by the society on 28 December 2024 for stationery was not paid by the bank until 4 January 2025.
7. The society's assets and liabilities at 31 December 2023 and 31 December 2024 in addition to those mentioned earlier were as follows:

	2024 Sh."000"	2023 Sh."000"
Inventory for goods for resale at cost:		
• Clothes	1,300	1,100
• Refreshments	310	600
Sundry creditors annual dinner – catering	-	70
Purchases – clothes	600	400
Refreshments	300	500
Subscriptions prepaid	130	190

8. It is proposed to provide for depreciation on the amplifier at the rate of 20% per annum on cost, the depreciation is then to be pro-rated.

Required:

- (i) The income and expenditure account for the year ended 31 December 2024. (7 marks)
- (ii) Statement of affairs as at 31 December 2024. (7 marks)

(Total: 20 marks)

QUESTION THREE

- (a) Explain the following users of accounting information and their respective needs:

- (i) Shareholders. (2 marks)
- (ii) Customers. (2 marks)

- (b) The following balances were extracted from the books of Shujaa Limited as at 31 December 2024:

Share Capital; Authorised and issued:	Sh.
7,200,000 Sh.20 ordinary shares	144,000,000
2,400,000 8% Sh.20 preference share	48,000,000
Inventory	100,620,400
Accounts receivable and prepayments	32,640,000
Accounts payable and accruals	16,466,400
Bank balance	9,355,200
10% debentures	19,200,000
General reserve	33,600,000
Bad debts	408,000
Gross profit for the year	97,809,600
Salaries and wages	33,840,000
Rates and insurance	1,692,000
Postage and telephone	744,000
Water and electricity	1,459,200
Debenture interest	960,000
Director's fees	3,000,000
General expenses	3,729,600
Motor vehicles (cost Sh.34,920,000)	8,160,000
Office fittings and equipment (cost Sh.53,568,000)	32,928,000
Land and buildings at cost	158,640,000
Profit and loss account – 1 January 2024	29,102,400

Additional information:

1. A bill for Sh.657,600 in respect of electricity for the period up to 31 December 2024 has not been accrued.
2. The amount for insurance includes a premium of Sh.360,000 paid in September 2024 to cover the company for six months from October 2024 to March 2025.
3. Office fittings and equipment are to be depreciated at 15% per annum on cost and motor vehicles at 20% per annum on cost.
4. Provision is to be made for:
 - Directors' fee – Sh.6,000,000
 - Audit fee – Sh.1,440,000
 - The outstanding debenture interest
5. The directors have recommended that:
 - A sum of Sh.14,400,000 to be transferred to the general reserve.
 - The preference dividends be paid.
 - A 10% ordinary dividend be paid.

Required:

Prepare the following statements for Shujaa Limited:

- (i) Statement of profit or loss for the year ended 31 December 2024. (8 marks)
- (ii) Statement of financial position as at 31 December 2024. (8 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Citing a suitable example in each case, distinguish between “direct tax” and “indirect tax”. (4 marks)
- (b) Explain the **FOUR** principles of taxation as advocated by Adam Smith. (8 marks)
- (c) The revenue authority is divided into various departments which are headed by commissioners. In relation to your country, highlight **FOUR** departments of the revenue authority. (4 marks)
- (d) Cyrus Walecha a commercial farmer has approached you for advice on the difference between “farm work deductions” and “investment allowance”. (4 marks)

Required:

Advise Cyrus Walecha on the difference between the two terms as used in taxation.

(4 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Differentiate between “custom duty” and “excise duty” as applied in taxation. (4 marks)
- (b) Star Ltd. is a company that was established in December 2023 to manufacture plastic products. Before commencing its operations on 1 January 2024, the company incurred a total of Sh.13,140,000 in construction of a factory building which included:

	Cost Sh.	Date of first use
Go-down	480,000	1 July 2024
Show room	360,000	1 September 2024
Administration offices	1,020,000	1 January 2024

Additional information:

1. The following assets were constructed, purchased and utilised with effect from 1 July 2024:

	Cost Sh.
Water pump	810,000
Labour quarters	1,380,000
Processing machinery	3,900,000
Tractor	2,700,000
Scanner	480,000

	Sh.
Two saloon cars	10,500,000
Mobile forklift	2,250,000
Computers	375,000
Power transformer	1,230,000
Office cabinets	270,000
Boiler	1,440,000
Bridge (connecting the factory to main road)	1,800,000

2. The following costs were incurred by the company on 1 September 2024.
 Sinking a borehole Sh.1,080,000
 Construction of a parking bay Sh.945,000
3. One of the computers was traded in on 10 November 2024 for a new one costing Sh.102,000. The trade in value was Sh.60,000 and the balance was settled in cash.
4. During the year, the company constructed a sports pavilion and additional staff quarters at the cost of Sh.1,335,000 and Sh.1,800,000 respectively. These structures were utilised from 1 October 2024.

Required:

Determine the investment allowances due to Star Ltd. for the year ended 31 December 2024.

(16 marks)

(Total: 20 marks)

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TUESDAY: 3 December 2024. Afternoon Paper.

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Year of income 2023.

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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
• 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 straight line basis		2001 - 3000 cc 8,600 103,200
• Commercial building	10% per year on straight line basis		Over - 3000 cc 14,400 172,800
(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		
• Computer software, calculators, copiers and duplicating machines	25% per year on straight line basis		(iii) Land Rovers/Cruisers 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		
• 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 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

QUESTION ONE

- (a) Explain **THREE** reasons for using the regulatory framework when preparing financial statements of an entity. (6 marks)
- (b) Describe the accounting treatment of the following items in the financial statements of an entity:
- (i) Accruals. (2 marks)
- (ii) Prepayments. (2 marks)
- (c) Explain the term “commitment accounting” as used in public sector accounting. (2 marks)
- (d) The statement of financial position of Mirinda Ltd. as at 31 October 2024 included in the following non-current assets balances:

	Freehold land and building Sh.“000”	Leasehold land and building Sh.“000”	Motor vehicles Sh.“000”	Furniture and fittings Sh.“000”
Cost	37,400	28,600	9,240	3,432
Accumulated depreciation	-	(3,520)	(4,510)	(1,375)
Net book value	<u>37,400</u>	<u>25,080</u>	<u>4,730</u>	<u>2,057</u>

The company provides depreciation at the following rates per annum:

Asset	Rates	Method
Freehold land and building	NIL	-
Leasehold land and building	5%	Reducing balance
Motor vehicles	20%	Cost
Furniture and fittings	12%	Reducing balance

A full year’s depreciation is provided in the year of acquisition, but no depreciation charged in the year of disposal.

Additional information:

- The freehold land and buildings were revalued at Sh.33,800,000.
- A motor vehicle purchased on 1 July 2021 for Sh.2,640,000 was traded-in as part payment for a new vehicle costing Sh.4,950,000. The balance was paid in cash.
- A chair which had cost Sh.132,000 was scrapped during the year and Sh.33,000 received from the sale of the scrap. The accumulated depreciation of the chair was Sh.99,000 at the time.

Required:

Property, plant and equipment movement schedule for the year ended 31 October 2024.

(8 marks)

(Total: 20 marks)

QUESTION TWO

The following trial balance relates to Tendo Limited as at 31 October 2024:

	Sh.“000”	Sh.“000”
Property at cost (Building: Sh.35 million)	60,000	
Plant and equipment at cost	18,600	
Motor vehicles at cost	9,000	
Furniture and fixtures at cost	7,500	
Accumulated depreciation – 1 November 2023:		
• Building		14,000
• Plant and equipment		7,560
• Motor vehicles		3,600
• Furniture and fixtures		3,000
Sales		242,600
Purchases	156,500	
Inventory as at 1 November 2023	15,400	
Returns inward and returns outward	5,300	5,460
Carriage inwards	3,560	
Staff salaries	18,100	

	Sh. "000"	Sh. "000"
Rent and rates	15,720	
Electricity and water	8,640	
Telephone, internet and stationery	6,100	
Carriage outwards	3,080	
Accounts receivable	37,500	
Bank balance	13,900	
Accounts payable		32,700
Ordinary share capital (Sh.10 par value)		20,000
Share premium		5,000
Retained earnings as at 1 November 2023		33,730
12.5% bank loan		12,000
Interest paid	<u>750</u>	
	<u>379,650</u>	<u>379,650</u>

Additional information:

- As at 31 October 2024, inventory was valued at Sh.13,000,000.
- As at 31 October 2024, prepaid rent amounted to Sh.3,120,000.
- Depreciation on non-current assets is provided at the following rates and basis:

Assets	Rate per annum	Basis
Building	2%	Straight-line
Plant and equipment	12.5%	Reducing balance
Motor vehicles	20%	Straight-line
Furniture and fixtures	10%	Straight-line
4. The 12.5% bank loan was obtained on 1 February 2024. Interest is payable semi-annually on 31 July and 31 January each year.		
5. Income tax for the year ended 31 October 2024 is estimated at Sh.7,520,000.		

Required:

- Statement of profit or loss for the year ended 31 October 2024. (12 marks)
 - Statement of financial position as at 31 October 2024. (8 marks)
- (Total: 20 marks)**

QUESTION THREE

Ali, Bahati and Camila are partners carrying on business under the style and name ABC Enterprises. The partners share profit and losses in the ratio 3:2:1 respectively. The following trial balance was extracted from the books of ABC Enterprises on 30 June 2024:

	Sh. "000"	Sh. "000"
Sales		15,000
Purchases	7,200	
Inventory as at 1 July 2023	1,200	
Accounts receivable	3,000	
Accounts payable		3,000
Bank balance	5,000	
Partners' capital accounts:		
Ali		6,000
Bahati		4,000
Camila		2,000
Partners' current accounts:		
Ali		1,000
Bahati		500
Camila		500
Drawings:		
Ali	1,000	
Bahati	1,000	
Camila	500	
Loan from Ali (interest rate 12% per annum)		2,000
Premises at cost	5,000	
Motor vehicles at cost	5,000	
Furniture and fittings at cost	1,500	

	Sh.“000”	Sh.“000”
Accumulated depreciation:		
Motor vehicles		300
Furniture and fittings		100
Premises		100
Salaries and wages	2,000	
Office and expenses	600	
Insurance	300	
Water and electricity	200	
General expenses	<u>1,000</u>	
	<u>34,500</u>	<u>34,500</u>

Additional information:

- The value of closing inventory on 30 June 2024 was Sh.4,000,000.
- Ali, Bahati and Camila are entitled to annual salaries of Sh.1,000,000, Sh.1,500,000 and Sh.1,000,000 respectively. Ali had not received his salary as at 30 June 2024 and it was agreed that it should be credited into his capital account.
- As at 30 June 2024, the interest on the loan from Ali was fully paid.
- As at 30 June 2024, accrued office expenses amounted to Sh.150,000 and pre-paid insurance amounted to Sh.50,000.
- Interest is allowed on partners' capital account balances at the rate of 10% per annum, while interest on drawings is charged at the rate of 10% per annum.
- Depreciation on non-current assets is provided on cost as follows:

Asset	Rate per annum
• Premises	4%
• Motor vehicles	25%
• Furniture and fittings	10%

Required:

- Statement of profit or loss and appropriation account for the year ended 30 June 2024. (10 marks)
 - Partners' current accounts. (4 marks)
 - Statement of financial position as at 30 June 2024. (6 marks)
- (Total: 20 marks)**

QUESTION FOUR

- Highlight **FOUR** roles of excise duty in an economy. (4 marks)
- Explain the following terms as used in investment allowances:
 - Shipping investment allowance. (2 marks)
 - Farm work allowance. (2 marks)
- Distinguish between “forward tax shifting” and “backward tax shifting”. (4 marks)
- Doorstep Limited established a manufacturing concern on 1 January 2022 and acquired a factory at cost of Sh.185 million.

This cost included:

• Cost of land	Sh.35 million
• Show room	Sh.11 million
• Administrative offices	Sh.20 million

The following projects were completed during the year 2022:

- Constructed a storehouse at cost of Sh.38 million and was brought to use on 1 July 2023.
- Completed the construction of staff quarters at a cost of Sh.44 million that were commissioned on 1 July 2022.
- In the year 2023, the following transactions were undertaken:
 - The factory building was extended by further construction costing Sh.54 million. This included cost of a retail shop building amounting to Sh.6 million and was flagged off on 1 July 2023.

- A new hotel building was constructed and brought into use on 1 July 2023 at a cost of Sh.16 million, for use by staff and also open to the public.

Required:

Compute the investment allowances for Doorstep Limited for the years ended 31 December 2022 and 31 December 2023.

(8 marks)

(Total: 20 marks)

QUESTION FIVE

Champion Limited began cement manufacturing business on 1 July 2022 after acquiring the following assets:

Asset	Sh. "000"
Trucks	84,000
Director's saloon car	5,000
Distribution vehicles	60,000
Desktop computers	48,000
Pickups	16,600
Staff bus	8,000
Office fitting and fixtures	4,000
Self-propelling machinery	24,000
Loader and graders	16,000
Motor cycles	400
Telecommunication equipment	200
Duplicating machines	600
Computer software	1,800
Billboards and signboards	1,000

Additional information:

On 1 January 2023 the following transactions took place:

1. New leather seats for the front office were acquired at a cost of Sh.360,000.
2. Five additional desktop computers were purchased at a cost of Sh.40,000 each for use in a new office complex.
3. The director's saloon car was disposed of for Sh.2,500,000.
4. Office fittings and fixtures were traded in for a new one at Sh.3 million and additional cash payment of Sh.1.8 million was made.

Required:

Compute the wear and tear allowance for the years ended 31 December 2022 and 31 December 2023 for Champion Limited

(Total: 20 marks)

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CS FOUNDATION LEVEL

PRINCIPLES OF ACCOUNTING AND TAXATION

TUESDAY: 20 August 2024. 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 (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: • 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 straight line basis 10% per year on straight line basis	25% 25% 25% 25%	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	43,200 50,400 69,600 86,400 103,200 172,800
(b) Machinery: • 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 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	25% 25% 25% 25% 25% 25% 25% 25% 25%	(ii) Pick-ups, Panel Vans (unconverted) Up to - 1750 cc 3,600 Over - 1750 cc 4,200 (iii) Land Rovers/Cruisers 7,200	43,200 50,400 86,400
(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 **TWO** qualitative characteristics of useful accounting information. (4 marks)
- (b) Differentiate between “under subscription” and “over subscription” in capital raising by companies. (4 marks)
- (c) Explain the concept of double entry as used in book-keeping. (2 marks)
- (d) The following balances were extracted from the ledger of Hamisi Temo on 31 March 2024:

	Sh.“000”
Cash in hand	12,960
Cash at bank	46,548
Petty cash in hand	1,620
Inventory (1 April 2023)	64,800
Motor vehicles	324,000
Accounts receivable	176,580
Accounts payable	143,208
Purchases	422,280
Purchases returns	17,280
Sales	947,160
Sales returns	18,360
Carriage inwards	8,100
Carriage outwards	9,450
Discount received	18,900
Discount allowed	15,120
Rent and rates	43,200
Salaries and wages	194,400
Printing and stationery	39,960
Drawings	27,000
Telephone and postage	6,750
Office equipment	108,000
Furniture	81,000
Electricity expenses	7,830
Water expenses	1,890
Bank charges	648
Insurance expenses	19,440
Motor expenses	30,240
General office expenses	23,220
Capital	556,848

Required:

Prepare a trial balance for the year ended 31 March 2024.

(10 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Describe **TWO** sources of income for non-profit making entities. (4 marks)
- (b) Xavie, Yohannie and Zakarie are partners carrying on partnership business for several years sharing profits and losses in the ratio 5:3:2 respectively after allowing for commission to a partner and interest on fixed capital at the rate of 10% per annum. The financial year of the partnership ends on 31 December.

On 1 October 2023, partner Zakarie retired from the partnership under the following terms:

- Partners Xavie and Yohannie to continue with the business and the new profit or loss sharing ratio was agreed as 3:2 respectively.
- Partner Yohannie was in charge of sales and marketing and was entitled to a commission at the rate of 2% of sales revenue which averaged Sh.500 million per annum.
- Upon retirement of partner Zakarie, the value of goodwill was agreed at Sh.20 million, but no goodwill account was to be maintained.
- The balance due to partner Zakarie was converted into an interest-free loan to the partnership repayable in two years.
- Profits and losses of the partnership was accrued evenly over the year.

The following balances were extracted from the financial records of the partnership for the year ended 31 December 2023:

	Sh. "000"
Capital accounts: Xavie	150,000
Yohannie	90,000
Zakarie	60,000
Current accounts: Xavie	52,200
Yohannie	34,800
Zakarie	29,000
Drawings: Xavie	37,500
Yohannie	22,500
Zakarie	15,000
Net profit for the year	80,000
Property, plant and equipment at cost	325,000
Accumulated depreciation 31 December 2023	26,250
Inventory at 31 December 2023	90,000
Trade receivables	63,750
Trade payables	47,500
Bank balance	16,000

Required:

- (i) Partners' statement of profit or loss and appropriation account for the year ended 31 December 2023. (6 marks)
- (ii) Statement of financial position as at 31 December 2023. (10 marks)

(Total: 20 marks)

QUESTION THREE

The following trial balance was extracted from the financial records of Mali Mali, a sole trader dealing in textile products as at 31 March 2024:

	Sh. "000"	Sh. "000"
Land at cost	10,300	
Buildings at cost	45,000	
Motor vehicles at cost	20,700	
Furniture and equipment at cost	7,500	
Accumulated depreciation 1 April 2023:		
• Buildings		13,500
• Motor vehicles		8,280
• Furniture and equipment		3,000
Sales		222,000
Inventory at 1 April 2023	34,200	
Purchases	125,500	
Return inwards	2,860	
Carriage inwards	3,150	
Carriage outwards	1,250	
Return outwards		2,700
Salaries and wages	38,930	
Insurance expenses	3,950	
Shop rent	7,780	
Electricity and water	2,610	
Telephone and packaging	2,270	
Accounts receivable	19,220	
Accounts payable		12,600
Cash and bank balances	8,600	
Capital - 1 April 2023		75,250
Drawings	3,510	
	<u>337,330</u>	<u>337,330</u>

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Additional information:

1. Inventory at 31 March 2024 was Sh.30,800,000.
2. Outstanding insurance premiums amounted to Sh.1,250,000 at 31 March 2024.
3. Depreciation on non-current assets is provided on straight line basis at the following rates:

Asset	Rate per annum (%)
Buildings	2
Motor vehicles	20
Furniture and equipment	10

4. Mali Mali drew goods costing Sh.550,000 for own use during the year to 31 March 2024.

Required:

- (a) Statement of profit or loss for the year ended 31 March 2024. (12 marks)
 - (b) Statement of financial position as at 31 March 2024. (8 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Citing **FOUR** reasons, explain how a taxpayer could engage in tax evasion. (8 marks)
- (b) Taxable capacity is the ability of the individual taxpayer and business enterprises to contribute to the state in terms of taxes.

Required:

In light of the above statement, explain **FOUR** factors that affect the taxable capacity of a country. (8 marks)

- (c) Summarise **FOUR** reasons for the constant increase of excise duty on certain goods in your country. (4 marks)
- (Total: 20 marks)**

QUESTION FIVE

- (a) Citing an example in each case, differentiate between “tax base” and “tax rates”. (4 marks)
- (b) Describe the relevance of the following principles of taxation in modern economies:
 - (i) Equity. (2 marks)
 - (ii) Simplicity. (2 marks)
 - (iii) Economy. (2 marks)
- (c) Reach Ltd. is a manufacturing company that commenced its operations on 1 January 2023. It incurred the following costs before its commencement:

	Sh.“000”
Other machinery	5,100
Delivery van – Pick-ups	7,600
Delivery van – Pannel	6,000
Movable weighting scale	9,500
Cost of land	20,000
Perimeter wall	4,100
Delivery motor cycles	640
Office furniture	1,800
Industrial building (including cost of office block)	156,000
Cost of office block	32,000
Second hand processing machine (installed in the building)	14,500
Packing machine installed in the building	10,500

Required:

- Compute the investment allowances due to Reach Ltd. for the year ended 31 December 2023. (10 marks)
- (Total: 20 marks)**
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CS FOUNDATION LEVEL

PRINCIPLES OF ACCOUNTING AND TAXATION

TUESDAY: 23 April 2024. 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 (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:	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
• 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 straight line basis		2001 - 3000 cc 8,600 103,200
• Commercial building	10% per year on straight line basis		Over - 3000 cc 4,400 172,800
(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		
• Computer software, calculators, copiers and duplicating machines	25% per year on straight line basis		
• 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		
• Machinery used to undertake operations under prospecting rights and exploration under mining rights	50% in the first year of use	25%	(iii) Land Rovers/Cruisers 7,200 86,400
• 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:

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 accounting principles that underpin the preparation of financial statements of a business entity:
- (i) Dual aspect concept. (2 marks)
 - (ii) Accrual concept. (2 marks)
 - (iii) Business entity concept. (2 marks)
- (b) Outline **TWO** reasons for the provision for depreciation for plant, property and equipment. (2 marks)
- (c) Highlight **TWO** differences between “public sector” and “private sector”. (4 marks)
- (d) Kadibik Ltd. offered 100,000 ordinary shares of Sh.100 each at a premium of Sh.20 payable by instalments on 1 July 2023 as follows:
- Sh.30 on application
 - Sh.70 on allotment (including premium)
 - Sh.20 on first and final call

On 30 September applications were received for 140,000 shares. An application for 20,000 shares were rejected. Application for 80,000 shares were allocated while applications for 40,000 shares were partially allocated for 20,000 shares only.

Additional information:

1. Excess application money for partially accepted applicants is to be used to reduce the amount due on allotment.
2. All monies due on allotment and first and final call was received except for 6,000 shares allotted to Fauzia Abdi who failed to pay for the calls.

Required:

Prepare the following ledger accounts to record the above transactions:

- (i) Application and allotment account. (3 marks)
- (ii) First and final calls account. (1 mark)
- (iii) Share premium account. (1 mark)
- (iv) Ordinary share capital account. (1 mark)
- (v) Bank account. (2 marks)

(Total: 20 marks)

QUESTION TWO

Kaimati and Limau have been trading as partners sharing profits and losses equally. On 1 July 2023, they admitted Mahamri on condition that profits will be shared in the ratio of 2:2:1. Interest on capital remains at 10%.

The trial balance for the partnership as at 31 December 2023 is provided below:

	Sh. “000”	Sh. “000”
Sales and purchases	32,800	60,000
Motor vehicle (Cost)	8,800	
Motor vehicle - Accumulated depreciation		2,800
Furniture and fixture (Cost)	4,400	
Accumulated depreciation on furniture		400
Freehold property	8,000	
Partners’ capital accounts:		
Kaimati		6,000
Limau		4,000
Cash introduced by Mahamri		8,000
Current accounts:		
Kaimati		2,400
Limau		2,000

	Sh. "000"	Sh. "000"
Salaries	4,200	
Cash and bank balance	14,500	
Inventory (1 January 2023)	7,200	
Trade receivables and trade payables	1,500	3,000
Legal fees	600	
Insurance	2,800	
Heat and light	1,400	
General expenses	<u>2,400</u>	
	<u>88,600</u>	<u>88,600</u>

Additional information:

- For the purpose of admission of Mahamri as a partner, goodwill was valued at Sh.15,000,000 and freehold property was valued to Sh.10,000,000.
- Allowance for doubtful debts as at 30 June 2023 amounted to Sh.200,000 and as at 31 December 2023 at Sh.280,000.
- Salaries include partners drawings as follows:
Kaimati - Sh.400,000
Limau - Sh.600,000
- Depreciation is to be provided at the following rates:
Motor vehicles 25% on cost
Furniture and fittings 12½% on cost
- Revenues and expenses accrued evenly throughout the year. Sh.400,000 for insurance and Sh.600,000 legal fees were accruing as at 31 December 2023.
- Of the Sh.8,000,000 cash from Mahamri, Sh.2,000,000 was to be maintained as his current account.
- Inventory as at 31 December 2023 was valued at Sh.3,600,000.

Required:

- Statement of profit or loss and appropriation for the period ended 31 December 2023. (10 marks)
- Statement of financial position as at 31 December 2023. (10 marks)

(Total: 20 marks)

QUESTION THREE

- Highlight **TWO** benefits of entrenching professional ethics in an organisation. (2 marks)
- Identify the **FOUR** steps of accounting cycle. (4 marks)
- The following is a summary of receipts and payments of Yest Club for the year ended 31 March 2024:

Receipts		Payments	
	Sh. "000"		Sh. "000"
Balance brought forward	1,432	Secretary expenses	600
Sale of performance tickets	2,528	Rent	3,200
Subscriptions	8,432	Meeting expenses	2,888
Donations	1,000	Electricity	1,076
		Performance expenses	2,060
		Equipment	1,600
		Stationery	1,148
		Balance carried forward	<u>820</u>
	<u>13,392</u>		<u>13,392</u>

Additional information:

	1 April 2023	31 March 2024
	Sh. "000"	Sh. "000"
Equipment (net book value)	5,200	5,840
Subscriptions in arrears	320	440
Electricity accrued	148	164
Inventory of stationery	216	184
Rent prepaid	800	960

Required:

- Income and expenditure account for the year ended 31 March 2024. (8 marks)
- Statement of financial position as at 31 March 2024. (6 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Pre-shipment inspection in relation to imported goods is required to be done in the country of origin before goods are shipped into the country's customs department.

Required:

In light of the above statement, summarise **FOUR** benefits of pre-shipment inspection. (4 marks)

- (b) With regards to taxation of business income:
- (i) Explain the term "investment allowance". (2 marks)
- (ii) Explain the benefit derived by the government from investment allowance. (2 marks)
- (c) Summarise **TWO** reasons for the introduction of excise stamps in your country. (4 marks)
- (d) Outline **FOUR** reasons that would inform a shift by the government from a single tax system to a multiple tax system. (4 marks)
- (e) Identify **FOUR** forms that an acceptable bond security may take. (4 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Explain **THREE** methods of tax avoidance engaged by individuals in your country. (6 marks)
- (b) Pweza Limited acquired its current factory from Mamba Limited, a registered contractor for Sh.240,000,000. Mamba Limited availed the following details concerning the cost of construction of the factory:

	Sh.
Acquisition of land	12,880,000
Demolition and clearing of old factory	8,640,000
Labour quarters built on site	28,800,000
Factory building	89,280,000
Stone wall around the factory	14,400,000
Bank interest during the period of construction	<u>11,520,000</u>
	<u>165,520,000</u>

Additional information:

- The factory building houses administration offices worth Sh.23,040,000, raw materials and finished goods store worth Sh.8,640,000.
- Pweza Limited installed machinery worth Sh.120,000,000 on 1 January 2023 and started manufacturing juices for local market.
- The following assets were acquired in the month of January 2023:

Assets	Cost Sh.
Computers	1,120,000
Furniture	360,000
Photocopier	240,000
Scanner	80,000
Smart television set	20,000
3 saloon cars (each 1.2 million)	3,600,000
2 lorries (each 2 million)	4,000,000

- The following assets were disposed of during the year:

Date	Asset	Proceeds Sh.
05 February 2023	Other machinery (original cost Sh.960,000)	640,000
06 March 2023	Saloon car (original cost Sh.1,200,000)	400,000
07 March 2023	Furniture (original cost Sh.360,000)	360,000

5. The net book value balance brought forward for capital allowance purposes as at 1 January 2023 were as follows:

Category	Sh.
Rate	
25%	10,770,000
10%	2,650,000

Required:

Determine the investment allowances claimable by Pweza Limited for the year ended 31 December 2023.

(14 marks)

(Total: 20 marks)

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CS FOUNDATION LEVEL

PRINCIPLES OF ACCOUNTING AND TAXATION

TUESDAY: 5 December 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 (i) Saloons, Hatch Backs and Estates
Capital expenditure incurred on:			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 straight line basis		Over - 3000 cc 14,400 172,800
• Commercial building	10% per year on straight line basis		
(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 straight line basis		
• Computer software, calculators, copiers and duplicating machines	25% per year on straight line basis		
• 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		
• 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 straight line basis		
(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 companies accounts:
- (i) Authorised share capital. (2 marks)
- (ii) Issued share capital. (2 marks)
- (b) Highlight **FOUR** roles of accounting regulatory bodies in your country. (4 marks)
- (c) Summarise any **SIX** books of original entry maintained by a business entity. (6 marks)
- (d) Explain **THREE** features of a not for profit making organisation. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

Allan and Bill have been trading as partners in a wholesale business for many years sharing profits and losses in the ratio 2:1 respectively.

The latest trial balance as at 31 October 2023 extracted from the accounting records of the partnership revealed the following:

	Sh. "000"	Sh. "000"
Partners capital accounts: Allan		11,250
Bill		10,500
Current accounts: Allan		9,600
Bill		5,100
Drawings: Allan	1,780	
Bill	890	
Property at carrying amount	10,170	
Plant and machinery at book value	5,310	
Motor vehicle at book value	1,845	
Fixtures and fittings at book value	2,295	
Long-term investments	6,750	
Inventory as at 31 October 2023	6,270	
Accounts receivable	13,110	
Cash at bank	4,500	
Accounts payable		9,570
Net profit for the year to 31 October 2023	<u>52,920</u>	<u>6,900</u>
		<u>52,920</u>

Due to irreconcilable differences between the partners, they resolved to dissolve their partnership business with effect from 1 November 2023 under the following terms:

- Bill took over one of the motor vehicles at a valuation of Sh.480,000 and the rest of motor vehicles realised Sh.1,035,000 in cash.
- Other assets were realised at their fair values as follows:

	Sh. "000"
Property	9,900
Plant and machinery	3,780
Fixtures and fittings	2,100
Long-term investments	8,250
Inventory	5,415
Trade receivables	12,780
- The credit suppliers accepted Sh.9,300,000 in full settlement of the amounts due to them.
- Dissolution expenses which amounted to Sh.4,200,000 were immediately settled in cash.

Required:

Prepare the following ledger accounts to close the books of the partnership, upon dissolution:

- (a) Realisation account. (6 marks)
- (b) Cash at bank account. (6 marks)
- (c) Partners current accounts. (4 marks)
- (d) Partners capital accounts. (4 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Highlight two differences between “capital reserves” and “revenue reserves”. (4 marks)
- (b) Explain the following accounting principles:
- (i) Materiality principle. (2 marks)
 - (ii) Matching principle. (2 marks)
 - (iii) Historical cost concept. (2 marks)
- (c) The following information relates to the books of Mawenzi Ltd.:
- | | Sh. |
|------------------------------------|------------|
| Doubtful debts (31 December 2021) | 460,000 |
| Debtors balance (31 December 2022) | 15,600,000 |

Additional information:

1. The debtors aging schedule is provided as follows:

0 – 30 Days	31 – 60 Days	61 – 90 days	Over 91 Days	Total
Sh.6,000,000	Sh.4,200,000	Sh.3,400,000	Sh.2,000,000	Sh.15,600,000

2. The company’s policy on allowance for doubtful debt is based on the age of the debt outstanding as follows: 0.5% for less than 30 days, 1% for 31 – 60 days, 2% for 61 – 90 days and 3% above 91 days.
3. Customers are allowed a cash discount of 2% for debts settlement within 1 month. Half of them paid within 1 month.
4. Net profit for the company before adjustments for provisions for doubtful debts and discounts was Sh.2,415,000.

Required:

- (i) Allowance for doubtful debt as at 31 December 2022. (4 marks)
- (ii) Debtors balance to be shown in the statement of financial position as at 31 December 2022. (2 marks)
- (iii) Statement of adjusted net profit for the period ending 31 December 2022. (4 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Summarise **FOUR** roles of the revenue authority or similar body in your country. (4 marks)
- (b) Differentiate between “progressive taxes” and “proportional taxes”. (4 marks)
- (c) Outline **TWO** investment allowances that could be claimed by a manufacturing company in your country. (2 marks)
- (d) Jobesh Mwanzia has been in Marine business for the last 5 years. He incurred the following capital expenditure during the year 2022:
- 1. Purchased the following ships:
 - Nyali A 4,500 tonnes for Sh.200 million.
 - Tudor 4C 3,000 tonnes for Sh.150 million.
 - Bombolulu X7 4,990 tonnes for Sh.250 million.
 - Kongowea 37Y 4,120 tonnes for Sh.318 million.
 - 2. Purchased vehicle (Prado) for Director for Sh.4 million.
 - 3. Purchased furniture for Sh.100,000.
 - 4. Purchased lorry for Sh.5,000,000.
 - 5. Constructed staff canteen at Sh.4.5 million and was put into use from 1 July 2022.
 - 6. Constructed a godown on 1 June 2022 at Sh.10 million and put into use on 1 October 2022.
 - 7. Purchased other machines and equipment for repair of the ship for Sh.200,000.

Required:

- Determine investment allowance claimable by Jobesh Mwanzia for the year ended 31 December 2022. (10 marks)
- (Total: 20 marks)

QUESTION FIVE

- (a) Explain the following roles of taxation in achieving budgetary objectives as per the fiscal policies in your country:
- (i) Fair redistribution of income. (2 marks)
 - (ii) Optimum allocation of resources. (2 marks)
 - (iii) Protection policy. (2 marks)
 - (iv) Social welfare. (2 marks)
- (b) Discuss how the following factors could influence taxable capacity:
- (i) Tax structure. (2 marks)
 - (ii) Tax rates. (2 marks)
 - (iii) Tax elasticity. (2 marks)
 - (iv) Government expenditures. (2 marks)
- (c) Summarise four offences under the customs and excise taxes in your country. (4 marks)

(Total: 20 marks)

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CS FOUNDATION LEVEL

PRINCIPLES OF ACCOUNTING AND 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
			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 straight line basis		Over - 3000 cc 14,400 172,800
• Commercial building	10% per year on straight line basis		
(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 straight line basis		
• Computer software, calculators, copiers and duplicating machines	25% per year on straight line basis		
• 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		
• 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 straight line basis		
(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) Summarise the information needed by the following users of accounts:
- (i) Shareholders. (2 marks)
 - (ii) Governments. (2 marks)
 - (iii) Employees. (2 marks)
- (b) Outline **FOUR** objectives of public sector financial statements and International Public Sector Accounting Standards (IPSASs). (4 marks)
- (c) The property, plant and equipment balances of Highken Ltd. comprised the following as at 1 January 2022:

	Cost Sh. "000"	Depreciation Sh. "000"	Net book value Sh. "000"
Freehold land	30,000	-	30,000
Building	38,520	-	38,520
Plant and machinery	70,200	37,812	32,388
Motor vehicles	37,800	23,040	14,760

The company uses the straight line method of depreciation on assets as follows:

- 10% per annum for plant and machinery
- 20% per annum for motor vehicles

Additional information:

1. It is the company's policy to make a depreciation charge proportionate to the period of the asset.
2. An item of machinery bought on 1 July 2018 for Sh.10,080,000 was sold on April 2022 at Sh.6,000,000.
3. From the year ended 31 December 2022, the management of the company decided to charge depreciation on buildings at a rate of 2.5% per annum. The buildings were all completed on 1 July 2018.
4. On 1 January 2022, a vehicle purchased on 1 May 2018 for Sh.12,600,000 was traded in at a value of Sh.7,320,000 in part exchange for a new vehicle costing Sh.18,000,000.
5. Included in machinery is an old machine which originally cost Sh.13,500,000 and which was already fully depreciated and not expected to yield any material amount on either use or resale.
6. On 30 June 2022, a machine costing Sh.13,500,000 was purchased from Vector Ltd., and had been used for three years. Vector Ltd. had bought the machine at Sh.18,000,000.
7. Another machine costing Sh.10,500,000 was purchased on 1 August 2022.

Required:

Prepare a schedule showing the movement of property, plant and equipment for the year ended 31 December 2022. (10 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain **TWO** reasons why a firm should account for depreciation of its non-current assets. (4 marks)
- (b) The following balances were obtained from the financial records of Junior Enterprises, a sole trader business as at 30 April 2023:

	Sh. "000"
Sales	169,800
Cost of goods sold	130,650
Salaries and wages	16,700
Office rent	3,150
Insurance premiums	2,500
Electricity and power	960
Repairs and maintenance	1,250
Telephone and postage	700
Carriage outwards	440
Property at cost (building: Sh.20 million)	38,500
Plant and machinery at cost	30,000
Motor vehicles at cost	6,400
Fixtures and fittings at cost	8,000

	Sh. "000"
Accumulated depreciation - 1 May 2022:	
• Buildings	5,000
• Plant and machinery	9,700
• Motor vehicles	2,400
• Fixtures and fittings	3,200
Inventory	7,580
Accounts receivables	7,800
Accounts payables	9,770
Bank overdraft	4,750
Allowance for doubtful debts - 1 May 2022	290
Capital balance at 1 May 2022	52,500
Drawings	2,780

Additional information:

- Depreciation is to be provided as follows:
 - Building 2% annually, straight line basis.
 - Plant and machinery, 15% per annum, reducing balance basis.
 - Motor vehicles, 25% annually, straight line basis.
 - Fixtures and fittings, 10% per annum, straight line basis.
- Electricity and power accruing at 30 April 2023 amounted to Sh.120,000.
- Prepaid insurance at 30 April 2023 was Sh.200,000.
- Allowance for doubtful debts at 30 April 2023 was Sh.475,000.

Required:

- Statement of profit or loss for the year ended 30 April 2023. (10 marks)
- Statement of financial position as at 30 April 2023. (6 marks)

(Total: 20 marks)

QUESTION THREE

- Describe **THREE** differences between "receipts and payments account" and "income and expenditure account". (6 marks)
- The following trial balance as at 30 June 2023 was extracted from the accounting records of Bungeh Limited, a public limited entity:

	Sh. "000"	Sh. "000"
Property at cost (Land: Sh.85 million)	200,000	
Plant and equipment at cost	159,800	
Motor vehicles at cost	45,000	
Accumulated depreciation - 1 July 2022:		
• Building		34,500
• Plant and equipment		45,400
• Motor vehicles		27,000
Ordinary share capital (Sh.10 par value)		70,000
Share premium		17,500
Retained profit at 1 July 2022		35,750
Revenue		342,000
Purchases	101,500	
Inventory at 1 July 2022	7,110	
Salaries and wages	27,730	
Rent and rates	24,420	
Light and heat	7,440	
Telephone, postage and stationery	3,960	
Carriage inwards	9,000	
Returns inward	2,800	
Returns outward		4,590
Bad debts written off	1,520	
Trade receivables	19,400	
Bank balance	3,090	
Trade payables		9,030
10% bank loan		30,000
Interest paid	3,000	
	<u>615,770</u>	<u>615,770</u>

Additional information:

1. Inventory at 30 June 2023 was valued at a cost of Sh.3,660,000.
2. Prepaid rent as at 30 June 2023 amounted to Sh.2,640,000.
3. Depreciation on non-current assets should be provided as follows:
 - Building at 2% per annum on cost.
 - Plant and equipment at 15% per annum on net book value.
 - Motor vehicles at 20% per annum on cost.
4. The corporate tax for the year ended 30 June 2023 is estimated at Sh.38,600,000.

Required:

- (i) Statement of profit or loss for the year ended 30 June 2023. (8 marks)
- (ii) Statement of financial position as at 30 June 2023. (6 marks)

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

- (a) Outline **FOUR** disadvantages of direct taxes in your country. (4 marks)
- (b)
 - (i) Explain the term “set off tax” as used in taxation. (2 marks)
 - (ii) Discuss **THREE** causes of tax evasion in developing countries. (6 marks)
- (c) With regards to Customs and Excise Act, highlight **FOUR** types of goods which are subject to customs control. (4 marks)
- (d) Warren Korir is a commercial farmer. He incurred the following expenditure during the year ended 31 December 2022:

	Sh.
Additions to the farmhouse	1,000,000
Cowshed	500,000
Salaries to farm workers	1,800,000
Granary to accommodate bumper harvest	800,000
Drainage system	600,000
Repairing broken fence	100,000
Dog kennels	200,000
Farm expenses	2,000,000
Pesticides	78,000

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Required:

- Compute his farmworks deductions for the year ended 31 December 2022. (4 marks)

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

- (a) Highlight **FOUR** circumstances under which duty paid on imported goods may be refundable. (4 marks)
- (b) State **FOUR** circumstances under which the commissioner of customs and excise duty may request for fresh securities. (4 marks)
- (c) Betalite PLC commenced its manufacturing operation on 1 January 2022 after incurring the following capital expenditures:

	Sh.
Factory building	12,800,000
Processing machinery	4,200,000
Billboard	84,000
Staff canteen	350,000
Borehole	1,240,000
Sports pavilion	470,000
Computers	140,000
Computer software	60,000
Lorry (4 tonnes)	2,860,000
Saloon car (new)	3,300,000
Warehouse	680,000

	Sh.
Weighing machines	28,000
Fax machine	13,000
Motorbike	68,000
Trailer	420,000
Workshop machinery	464,000
Office furniture	160,000

Additional information:

1. Factory building include; an office Sh.280,000, showroom Sh.420,000, Godown Sh.800,000 and a retail shop Sh.300,000.
2. The processing machine costing Sh.4,200,000 was imported and the amount includes import duty and value added tax of Sh.400,000 and Sh.160,000 respectively which were waived by the government.
3. The borehole was sunk using money raised internally while the balance was borrowed from a bank amounting to Sh.1,000,000 which includes interest on bank loan of Sh.180,000.
4. The saloon car was disposed of for Sh.2,100,000 on December 2022.
5. The company constructed a canopy at the entrance of the factory building at a cost of Sh.570,000 which was completed and utilised from 1 November 2022.
6. Purchased a water pump at a cost of Sh.90,000 and a generator at a cost of Sh.120,000.

Required:

Compute the investment allowance due to Betalite PLC for the year ended 31 December 2022.

(12 marks)

(Total: 20 marks)

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CS FOUNDATION LEVEL

PRINCIPLES OF ACCOUNTING AND 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
			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 straight line basis		Over - 3000 cc 14,400 172,800
• Commercial building	10% per year on straight line basis		
(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 straight line basis		
• Computer software, calculators, copiers and duplicating machines	25% per year on straight line basis		
• 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		
• 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 straight line basis		
(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 **TWO** purposes of accounting in a business entity. (4 marks)
- (b) Describe **THREE** uses of a trial balance in relation to the preparation of financial statements of a business entity. (6 marks)
- (c) Explain the following accounting principles that underlie the preparation of financial statements of an entity:
- (i) Going concern concept. (2 marks)
 - (ii) Prudence concept. (2 marks)
 - (iii) Consistency concept. (2 marks)
- (d) Summarise **FOUR** cases against the accrual basis of accounting in the public sector. (4 marks)
- (Total: 20 marks)**

QUESTION TWO

- (a) Outline **FOUR** ethical issues that guide accountants while conducting their work. (4 marks)
- (b) The following balances were extracted from the books of Michael Wanjala, a sole trader for the year ended 30 September 2022:

	Sh.
Capital	7,884,000
Drawings	810,000
Trade receivables	1,220,400
Trade payables	1,463,940
Sales	16,002,640
Purchases	9,827,440
Return inwards	97,470
Return outwards	147,690
Wages and salaries	1,269,000
Discount allowed	66,960
Discounts received	115,020
Inventories as at 1 October 2021	1,710,180
Cash at bank	3,713,070
Cash in hand	38,340
Lighting and power expenses	127,440
Rates	66,960
Office building	1,755,000
Fixtures and fittings	388,800
Motor vehicles	4,320,000
Purchases of stationery	42,120
Sundry expenses	17,280
Insurance	162,000
Allowance for bad and doubtful debts	179,550
Motor vehicles running expenses	104,220
Bad debts written off	19,440
Postage and telephone	36,720

Additional information:

- Inventory as at 30 September 2022 amounted to Sh.1,188,000.
- One quarter of lighting and power expenses is to be treated as for personal use of Michael Wanjala.
- Depreciation is to be provided for as follows on straight line:
 - 10% on fixtures and fittings.
 - 20% on motor vehicle
 - 5% on office building
- Rates prepaid amounted to Sh.17,280.
- Insurance unexpired amounted to sh.2,700.
- Allowance for bad and doubtful debts at the end of the year is to be equal to 10% the trade debtors.

Required:

(i) Prepare statement of profit or loss for the year ended 30 September 2022. (10 marks)

(ii) Prepare statement of financial position as at 30 September 2022. (6 marks)

(Total: 20 marks)

QUESTION THREE

The following trial balance was extracted from the books of Hargytech Limited as at 31 December 2022:

	Sh. "000"	Sh. "000"
Ordinary share capital (Sh.100 each)		150,000
Share premium		19,000
General reserve		10,000
Retained profit		14,500
Motor vehicle (cost)	40,000	
Freehold property (cost)	180,000	
Furniture and fittings	27,700	
Goodwill	2,500	
Accumulated depreciation (1 January 2022):		
• Motor vehicle		11,325
• Furniture and fittings		5,690
Bank	47,460	
Sales		617,250
Inventory (1 January 2022)	17,390	
Commission received		1,925
Purchases	468,250	
Rates and insurance	6,445	
Water and electricity	6,345	
Telephone and postage	2,840	
Salaries and wages	16,425	
General expenses	1,790	
Bad debts written off	620	
Motor vehicle running expenses	12,350	
Trade receivable	6,875	
Trade payables		7,300
	<u>836,990</u>	<u>836,990</u>

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Additional information:

- Depreciation is to be provided as follows:
 - Motor vehicle 20% on straight line
 - Furniture and fittings 10% on reducing balance
- Inventory as at 31 December 2022 was valued at Sh.15,592,000.
- The following balances were available as at 31 December 2022:

	Sh. "000"
Accrued salaries	280
Prepaid telephone bills	500
Commission income accrued	800
- Corporate tax for the year is estimated as Sh.12,170,000.
- The directors proposed the following:
 - Allowance for bad and doubtful debts at the rate of 8% of trade receivables balance as at 31 December 2022.
 - Transfer of Sh.14,000,000 to the general reserve accounts.
 - A payment of 10% dividends on ordinary share capital.

Required:

(a) Prepare statement of profit or loss for the year ended 31 December 2022. (12 marks)

(b) Prepare statement of financial position as at 31 December 2022. (8 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Explain the term “clean report of finding” as used in customs and excise taxes. (2 marks)
- (b) With reference to customs taxes and excise taxes, explain **THREE** purposes of customs and excise duties. (6 marks)
- (c) Outline **FOUR** measures imposed by the government to prevent dumping. (4 marks)
- (d) With reference to customs and excise duty distinguish between the following terms:
- (i) “Customs warehouse” and “bonded warehouse”. (4 marks)
- (ii) “Prohibited goods” and “restricted goods”. (4 marks)

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

- (a) Summarise **FOUR** objectives of fiscal policies in developing countries. (4 marks)
- (b) Explain the following terms as used in classification of tax by rates:
- (i) Progressive taxes. (2 marks)
- (ii) Proportional taxes. (2 marks)
- (c) Faiz Manufacturing Ltd. commenced operations on 1 January 2022 after incurring the following expenditure:

	Sh.
Factory building	9,000,000
Processing machinery	4,200,000
Furniture and fittings	640,000
Boiler	1,840,000
Staff quarters	1,560,000
Heavy duty forklift	1,440,000
Staff canteen	1,080,000
Saloon car	3,250,000
Delivery van	3,360,000
Godown	1,720,000
Tractor	3,520,000
Lorry (4 Tonnes)	4,800,000
Computers	900,000
Staff clinic	1,620,000

Additional information:

- Factory building includes the cost of a showroom Sh.1,000,000 and retail shop Sh.800,000.
- A perimeter wall was constructed at a cost of Sh.992,000 and put into use on 1 April 2022.
- The godown and staff quarter were constructed at a cost of Sh.1,720,000 and Sh.1,560,000 respectively and put into use on 1 October 2022.
- On 1 October 2022 the following assets were acquired:

	Cost (Sh.)
Conveyor belts	700,000
Workshop maintenance machine	660,000
Water pump	840,000
Trailer for tractor	496,000
Laptop computers	300,000

- In the year ended 31 December 2022, the following assets were disposed of:

	Sh.
Furniture	560,000
Computers	600,000

- The saloon car was traded in during the year with another saloon car costing Sh.3,600,000. The trade in value was Sh.1,800,000.

Required:

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

(Total: 20 marks)

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CS FOUNDATION LEVEL

PRINCIPLES OF ACCOUNTING AND 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		
				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) Identify the financial information needs of the following users of financial statements:
- (i) Lenders. (2 marks)
- (ii) Investors. (2 marks)
- (b) With respect to public sector accounting, outline **THREE** accounting techniques adopted by the public sector entities. (6 marks)
- (c) Kisima Holding Ltd. (KHL) has an authorised share capital of Sh.5,000,000 divided into 500,000 shares of Sh.10 each. On 1 January 2022, the company decided to issue 400,000 additional shares at Sh.13.5 each (face value Sh.10 each).

The shares were payable in three instalments as follows:

On application	Sh.5 each
On allotment	Sh.6 each (including premium)
On first and final call	Sh.2.5 each

Additional information:

- Application for 600,000 shares were received by 31 January 2022.
- The applicants were vetted and applicants for 100,000 shares were rejected and refunded their application money.
- The remaining applicants were allotted 400,000 shares on prorata basis (allotted 4 shares for every 5 shares applied for).
- The allotment monies were received by 28 February 2022.
- The allottees were allowed to use their excess application monies on shares not allotted to reduce the amount payable on allotment.
- The first and final call was made on 15 March 2022 notifying allottees to pay the final instalment by 31 March 2022.
- The first and final call monies were received from all allottees on due date except applicants of 2,000 shares who failed to pay on due date.
- These calls in arrears were later forfeited and reissued to another shareholder for Sh.7.5 per share as full paid on 31 March 2022.

Required:

Ledger accounts to record the above transactions.

(10 marks)

(Total: 20 marks)

QUESTION TWO

Coffee and Tea are partners in a firm sharing profit and loss in the ratio 3:2.

Their statement of financial position as at 30 April 2022 was as follows:

	Sh.	Sh.
Non-current assets:		
Land and Building		7,800,000
Plant and machinery		3,200,000
Motor vehicles		2,500,000
Computers		<u>1,900,000</u>
		15,400,000
Current assets:		
Cash in hand	540,000	
Trade receivables	3,600,000	
Inventory	<u>6,000,000</u>	
		<u>10,140,000</u>
		<u>25,540,000</u>
Financed by:		
Capital account:		
Coffee	7,200,000	
Tea	<u>4,800,000</u>	12,000,000
Current account:		
Coffee	2,400,000	
Tea	<u>1,200,000</u>	3,600,000

	Sh.	Sh.
Non-current liabilities:		
5-year bank loan		1,800,000
Current liabilities:		
Bank	5,240,000	
Trade payable	<u>2,900,000</u>	<u>8,140,000</u>
		<u>25,540,000</u>

On 1 May 2022 they admitted Cocoa as a partner on the following terms:

Additional information:

- The new profit sharing ratio of Coffee, Tea and Cocoa was agreed at 5:3:2.
- Goodwill was to be valued at Sh.1,200,000 and was to be written off.
- The provision of doubtful debts is to be provided at 10% of trade receivables balance.
- Land and building was revalued to Sh.9,000,000 and plant and equipment was reduced by Sh.200,000.
- The inventory was revalued at Sh.5,400,000.
- Cocoa was to contribute cash in order to make her capital and current accounts equal to 1/5 of the combined adjusted capital and current accounts of Tea and Coffee.

Required:

Prepare the following accounts:

- Revaluation account. (4 marks)
- Partners' capital account. (5 marks)
- Partners' current account. (3 marks)
- Prepare a statement of financial position as at 1 May 2022 after admission of Cocoa. (8 marks)

(Total: 20 marks)

QUESTION THREE

- Explain the term "share premium". (2 marks)
 - State **FOUR** purposes that the share premium may be applied for by a company. (4 marks)
- The following assets and liabilities were extracted from the books of Jikaze sports club as at 31 December 2020 and 31 December 2021.

	2020 Sh.	2021 Sh.
Investment at cost	5,000,000	4,000,000
Sports equipment	600,000	680,000
Furniture	400,000	360,000
Subscriptions in arrears	180,000	120,000
Subscriptions in advance	150,000	300,000
Bar inventory	120,000	220,000
Bar payables	30,000	130,000
Stock of stationery	20,000	10,000
Accrued rates	15,000	25,000
Prepaid insurance	14,000	34,000

The summary of receipts and payments for the year ended 31 December 2021:

Receipts	Sh.	Payments	Sh.
Bank balance brought forward	250,000	Ground maintenance	405,000
Bar taking	3,600,000	Staff salaries	2,390,000
Donations	800,000	Bar payables	1,200,000
Subscriptions	2,800,000	New equipment	200,000
Income from investment	405,000	Subscription refunded to members	20,000
Annual dinner sales	1,400,000	Barman's wages	1,200,000
Entry fees	750,000	Stationery	300,000

Receipts	Sh.	Payments	Sh.
Proceeds from sale investment	1,250,000	Annual dinner costs	800,000
		Rates	80,000
		Insurance	240,000
		Bank balance carried forward	<u>4,420,000</u>
	<u>11,255,000</u>		<u>11,255,000</u>

Additional information:

1. Included in the subscriptions received in the year 2021 is Sh.150,000 being arrears for the year ended 31 December 2020. It is the policy of the club to write off subscriptions arrears owing for more than twelve months.
2. During the year an investment which cost Sh.1,000,000 was sold for Sh.1,250,000. The club accountant recorded only the receipt of proceeds from sale of investment in the books of account.

Required:

- (i) Bar income statement for the year ended 31 December 2021 (4 marks)
 - (ii) Subscriptions account. (4 marks)
 - (iii) Income and expenditure account for the year ended 31 December 2021. (6 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) Explain the following terms as used in customs and excise taxes:
 - (i) Customs area. (2 marks)
 - (ii) Duty free shop. (2 marks)
 - (iii) Ad valorem duty. (2 marks)
- (b) Propose **FOUR** ways in which an individual or firm could engage in tax avoidance. (8 marks)
- (c) Discuss the following principles of an optimal tax system:
 - (i) Diversity. (2 marks)
 - (ii) Productivity. (2 marks)
 - (iii) Flexibility. (2 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Outline **FOUR** benefits a country could derive from adopting a multiple tax system. (4 marks)
- (b) Identify **FOUR** documents or instruments that are exempted from stamp duty. (4 marks)
- (c) Nadia Shoe Manufacturing company commenced its operations in 1 January 2021 after incurring the following expenditure:

	Sh.
Factory building	46,800,000
Processing machinery	3,600,000
Furniture and fittings	426,000
Boilers	1,200,000
Fork lift	900,000
Saloon car	3,400,000
Delivery van	2,700,000
Tractor	4,200,000
Lorry (4 Tonnes)	3,200,000
Computers	600,000
Staff clinic	1,000,000
Land	20,000,000
Wheelbarrow	36,000

Additional information:

1. Factory building includes the cost of a showroom Sh.600,000 a retail shop Sh.500,000 and staff canteen Sh.720,000.
2. A perimeter wall was constructed at a cost of Sh.1,100,000 and completed on 1 April 2021.
3. A go-down and staff quarters were constructed during the year at a cost of Sh.1,200,000 and Sh.1,040,000 respectively and put into use on 1 October 2021.
4. Included in the land is Sh.2,000,000 being legal fee paid to lawyer involved in acquiring the land.
5. A warehouse was constructed at a cost of Sh.940,000 and put into use on 1 September 2021.
6. On 1 October 2021 the following assets were acquired:

	Sh.
Conveyor belts	460,000
Workshop maintenance machine	400,000
Water pump	640,000
Trailer for tractor	330,000
Computers	200,000
Electrical weighing scales	150,000

7. During the year ended 31 December 2021, the following assets were disposed of:

	Sh.
Furniture	370,000
Computers	460,000

8. During the year the saloon car was sold for Sh.2,000,000 and a new one was purchased at a cost of Sh.3,700,000.
9. On 1 July 2021, a television set was purchased at a cost of Sh.64,000 and placed at the reception area.

Required:

Compute investment allowance for Nadia Shoe Manufacturing Company for the year ended 31 December 2021. (12 marks)

(Total: 20 marks)

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CS FOUNDATION LEVEL

PILOT PAPER

PRINCIPLES OF ACCOUNTING AND 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:	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%			

QUESTION ONE

- (a) The public Finance Management Act requires that, no later than 30 August in each year, the Cabinet Secretary shall issue to all National government entities a circular setting out guidelines on the budget process to be followed by them. With reference to the above provision, outline four contents of the circular. (4 marks)
- (b) Discuss four responsibilities of the National Treasury in the administration of the consolidated Fund. (8 marks)
- (c) Explain four fiscal responsibility principles enforced by the National Treasury in Managing National Government Public Finance. (8 marks)

(Total: 20 marks)

QUESTION TWO

Tom and Ken are partners sharing profits and losses in the ratio of 3:2 respectively. The partnership agreement provides for Ken to receive a salary of Ksh. 8 million per annum. Interest on capital allowed at the rate of 5% per annum.

Their statement of financial position as at 31 July 2020 was as follows:

	Cost Sh. "000"	Depreciation Sh. "000"	Net book value Sh. "000"
Non-current assets:			
Premises	48,000	6,400	41,600
Equipment	<u>16,000</u>	<u>9,600</u>	<u>6,400</u>
	<u>64,000</u>	<u>16,000</u>	48,000
Current assets:			
Inventory		11,200	
Accounts receivable		4,400	
Cash		800	<u>16,400</u>
			<u>64,400</u>
Capital and liabilities			
Capital accounts:			
Tom		32,000	
Ken		20,000	52,000
Current accounts:			
Tom		6400	
Ken		(600)	5,800
Current liabilities			
Accounts payable			<u>6,600</u>
			<u>64,400</u>

Additional Information;

- On 1 November 2020, Jude was admitted to the partnership. The terms of her admission were as follows:
Interest on capital was raised from 5% per annum to 6% per annum for all partners.
Jude introduced Sh. 24 million in cash as capital into the partnership.
Jude received a salary of Sh.12 million per annum. Ken's salary was raised to Sh.12 million per annum.
The profit-sharing ratio for Tom, Ken and Jude was adjusted to 4:2:1 respectively.
- The profit for the year ended 31 July 2021 was Sh.111,570,000
- As at 31 July 2021, the working capital of the partnership was as follows:

	Sh. "000"
Inventory	25,110
Accounts receivable	7,000
Cash	17,260
Accounts payable and accrual	6,960
4. Partners drawings for the year ended 31 July 2021 were as follows:	
	Sh. "000"
Tom	51,410
Ken	39,050
Jude	16,500
5. The non-current assets are to be depreciated as follows:	
Asset	Rate per annum
Premises	5% on cost
Equipment	10% on cost

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Required:

- (a) Statement of profit or loss and appropriation account for the year ended 31 July 2021. (10 marks)
- (b) Partners current accounts. (4 marks)
- (c) Statement of financial position as at 31 July 2021. (6 marks)

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

The following balances were extracted from the books of Hesabu Ltd. as at 31 December 2020:

	Debit Sh. "000"	Credit Sh. "000"
Trade receivables and trade payables	4,500	3,960
General reserves (1 January 2020)		3,800
Gross profit for the period		13,610
Inventories (31 December 2020)	3,200	
Ordinary share capital		7,000
10% preference capital		2,000
Bad debts written off	120	
Salaries and wages	2,940	
Furniture and fittings (Cost Sh.7 million)	5,600	
Land at cost	13,695	
Revenue reserves (1 January 2020)		2,100
Directors' fees	900	
Cash balance	150	
12% Debentures		3,000
Discounts Allowed and Discounts received	170	85
Allowance for doubtful debts		400
Debenture interest paid	300	
Rental income		800
Interim preference dividends paid	180	
Interim ordinary dividends paid	130	
Corporation tax paid	410	
Prepaid director fees	150	
Accrued rental income	200	
	<u>32,645</u>	<u>32,645</u>

Additional Information

- Provisions as at 31 December 2020 are to be made as follows
 - Audit fees Sh.360,000
 - Outstanding debenture interest
- Included in the salaries and wages is Sh. 140,000 which relates to the month of January 2019.
- Allowances for doubtful debts are to be made at 10% of net trade receivables.
- Furniture and fittings are to be depreciated at 10% per annum on the net book values
- The directors have recommended that
 - Sh.700,000 be transferred to general reserves
 - Outstanding preference dividends and a 5 % ordinary dividend be paid for the whole year.

Required:

- (a) Income statement for the year ended 31 December 2020. (12 marks)
- (b) Statement of financial position as at 31 December 2020. (8 marks)

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

- (a) Explain the treatment of the following in taxation:
- Tax losses. (2 marks)
 - Capital losses. (2 marks)
- (b) Explain two distinguishing features between tax evasion and tax avoidance. (4 marks)

- (c) ABC Commenced a manufacturing operation on 1 May 2020 having incurred the following capital expenditure:

	Sh. "000"
Factory buildings (Note 1)	20,600
Processing machinery	4,800
Factory parking bay	1,640
Sewerage system	560,000
Industrial effluent treatment plant	2,400

Additional Information:

1. Factory building included the following: **Sh. "000"**

Cost of land	4,400
Godown	800
Showroom	520
Offices	600
Retail shop	400
2. On 1 July 2020, the following capital expenditures were incurred:

Photocopier	60
Computers	150
Motorbike	96
Saloon car	3,400
Fork lift	720
Furniture	240
Pick up	920
Scanners	56
Tractor	1,700
Carpets	36
3. The company imported a weighting machine on 1 September 2020 at a cost of Sh.480,000 inclusive of duty of Sh.20,000. The duty was waived by the government.

Required:

Investment allowances due to the company for the year ended 31 December 2020.

(12 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Highlight two categories of goods liable under customs and excise duty Act. (2 marks)
- (b) Suggest four types of taxes used by a government in collecting tax revenue. (4 marks)
- (c) Explain two ways in which the Revenue Authority in your country might prevent loss of tax revenue from Imports (4 marks)
- (d) Discuss five challenges faced by a tax authority of a developing economy. (10 marks)

(Total: 20 marks)

CS FOUNDATION LEVEL

PRINCIPLES OF ACCOUNTING AND 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
(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:

Services

- (i) Electricity (Communal or from a generator)
- (ii) Water (Communal or from a borehole)

Monthly rates

(Sh.)

1,500

500

Annual rates

(Sh.)

18,000

6,000

Agriculture employees: Reduced rates of benefits

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

QUESTION ONE

- (a) Describe three qualities of useful accounting information. (6 marks)
- (b) Highlight four characteristics of public sector entities. (4 marks)
- (c) Millz Ltd. maintains its property, plant and equipment at cost. The company maintained an accumulated depreciation account for each asset.
As at 31 December 2020, the asset balances were as follows:

Asset	Cost Sh. "000"	Accumulated depreciation Sh. "000"
Machinery	210,360	102,680
Office furniture	14,300	7,450

Additional information:

1. Acquisitions for the year ended 31 December 2021 were as follows:

Asset	Cost Sh. "000"
Machinery	9,920
Office furniture	1,600

2. Disposals for the year ended 31 December 2021 were as follows:

- Machinery costing Sh.11,200,000 purchased during the year ended 31 December 2018, was sold for Sh.3,200,000.
- Office furniture costing Sh.1,200,000 purchased during the year ended 31 December 2019, was sold for Sh.700,000

3. Depreciation is provided on a straight line basis as follows:

Asset	Rate per annum
Machinery	20%
Office furniture	10%

4. The company's policy is to provide a full year's depreciation in the year of acquisition and no depreciation charge in the year of disposal.

Required:

Prepare the following accounts as at 31 December 2021:

- (i) Machinery account. (2 marks)
- (ii) Accumulated depreciation on machinery account. (2 marks)
- (iii) Office furniture account. (2 marks)
- (iv) Accumulated depreciation on office furniture account. (2 marks)
- (v) Machinery disposal account. (1 mark)
- (vi) Office furniture disposal account. (1 mark)

(Total: 20 marks)

QUESTION TWO

- (a) The following trial balance was extracted from the books of Taratibu Ltd. as at 31 December 2021;

	Sh. "000"	Sh. "000"
Ordinary shares of Sh.100 each		80,000
Share Premium		20,000
10% preference shares		40,000
10% debentures		60,000
Retained earnings		5,829
Property (at cost)	70,000	
Plant (at cost)	70,000	
Equipment (at cost)	55,000	

	Sh. "000"	Sh. "000"
Accumulated depreciation (1 January 2021)		
• Plant		10,000
• Equipment		5,000
Gross profit		67,000
Discounts allowed	800	
Discount received		2,000
Inventory as at 31 December 2021	37,800	
General expenses	4,000	
Rent and rates	2,600	
Administrative expenses	10,000	
Bad debts written off	147	
Audit fee	650	
Directors' fees	1,500	
Interim dividends paid:		
• Preference shares }	2,000	
• Ordinary shares }	4,000	
Half year debenture interest paid	3,000	
Accounts receivable	18,800	
Accounts payables		6,600
Bank balance	<u>16,132</u>	<u>6,600</u>
	<u>296,429</u>	<u>296,429</u>

Additional information:

- Depreciation is to be provided on cost as follows:

Asset	Rate per annum
• Plant	20%
• Equipment	10%
- The corporation tax for the year amounted to Sh.3,627,000.
- As at 31 December 2021, rates paid in advance amounted to Sh.500,000, while salaries and wages outstanding amounted to Sh.300,000. Salaries and wages are included in administrative expenses.
- The directors propose to pay a final dividend of 10% of the issued share capital and pay the remainder of the preference share dividend.
- An allowance for doubtful debts of 2% of the amount owing as at 31 December 2021 is to be created.

Required:

- Statement of profit or loss for the year ended 31 December 2021. (10 marks)
 - Statement of financial position as at 31 December 2021. (10 marks)
- (Total: 20 marks)**

QUESTION THREE

Certified Human Resource Institute (CHRI) is a professional body for human resources. The institute offers training to both members and non-members, organises continuous professional development (CPD) programmes and has conference facilities (inclusive of a restaurant) which it hires out to the public. It also has a magazine where companies place their advertisements. The receipts and payments account for the year ended 30 June 2022 is as follows:

Receipts and Payments Account			
Receipts	Sh. "000"	Payments	Sh. "000"
Balance brought forward	11,070	New conference facilities	900,000
Incomes from CPD events:		Purchase of restaurant inventory	421,875
• For members	393,750	Expenses for organising CPD events	101,250
• For Non-members	42,750	General expenses	225,000
Income from magazines	22,500	Restaurant salaries	52,000
Members' subscriptions	675,000	Printing and stationery for magazines	4,500
Restaurant sales	581,250	Repair of conference facilities	6,000
Hire of conference facilities	<u>618,750</u>	Balance carried forward	<u>634,445</u>
	<u>2,345,070</u>		<u>2,345,070</u>

The following balances relate to the books of the institute as at 1 July 2021:

	Sh. "000"
Building (at cost)	56,250
Accumulated depreciation on building	11,250
Conference facilities (net book value)	90,000
Furniture and fittings (cost)	13,500
Accumulated depreciation on furniture and fittings	4,500
Motor vehicles (net book value)	40,000
Accrued members' subscription brought forward	500
Prepaid members' subscription carried forward	630
Cash and cash equivalents	11,070
Restaurant inventory	4,000
Restaurant payables	625

Additional information:

1. Restaurant inventory as at 30 June 2022 was valued at Sh.2,520,000.
2. The following balances were accruing as at 30 June 2022:

	Sh. "000"
Restaurant purchases	800
Restaurant salaries	25
Repair of conference facilities	370

3. As at 30 June 2022, outstanding and prepaid members' subscriptions amounted to Sh.350,000 and Sh.790,000 respectively.
4. Depreciation is to be provided on a reducing balance basis at the following rates per annum:

Asset	Rate
Building	2.5%
Conference facilities	10%
Furniture and fittings	10%
Motor vehicles	20%

5. Full year depreciation is provided in the year of acquisition but none in the year of disposal.

Required:

- (a) Restaurant income statement for the year ended 30 June 2022. (4 marks)
- (b) Income and expenditure account for the year ended 30 June 2022. (8 marks)
- (c) Statement of financial position as at 30 June 2022. (8 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Define the following terms as used in relation to customs taxes:

- (i) Dumping. (2 marks)
- (ii) Bond security. (2 marks)

- (b) Every package of excisable goods, except motor vehicles and manufactured goods are required to be affixed with an excise stamp.

Explain four purposes of the excise stamp. (4 marks)

- (c) KR Ltd., a manufacturing company, commenced its operations on 1 January 2021 after incurring the following expenditures:

	Sh.
Land	7,000,000
Factory building	4,200,000
Standby generator	150,000
Staff quarters	1,800,000
Processing machinery	4,000,000
Pick up	1,400,000
Computers	260,000
Processing machinery installation cost	120,000
Perimeter wall	800,000
Sign board	100,000
Warehouse	1,000,000
Electrical wiring (factory building)	350,000
Scanner	56,000
Saloon car	3,200,000
Conveyor belt	560,000

Additional information:

- The pick-up was traded-in on June 2021 at a cost of Sh.1,200,000 for a prado. The company paid a balance of Sh.2,100,000 in cash.
- The following buildings were constructed and put into use on 1 July 2021:

Sh.

- Staff social hall 900,000
- Staff canteen 700,000

- In August 2021, the following assets were acquired on hire purchase terms:

Asset	Hire Purchase Price Sh.	Cash price Sh.
Factory equipment	2,250,000	1,310,000
Factory workshop machinery	1,800,000	1,100,000
Forklift	1,050,000	620,000

Required:

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

(12 marks)

(Total: 20 marks)

QUESTION FIVE

- Explain the term “taxable capacity”. (2 marks)
 - Discuss four factors that could influence the taxable capacity in your country. (8 marks)
- Explain the following terms used in tax shifting:
 - Forward shifting. (2 marks)
 - Backward shifting. (2 marks)
- Mount Zone Milk Limited buys milk from dairy farmers at Sh.45 per litre and after processing sells it at Sh.100 per litre. Tax at the rate of 20% is imposed on every litre of milk sold.

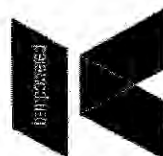
Required:

Demonstrate the effect of the following tax shifts on the cost price and selling price of milk per litre:

- No tax shift. (2 marks)
- Forward shift. (2 marks)
- Backward shift. (2 marks)

(Total: 20 marks)

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CS FOUNDATION LEVEL

PRINCIPLES OF ACCOUNTING AND 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		
				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:	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) Identify six books of original entry. (6 marks)
- (b) On 1 October 2021, Victory Ltd. offered for sale to the public 50,000 ordinary shares (Sh.100 par value) for Sh.125 each payable as follows:
- Sh.25 on application.
 - Sh.50 on allotment (including premium)
 - Sh.25 on first call.
 - Sh.25 on second and final call.

By 31 October 2021 applications were received for 60,000 shares. An application for 10,000 shares was rejected. Allotment money due was received, first call was made after one month and second call after two months.

All monies due on first call and second call were received except for 1,000 shares. These shares were forfeited after three months, and then re-issued at Sh.70 each as fully paid.

Required:

Ledger accounts to record the above transactions.

(14 marks)

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

- (a) Explain the following accounting concepts:

- (i) Matching concept. (2 marks)
- (ii) Conservatism concept. (2 marks)

- (b) The following information was obtained from the books of Vazi Club at 31 December 2021:

	Sh. "000"	Sh. "000"
Cash at bank on 1 January 2021		14,700
Receipts:		
Sale of competition tickets	30,590	
Subscriptions	139,090	
Donations	12,390	
Rent refund	<u>35,000</u>	<u>217,070</u>
		231,770
Payments:		
General expenses	11,410	
Rent paid	98,140	
Competition expenses	89,250	
Prizes for competition	18,900	
Printing and stationery	12,530	
Donations to charities	<u>2,450</u>	<u>(232,680)</u>
Bank overdraft as at 31 December		<u>(910)</u>

Additional information:

The following balances were available as at 31 December:

	2020 Sh. "000"	2021 Sh. "000"
Equipment (cost Sh.99,400,000)	68,250	54,600
Subscriptions in arrears	4,550	5,950
Subscriptions in advance	700	2,590
Owing to suppliers of competition prizes	4,060	4,760
Inventory of competition prizes	2,660	3,220

Required:

- (i) Competition income statement for the year ended 31 December 2021. (4 marks)
- (ii) Income and expenditure account for the year ended 31 December 2021. (6 marks)
- (iii) Statement of financial position as at 31 December 2021. (6 marks)

(Total: 20 marks)

QUESTION THREE

Abdi, Betty and Chris have been in a partnership trading as ABC partnership. They shared profits and losses in the ratio $\frac{1}{2} : \frac{3}{10} : \frac{2}{10}$ respectively. The partnership deed provides for interest on capital at an annual rate of 4%.

On 30 June 2021, Abdi retired from the partnership while the other partners continued in partnership sharing profits equally.

The following trial balance was extracted from the partnership's books as at 31 December 2021:

	Sh."000"	Sh."000"
Capital accounts		
Abdi		45,000
Betty		42,500
Chris		40,000
Current accounts		
Abdi		750
Betty		500
Chris	500	
Purchases	72,750	
Sales		123,500
Building (cost)	80,000	
Motor vehicles (cost)	12,000	
Accumulated depreciation:		
Building		6,000
Motor vehicles		2,750
Land	30,000	
Drawings:		
Abdi	5,250	
Betty	9,250	
Chris	9,000	
Accounts payable		26,550
Allowance for doubtful debts		525
Bad debts written off	225	
Accounts receivable	17,100	
Cash at bank	1,050	
Inventory (1 January 2021)	20,250	
Salaries	14,650	
Rent	12,500	
General expenses	3,550	
	<u>288,075</u>	<u>288,075</u>

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Additional information:

- On retirement of Abdi, goodwill was valued at Sh.5,000,000. This is to be written off on the same date, land was valued upward by Sh.10,000,000.
- Profits for the partnership are assumed to accrue evenly throughout the year.
- As at 31 December 2021, inventory was valued at Sh.12,500,000.
- Allowance for doubtful debts is to be increased to Sh.750,000.
- As at 31 December 2021, rent prepaid amounted to Sh.1,251,000 and general expenses accrued amounted to Sh.1,100,000.
- Depreciation is to be provided per annum as follows:

Asset	Rate
Building	4% on cost
Motor vehicles	10% on reducing balance
- The balance due to Abdi is to remain in the partnership as a loan for the next five years.

Required:

- Statement of profit or loss and appropriation account for the year ended 31 December 2021. (10 marks)
 - Partners' current accounts. (4 marks)
 - Statement of financial position as at 31 December 2021. (6 marks)
- (Total: 20 marks)

QUESTION FOUR

- (a) Discuss four principles of an optimal tax system as provided by Adam Smith. (8 marks)
- (b) Rolling Ltd. is a manufacturing company that commenced its operations on 1 January 2021 after incurring the following expenditures:

	Sh.
Purchase of land	16,500,000
Factory building	9,350,000
Parking bay	660,000
Electric fence	132,000
Staff canteen	1,320,000
Sports pavilion	700,000
Godown	990,000

Other assets acquired at the commencement of operation were as follows:

Generator	740,000
Water pump	190,000
Water tank	100,000
Sewerage treatment plant	330,000
Factory machinery	5,280,000
Workshop machinery	1,760,000
Photocopier and printers	150,000
Saloon car	3,200,000
Furniture	165,000
Lorry (3 tonnes)	1,380,000
Forklift	880,000
Computers and scanners	330,000
Fax machine	120,000

Additional information:

- Rolling Ltd. sunk a borehole at a cost of Sh.1,375,000 which was put in use on 1 September 2021.
- The factory building includes a showroom and an office block constructed at a cost of Sh.660,000 and Sh.440,000 respectively.
- The company constructed a factory extension at a cost of Sh.2,400,000 and installed processing machinery costing Sh.1,600,000 on 1 June 2021.
- The company disposed of the following assets on 1 October 2021:

	Sh.
• Lorry	900,000
• Fax machine	50,000
• Scanners	80,000
- The saloon car was involved in an accident on 1 July 2021. The company received Sh.1,200,000 as compensation for the loss in the same year.

Required:

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

(12 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) With reference to pre-shipment inspection:
- Explain three purposes of pre-shipment inspection. (6 marks)
 - State four goods exempted from pre-shipment exemption. (4 marks)
- (b) Discuss five objectives of levying taxes by a government. (10 marks)
- (Total: 20 marks)
-



CS FOUNDATION LEVEL

PRINCIPLES OF ACCOUNTING AND 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:			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
• 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%	

QUESTION ONE

- (a) Explain the "accruals concept" as applied in accounting. (2 marks)
- (b) Describe four users of accounting information citing their information needs. (8 marks)
- (c) The following is the receipts and payments account of Rocket Sports Club for the year ended 30 June 2021:

	Sh."000"		Sh."000"
Balance brought forward: Cash	500	Rent and rates	4,200
Bank	5,400	Bar purchases	46,600
Fixed deposit	6,000	Internet charges	510
Subscriptions	12,000	Water and electricity	690
Entrance fees	1,500	Stationery expenses	250
Interest on fixed deposit	300	Salaries and wages	9,240
Donations	5,500	Coach's fee	3,200
Bar sales	62,400	General expenses	3,100
Sale of club T-shirts	3,600	Gym equipment	4,400
		Balance carried forward - Cash	2,000
		- Bank	13,010
		- Fixed deposit	10,000
	<u>97,200</u>		<u>97,200</u>

Additional information:

1. On 30 June 2020, the values of non-current assets were as follows:

	Sh."000"
Sports pavilion (cost)	70,000
Fixtures and fittings (cost)	16,000
Sports equipment (net book value)	11,200

2. Depreciation is to be provided as follows:

Asset	Rate per annum
Sports pavilion	2% on cost
Fixtures and fittings	10% on cost
Sports equipment	20% on reducing balance

3. The following balances were available:

	30 June 2020 Sh."000"	30 June 2021 Sh."000"
Subscriptions in arrears	400	480
Rates due	350	410
Rent prepaid	400	500
Bar payables	1,500	2,200

4. As at 30 June 2021, the cost of club T-shirts was included in general expenses.
5. The bar inventory was valued at Sh.950,000 as at 30 June 2020 and Sh.1,200,000 as at 30 June 2021.
6. The new gym equipment was purchased during the year ended 30 June 2021 at a cost of Sh.5,000,000. The difference between the actual cost and the amount reflected in the receipts and payments account is a trade-in-value of Sh.600,000. The old gym equipment which was traded-in for the new gym equipment had been included in the cost of sports equipment at 30 June 2020 at a value of Sh.400,000.
7. Depreciation is charged for a full year irrespective of the date of purchase. No depreciation is charged in the year of disposal.

Required:

- (i) Bar income statement for the year ended 30 June 2021. (2 marks)
- (ii) Income and expenditure account for the year ended 30 June 2021. (8 marks)

(Total: 20 marks)

QUESTION TWO

The following trial balance was extracted from the books of Marata Limited as at 30 September 2021:

	Sh."000"	Sh."000"
Ordinary shares of Sh.100 each		8,000
Share premium		1,000
Retained earnings		375
10% debentures issued on 1 October 2020		2,000
Land and buildings at cost	13,550	
Accumulated depreciation as at 1 October 2020		2,700
Plant and equipment at cost	4,200	
Accumulated depreciation as at 1 October 2020		1,050
Purchases	20,000	
Carriage inwards	8,185	
Carriage outwards	800	
Sales		46,265
Rent receivable		1,000
Salaries	8,970	
Business rates	305	
Electricity	240	
Bad debts	70	
Allowance for doubtful debts at 1 October 2020		60
Trade receivables	3,910	
Trade payables		3,415
Inventory as at 1 October 2020	4,095	
Bank	810	
General expenses	730	
	<u>65,865</u>	<u>65,865</u>

Additional information:

- As at 30 September 2021, inventory was valued at Sh.4,715,000.
- As at 30 September 2021, salaries accrued amounted to Sh.90,000.
- Business rates paid in advance at 30 September 2021 amounted to Sh.35,000.
- The allowance for doubtful debts is to be increased to Sh.75,000.
- A depreciation charge is to be made on buildings of Sh.1,250,000 and plant and equipment at 20% on cost.
- The directors proposed the following:
 - To pay dividends of Sh.1,000,000
 - To transfer Sh.1,000,000 to general reserves
- A trade debtor who owed Sh.225,000 was declared bankrupt. The directors decided to write off his debt.
- 10% debenture interest was paid on 1 October 2021.

Required:

- Statement of profit or loss for the year ended 30 September 2021. (10 marks)
 - Statement of financial position as at 30 September 2021. (10 marks)
- (Total: 20 marks)**

QUESTION THREE

Nelson and Tyson were partners in a retail business sharing profits and losses in the ratio of 2:1 for Nelson and Tyson respectively. Interest on capital is provided at the rate of 6% per annum but no interest is provided on current accounts.

The following were extracted from the partnership books as at 31 March 2021:

	Sh."000"	Sh."000"
Freehold premises at cost	6,000	
Purchases	16,400	
Motor vehicle at cost	3,400	
Balance at bank	9,280	
Capital:		
Nelson		3,000
Tyson		2,000
Partners current accounts:		
Nelson		1,600
Tyson		1,200

	Sh.“000”	Sh.“000”
Salaries	5,200	
Inventory as at 1 April 2020	4,800	
Cash introduced by Jackson		5,000
Sales (Sh.14 million up to 30 September 2020)		35,000
Furniture and fittings at cost	1,200	
Trade receivables and trade payables	900	4,280
Professional fees	420	
Allowance for depreciation as at 1 April 2020:		
Motor vehicle		1,200
Furniture and fittings		400
Insurance	2,200	
Rent, rates, lighting and heating	1,240	
General expenses (Sh.1,410,000 for six months up to 30 September 2020)	<u>2,640</u>	
	<u>53,680</u>	<u>53,680</u>

Additional information:

- On 30 September 2020, Jackson was admitted as a partner and from that date, profits and losses were to be shared in the ratio of 2:2:1 for Nelson, Tyson and Jackson respectively. For the purposes of these changes the value of goodwill of the firm was agreed at Sh.12,000,000. This goodwill is not to be maintained in the accounts.
- On 1 October 2020, Jackson had introduced Sh.5,000,000 into the firm which it was agreed Sh.3,500,000 should comprise his capital and the balance should be credited to his current account.
- Any apportionment of gross profit was to be made on the basis of sales. Expenses, unless otherwise stated, were to be apportioned on time basis.
- On 31 March 2021, inventory was valued at Sh.5,100,000.
- Allowance for depreciation was to be made on the motor vehicle and furniture and fittings at 20% and 5% per annum respectively on cost.
- Salaries included partners' drawings as follows: Nelson Sh.600,000; Tyson Sh.480,000 and Jackson Sh.250,000.
- At 31 March 2021, rates paid in advance amounted to Sh.260,000 and an accrual of Sh.600,000 on electricity consumed was required.
- Allowance for doubtful debts as at 30 September 2020 amounted to Sh.120,000 (full provision) and as at 31 March 2021 amounted to Sh.160,000.

Required:

- Statement of profit or loss for the year ended 31 March 2021. (10 marks)
 - Statement of financial position as at 31 March 2021. (10 marks)
- (Total: 20 marks)**

QUESTION FOUR

- Explain the following terms as used in taxation:
 - Multiple tax system. (2 marks)
 - Direct taxes. (2 marks)
 - Discuss four factors that could influence tax shifting in your country. (8 marks)
 - In relation to the structure and mandate of the Revenue Authority in your country, propose four benefits that could arise from the integration of functions of various departments. (8 marks)
- (Total: 20 marks)**

QUESTION FIVE

- Explain the following terms as used in relation to custom taxes:
 - Clean report of finding (CRF). (2 marks)
 - Import declaration form (IDF). (2 marks)
- Outline four categories of goods which are subject to customs controls. (4 marks)

- (c) Tamu Manufacturing Ltd. commenced operations in May 2020 after incurring the following expenditure:

	Sh.
Processing machines	22,800,000
Factory building	63,000,000
Delivery van	2,500,000
Computers	1,400,000
Other machinery	1,700,000
Furniture and fittings	1,600,000
Security wall	4,200,000
Computer software	240,000
Office telephone and installation	210,000

Additional information:

1. Tamu Manufacturing Ltd. continued expanding and acquired/constructed the following assets which were put into use from 1 September 2020:

	Sh.
Additional processing machinery	6,400,000
Labour quarters	4,800,000
Heavy duty fork lifts	2,600,000
Parking bay	1,800,000
Bar code readers	280,000
Factory shop	2,700,000
Showroom	3,600,000
Staff clinic	5,720,000
Go-down	4,600,000

2. The delivery van developed a mechanical problem and was traded in for a new one costing Sh.2,800,000 in June 2020. The old van was valued at Sh.1,950,000 and the balance was paid in cash.
3. The company constructed a borehole at a cost of Sh.4,500,000 which was put into use on 1 September 2020.
4. The company acquired a ship at a cost of Sh.400 million on 1 October 2020 for use in importation of raw materials and exporting finished goods.

Required:

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

(12 marks)

(Total: 20 marks)

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KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

WEDNESDAY: 25 May 2016.

Time Allowed: 3 hours.

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

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

Year of income 2015.

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

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

Prescribed benefit rates of motor vehicles provided by employer

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

Industrial building allowance:

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

Farm works allowance 100%

Investment deduction allowance 100%

Shipping investment deduction (Ships over 125 tonnes) 100%

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

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

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

Extraction expenditure:

Written off over 5 years (20%)

Commissioner's prescribed benefit rates

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

QUESTION TWO

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

QUESTION THREE

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

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

Required:

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

QUESTION FOUR

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

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

Required:

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

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

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

Additional information:

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

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

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

Required:

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

QUESTION FIVE

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

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

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

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

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

Additional information:

- General expenses include:

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

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

Required:

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

KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

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%	(i) Saloons, Hatch Backs and Estates	
Class II 30%	Up to 1200 cc	3,600
Class III 25%	1201 1500 cc	4,200
Class IV 12.5%	1501 1750 cc	5,800
Software 20%	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 buildings 50%		
From 1 January 2010-		
Commercial building:		
(Shop, office or show room) 25%		
Farm works allowance 100%	(ii) Pick-ups, Panel Vans (unconverted)	
Investment deduction allowance 100%	Up to 1750 cc	3,600
	Over 1750 cc	4,200
	(iii) Land Rovers/Cruisers	7,200
Shipping investment deduction 40%		86,400
Mining allowance:		
Year 1 - 40%		
Years 2 - 7 - 10%		

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

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

Additional information:

1. General expenses comprise:

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

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

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

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

Required:

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

QUESTION FOUR

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

Your analysis should be guided by the following key aspects:

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

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

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

Additional information:

1. A borehole was drilled at a cost of Sh.1,300,000 and utilised with effect from 1 November 2014.
2. On 1 December 2014, the company constructed a factory extension at a cost of Sh.2,650,000 and put to use immediately.
3. The following items were purchased on 1 December 2014:
Sh.
Pick-up 2,400,000
Conveyor belt 600,000
Scanners 250,000
Mobile phones 260,000
Digital weighing machines 90,000
Computers 300,000
4. The following assets were disposed of during the year:

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

Required:

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

QUESTION FIVE

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

Explain the validity or otherwise of this assertion.

(5 marks)

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

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

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

Additional information:

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

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

Required:

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

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

TUESDAY: 24 November 2015.

Time Allowed: 3 hours.

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

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

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

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

Prescribed benefit rates of motor vehicles provided by employer

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

Required:

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

(Total: 20 marks)

QUESTION TWO

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

(Total: 20 marks)

QUESTION THREE

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

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

Required

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

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

(2 marks)

(Total: 20 marks)

QUESTION FOUR

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

(4 marks)

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

(4 marks)

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

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

Additional information:

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

Required:

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

(12 marks)

(Total: 20 marks)

QUESTION FIVE

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

(4 marks)

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

(6 marks)

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

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

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

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

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

Required:

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

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CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

WEDNESDAY: 1 September 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		
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) Public funds established by the Constitution are usually managed by the National and County governments.

Required:

- (i) Identify three types of funds managed by the national government. (3 marks)
- (ii) Identify two types of funds managed by the county government. (2 marks)
- (b) Outline four functions of a County Treasury as provided in the Public Finance Management Act. (8 marks)
- (c) Citing seven reasons, justify why an accounting officer of a procuring entity might, at any time, prior to notification of tender award, terminate or cancel procurement or asset disposal proceedings without entering into contract as provided under the Public Procurement and Asset Disposal Act. (7 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain the following attributes that must be considered when preparing a national budget:
- (i) Periodicity. (2 marks)
- (ii) Predictability. (2 marks)
- (iii) Comprehensiveness. (2 marks)
- (b) Identify four types of reports that the Controller of Budget is required to prepare in relation to Public Finance Management. (4 marks)
- (c) S and M Associates is a firm of Surveyors registered for value added tax (VAT) purposes.

In the month of March 2021 the firm made the following transactions:

Revenues:

Revenue from VAT registered customers.	Sh. 1,790,750
Revenue from consultancy services in Rwanda	2,686,125
Revenue from Ministry of Lands contract	1,486,250
Revenue from customers not registered for VAT	<u>2,586,800</u>
	8,549,925

Expenditure:

Legal services	435,000	
Salaries and wages	1,740,000	
Medical services	556,800	
Motor vehicle fuel	125,280	
Purchase of design materials	870,000	
Motor vehicle insurance	69,600	
Stationery	29,000	
Audit fees	501,120	
Office rent	228,375	
Advertising	<u>194,300</u>	(4,749,475)
		<u><u>3,800,450</u></u>

Additional information:

- VAT withheld by withholding VAT agents was Sh.120,000 during the month.
- Motor vehicle insurance relates to the motor vehicle's annual premiums for comprehensive insurance.
- Transactions are inclusive of VAT at the rate of 16% where applicable.

Required:

- Prepare a VAT account for the month of March 2021 showing the VAT payable or refundable. (10 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Explain three activities that constitute tax evasion in your country. (6 marks)
- (b) Maxwel Bewa was employed as an accountant by Okoa Micro-finance Ltd. on a three-year contract commencing on 1 April 2020.

He has provided the following information relating to his employment income for the year ended 31 December 2020.

1. Basic salary of Sh.175,000 per month (PAYE Sh.48,000 per month)
2. He enjoyed free medical treatment under a senior employees medical scheme operated by the company, which was assessed at Sh.250,000 during the year.
3. He received goods worth Sh.140,000 from the company for personal use.
4. He was provided with a company car which had cost Sh.1,750,000. The car had a cc rating of 2,000 and it was under a maintenance plan where the company paid all operating costs of Sh.220,000 during the year.
5. He was provided with a furnished house in Alpha Estate where rent for similar houses was Sh.45,000 per month. The house had been furnished at a cost of Sh.850,000.
6. He was sponsored for a seminar on Accountancy by the employer at Sh.180,000, 10% of this cost was for private entertainment.
7. He contributes 5% of his basic pay to a registered pension scheme while the employer contributes an equal amount for him.
8. He employed a night watchman on 1 August 2020 at a monthly salary of Sh.25,000. The employer pays half of the monthly salary.
9. The employer paid Sh.320,000 as school fees for his children studying abroad on commencement of his employment contract. This amount was recovered from Bewa's income during the year.
10. He was nominated for an award of the employee of the year on 31 December 2020. This award carried a cash gift of Sh.250,000 and a bonus of Sh.180,000.
11. Life insurance premium paid for him by the employer for the period 1 April 2020 to 31 December 2020 was Sh.80,000.
12. As part of the terms of his employment, he was paid a holiday allowance of Sh.120,000 for his holiday to a foreign destination and back home.

Required:

- (i) Total taxable income of Maxwel Bewa for the year ended 31 December 2020. (12 marks)
- (ii) Tax liability (if any) from the income computed in (b) (i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

- (a) The Finance Act, 2020 introduced a tax known as minimum tax which shall be payable regardless of whether a taxpayer will have taxable profits or not.

With reference to the above statement, identify four types of income that are not subject to minimum tax. (4 marks)

- (b) Explain two ways in which the Revenue Authority in your country might prevent loss of tax revenue from imports. (4 marks)
- (c) Lulu Ltd. commenced manufacturing operations on 1 May 2020 after having incurred the following capital expenditure:

	Sh.
Factory building (note 1)	20,600,000
Processing machinery	4,800,000
Factory parking bay	1,640,000
Sewerage system	560,000
Industrial effluent treatment plant	2,400,000

Additional information:

1. Factory building included the following:
- | | Sh. |
|----------------|-----------|
| • Cost of land | 4,400,000 |
| • Godown | 800,000 |
| • Showroom | 520,000 |
| • Offices | 600,000 |
| • Retail shop | 400,000 |

2. On 1 July 2020, the following capital expenditures were incurred:

	Sh.
Photocopier	60,000
Computers	150,000
Motorbike	96,000
Saloon car	3,400,000
Forklift	720,000
Furniture	240,000
Pick-up	920,000
Scanners	56,000
Tractor	1,700,000
Carpets	36,000

3. The company imported a portable weighting machine on 1 September 2020 at a cost of Sh.480,000 inclusive of duty of Sh.20,000. The duty was waived by the government.

Required:

Investment allowances due to the company for the year ended 31 December 2020.

(12 marks)

(Total: 20 marks)

QUESTION FIVE

- (a) Discuss four ways in which taxation could be applied to achieve fiscal policy objectives of a developing economy. (8 marks)

- (b) Mazao Ranch Ltd. practices mixed farming and milk processing.

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

Revenue:	Sh.	Sh.
Sale of milk		2,400,000
Sale of livestock		1,800,000
Sale of manure		540,000
Proceeds from sale of an old tractor		820,000
Discount received		<u>180,000</u>
		5,740,000
Expenses:		
General expenses	430,000	
Construction of water tank	240,000	
Vaccines for livestock	640,000	
Loan repayment	350,000	
Depreciation	180,000	
Electricity and water	135,000	
Conveyance fees	156,000	
Construction of chicken sheds	480,000	
Animal feeds	200,000	
Salaries and wages	1,240,000	
Bad debts provision	150,000	
Repairs and maintenance	762,000	
Professional fees	<u>620,000</u>	<u>(5,583,000)</u>
Net profit		<u>157,000</u>

Additional information:

1. Farm works acquired on 1 July 2020 comprised the following:

	Sh.
Granary	420,000
Labour quarters	1,200,000
Cowshed	160,000

2. General expenses include:
- | | Sh. |
|--------------------------------------|---------|
| Subscriptions to Farmers Association | 96,000 |
| Acquisition of a 50 year lease | 180,000 |
| Staff Christmas party | 25,000 |
| Parking fines | 129,000 |

3. Repairs and maintenance comprise: **Sh.**
Provision for fencing expenditure 145,000
Repairs to machinery 240,000
Other repairs 377,000
4. Professional fees include Sh.500,000 paid with regard to pursuing a dispute with the Revenue Authority's VAT department.
5. Assume the corporate tax rate during the year was 25%.

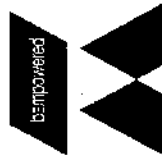
Required:

- (i) Adjusted taxable profit or loss of Mazao Ranch Ltd. for the year ended 31 December 2020. (10 marks)

- (ii) Tax payable (if any) on the profit or loss in (b) (i) above. (2 marks)

(Total: 20 marks)

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CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

WEDNESDAY: 19 May 2021.

Time Allowed: 3 hours.

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

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

Year of income 2020.

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

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

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

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

QUESTION TWO

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

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

Additional information:

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

Required:

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

(Total: 20 marks)

QUESTION THREE

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

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

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

Required:

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

(Total: 20 marks)

QUESTION FOUR

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

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

Additional information:

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

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

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

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

Required:

- (i) Excel Communications Ltd. taxable profit or loss for the year ended 31 December 2020. (9 marks)
- (ii) The tax payable (if any) on the profit or loss computed in (a) (i) above. (1 mark)

- (b) Plasticom Ltd. is a company established in year 2020 to manufacture plastic products. Before commencing its operations on 1 May 2020, the company incurred a total of Sh.8,760,000 in construction of a factory building which included:

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

Additional information:

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

	Cost (Sh.)
Water pump	540,000
Labour quarters	920,000
Processing machinery	2,600,000
Tractor	1,800,000
Scanners	320,000
Two saloon cars	7,000,000
Mobile forklift	1,500,000
Computers	250,000
Power transformer	820,000
Office cabinets	180,000
Boilers	960,000
Bridge (connecting the factory to main road)	1,200,000
2. The following costs were incurred by the company on 1 September 2020:

	Cost (Sh.)
Sinking a borehole	720,000
Construction of a parking bay	630,000
3. One of the computers traded in on 10 November 2020 for a new one costing Sh.68,000. The trade in value was Sh.40,000 and the balance was settled in cash.
4. The company constructed a Sports Pavilion and additional staff quarters during the year at the cost of Sh.890,000 and Sh.1,200,000 respectively. These structures were utilised from 1 October 2020.

Required:

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

QUESTION FIVE

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

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

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

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

Additional information:

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

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

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

Required:

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

(Total: 20 marks)



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CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

WEDNESDAY: 25 November 2020.

Time Allowed: 3 hours.

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

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

Year of income 2019.

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

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

Prescribed benefit rates of motor vehicles provided by employer

		Prescribed benefit rates of motor vehicles provided by employers		
			Monthly rates	Annual rates
			(Sh.)	(Sh.)
Capital allowance:		(i) Saloons, Hatch Backs and Estates		
Wear and tear allowance:		Up to 1200 cc	3,600	43,200
Class I	37.5%	1201 1500 cc	4,200	50,400
Class II	30%	1501 1750 cc	5,800	69,600
Class III	25%	1751 2000 cc	7,200	86,400
Class IV	12.5%	2001 3000 cc	8,600	103,200
Software	20%	Over 3000 cc	14,400	172,800
Industrial building allowance:				
Up to 2009	2.5%			
From 1 January 2010	10%			
Hotels	10%			
Hostels/Education/Film producers buildings	100%			
From 1 January 2010 - Commercial building:				
(Shop, office or show room)	25%			
Farm works allowance	100%	(ii) Pick-ups, Panel Vans (unconverted)		
Investment deduction allowance	100%	Up to 1750 cc	3,600	43,200
		Over 1750 cc	4,200	50,400
Shipping investment deduction (Ships over 125 tonnes)	100%	(iii) Land Rovers/Cruisers	7,200	86,400

Extraction expenditure:

Written off over 5 years (20%)

Commissioner's prescribed benefit rates

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

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

- (b) Discuss four responsibilities of the National Treasury in the administration of the Consolidated Fund. (8 marks)
- (c) Explain four fiscal responsibility principles enforced by National Treasury in managing national government public finance. (8 marks)

(Total: 20 marks)

QUESTION TWO

- (a) Explain the single source method of procurement in public sector entities, citing two circumstances under which the method could be applied. (4 marks)
- (b) One of the functions of the Public Procurement Oversight Authority (PPOA) is to assist in the implementation and operation of the procurement system. In light of this statement, explain three aspects this function entails. (6 marks)
- (c) Beltech Ltd., a registered trader for value added tax (VAT) made the following transactions in the month of January 2020:

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

Additional information:

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

Required:

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

(Total: 20 marks)

QUESTION THREE

- (a) Propose three administrative challenges that the revenue authority or similar body in your country might face in the taxation of a digital economy. (6 marks)
- (b) Shirley Kaniny has been in employment as a domestic servant. Her employer works for an international organisation in the city. He had her registered and issued with a personal identification number (PIN) by the revenue authority.

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

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

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

Required:

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

(Total: 20 marks)

QUESTION FOUR

- (a) Explain the treatment of the following in taxation:

- (i) Tax losses. (2 marks)
- (ii) Capital losses. (2 marks)

- (b) Explain two distinguishing features between "tax evasion" and "tax avoidance". (4 marks)

- (c) Mafutah PLC commenced a manufacturing operation on 1 October, 2019 having incurred the following capital expenditure:

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

Additional information:

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

Required:

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

(Total: 20 marks)

QUESTION FIVE

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

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

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

Additional information:

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

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

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

Required:

- Adjusted taxable profit or loss of the partnership for the year ended 31 December 2019. (10 marks)
- Allocation schedule of profit or loss calculated in (c) (i) above. (4 marks)

(Total: 20 marks)



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CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

THURSDAY: 28 November 2019.

Time Allowed: 3 hours.

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

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

Year of income 2018.

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

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

Prescribed benefit rates of motor vehicles provided by employer

		Monthly rates Annual rates	
		(Sh.)	(Sh.)
Capital allowance:	(i) Saloons, Hatch Backs and Estates		
Wear and tear allowance:	Up to 1200 cc	3,600	43,200
Class I 37.5%	1201 - 1500 cc	4,200	50,400
Class II 30%	1501 - 1750 cc	5,800	69,600
Class III 25%	1751 - 2000 cc	7,200	86,400
Class IV 12.5%	2001 - 3000 cc	8,600	103,200
Software 20%	Over 3000 cc	14,400	172,800
Industrial building allowance:			
Up to 2009	2.5%		
From 1 January 2010	10%		
Hotels	10%		
Hostels/Education/Film producers buildings	100%		
From 1 January 2010 - Commercial building:			
(Shop, office or show room)	25%		
Farm works allowance	100%		
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) Summarise five roles of the County Assembly in public finance management. (5 marks)
- (b) Propose five sources of revenue for county governments. (5 marks)
- (c) Outline the stages to be followed in the budget process for the National Government in any financial year. (10 marks)
- (Total: 20 marks)**

QUESTION TWO

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

Sales Day Book

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

Purchases Day Book

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

DR**Cash Book****CR**

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

Additional information:

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

Required:

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

QUESTION THREE

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

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

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

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

	Sh.
Caretaker's wages	120,000
Fencing	40,000
Loan repayment	320,000
Insurance rent and rates	48,000
Partitions	60,000
Capital allowances	22,000
Gross rental withholding tax paid	68,200
10. He received net dividends of Sh.42,500 from Maziwa Co-operative Society during the year.	

Required:

- (i) Total taxable income for Suleiman Kombo for the year ended 31 December 2018. (10 marks)
 - (ii) Tax payable (if any) from the income computed in (b) (i) above. (3 marks)
 - (iii) Comment on any information not used in your computations under (b) (i) above. (2 marks)
- (Total: 20 marks)

QUESTION FOUR

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

However, operations commenced on 1 January 2018.

The cost comprised the following:

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

Dalbir Singh provided the following additional information:

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

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

2. To improve performance in the factory, an Oracle database that provides cloud service was installed at a cost of Sh.450,000. The computers in the drawing and design room had a Computer Aided Design (CAD) application installed at a cost of Sh.270,000.
3. A building that had been constructed at a cost of Sh.12,000,000 was leased from Jalaam Manufacturers Ltd. for five years. The annual lease rentals were agreed at Sh.2,800,000. Dalbir imported processing machinery from China at a cost of Sh.5,200,000 and installed it in the building.
4. Two warehouses were constructed at a cost of Sh.2,250,000 and utilised from 1 September 2018.
5. The following assets were purchased or constructed during the year:

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

Required:

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

(10 marks)

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

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

Additional information is provided as follows:

1. Investment income comprises of the following:

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

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

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

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

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

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

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

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

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

7. Legal and professional fees comprise:

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

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

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

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

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

Required:

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

(10 marks)

(Total: 20 marks)

QUESTION FIVE

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

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

Additional information:

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

Required:

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

(Total: 20 marks)

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CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

WEDNESDAY: 22 May 2019.

Time Allowed: 3 hours.

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

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

Year of income 2018.

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

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

Prescribed benefit rates of motor vehicles provided by employer

Monthly rates Annual rates

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

Industrial building allowance:

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

Farm works allowance 100%

Investment deduction allowance 100%

Shipping investment deduction 100%

(Ships over 125 tonnes)

Extraction expenditure:

Written off over 5 years (20%)

Commissioner's prescribed benefit rates

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

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

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

(Total: 20 marks)

QUESTION TWO

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

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

Additional information:

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

Required:

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

QUESTION THREE

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

Required:

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

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

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

1. Her employment contract indicated the following:

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

Required:

- (i) Taxable income of Halima Ali for the year ended 31 December 2018. (10 marks)
 - (ii) Tax liability (if any) from the income computed in (c)(i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

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

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

Additional information:

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

Required:

Adjusted taxable income or loss for Pareto Ltd. for the year ended 31 December 2018.

(10 marks)

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

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

Additional information:

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

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

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

Required:

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

(10 marks)

(Total: 20 marks)

QUESTION FIVE

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

Identify two purposes of these stamps.

(2 marks)

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

(6 marks)

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

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

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

Additional information:

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

	Sh.
Soi	240,000
Timothy	300,000

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

	Sh.
Soi	105,000
Timothy	125,000

7. Legal costs related to:

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

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

	Sh.
Silo	40,000
Irrigation network	75,000
Cattle dip	150,000

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

Required:

- (i) Adjusted taxable profit or loss for the year ended 31 December 2018. (8 marks)
 - (ii) A schedule showing the distribution of the partner's profit or loss computed in (c)(i) above. (4 marks)
- (Total: 20 marks)**
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CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

WEDNESDAY: 28 November 2018.

Time Allowed: 3 hours.

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

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

Year of income 2017.

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

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

Prescribed benefit rates of motor vehicles provided by employer

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

Industrial building allowance:

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

Farm works allowance 100%

Investment deduction allowance 100%

Shipping investment deduction 100%

(Ships over 125 tonnes)

Extraction expenditure:

Written off over 5 years (20%)

Commissioner's prescribed benefit rates

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

QUESTION ONE

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

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

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

- (i) With reference to the above statement:

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

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

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

(Total: 20 marks)

QUESTION TWO

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

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

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

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

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

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

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

Assume the rate of import duty is 20%.

Required:

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

(10 marks)

(Total: 20 marks)

QUESTION THREE

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

Required:

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

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

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

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

1. Basic salary and other allowances:

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

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

Required:

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

QUESTION FOUR

- (a) Highlight two reasons why an importer is required to fill in an import declaration form. (2 marks)
- (b) Morris Kwachu applied for a licence to commence manufacturing business dealing in excisable goods. The Commissioner refused to issue him with a licence.

Advise him on four grounds under which the Commissioner might refuse to issue the applicant with a licence as provided under the Excise Duty Act. (4 marks)
- (c) Benard, Cosmas and Korrir are partners, operating a chain of retail shops. They share profits or losses in the ratio 2:2:1 respectively. During the year ended 31 December 2017, the partners reported a loss of Sh.2,542,000 after deducting the following:

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

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

Additional information:

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

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

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

Required:

- The adjusted partnership profit or loss for the year ended 31 December 2017. (10 marks)
 - Distribution schedule of the profit or loss calculated in (c)(i) above. (4 marks)
- (Total: 20 marks)**

QUESTION FIVE

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

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

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

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

Additional information:

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

Required:

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

(12 marks)

(Total: 20 marks)



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CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

WEDNESDAY: 23 May 2018.

Time Allowed: 3 hours.

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

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

Year of income 2017.

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

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

Prescribed benefit rates of motor vehicles provided by employer

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

Industrial building allowance:

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

Farm works allowance 100%

Investment deduction allowance 100%

Shipping investment deduction 100%
(Ships over 125 tonnes)

Extraction expenditure:

Written off over 5 years (20%)

Commissioner's prescribed benefit rates

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

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

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

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

(Total: 20 marks)

QUESTION TWO

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

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

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

1. Sales during the month:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Required:

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

(10 marks)

(Total: 20 marks)

QUESTION THREE

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

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

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

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

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

Required:

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

(Total: 20 marks)

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QUESTION FOUR

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

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

Additional information:

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

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

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

Required:

Adjusted taxable income for Fanaka Ltd. for the year ended 31 December 2017.

(8 marks)

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

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

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

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

Additional information:

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

Required:

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

(12 marks)

(Total: 20 marks)

QUESTION FIVE

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

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

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

	Sh.	Sh.
Interest on bank deposit (net)		90,000
Insurance compensation for stolen vehicle		300,000
Profit on disposal of computers		<u>160,000</u>
		5,284,000

Expenditure

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

Additional information:

1. General expenses comprise:

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

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

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

6. Repair and maintenance costs comprise:

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

7. Bad and doubtful debts comprise:

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

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

Required:

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

(Total: 20 marks)



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CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

WEDNESDAY: 29 November 2017.

Time Allowed: 3 hours.

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

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

Year of income 2016.

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

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

Prescribed benefit rates of motor vehicles provided by employer

	Monthly rates (Sh.)	Annual rates (Sh.)
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
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QUESTION ONE

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

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

- (i) Revenue funds for county government. (2 marks)
- (ii) Contingencies fund. (2 marks)
- (b) Summarise five functions of the Commission on Revenue Allocation (CRA). (5 marks)
- (c) In order to achieve its objectives, the public finance management regulatory framework or equivalent frameworks contemplate certain principles to guide all aspects of public finance.

With reference to the above statement, identify five such principles. (5 marks)

- (d) Citing six reasons, justify why an accounting officer of a procuring entity, may, at any time, prior to notification of tender award, terminate or cancel procurement or asset disposal proceedings without entering into a contract. (6 marks)

(Total: 20 marks)

QUESTION TWO

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

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

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

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

Additional information:

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

Required:

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

(10 marks)

(Total: 20 marks)

QUESTION THREE

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

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

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

Required:

- (i) The taxable income of Nelly Zuriya for the year ended 31 December 2016. (12 marks)
 - (ii) The tax liability (if any) on the income computed in (b) (i) above. (2 marks)
 - (iii) According to the income tax regulations relating to persons with disabilities (PWD), explain the term "home and personal care" citing examples of any two items of expenditure that might be construed as "home and personal care expenses". (2 marks)
- (Total: 20 marks)**

QUESTION FOUR

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

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

Additional information:

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

Required:

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

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

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

Additional information:

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

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

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

Required:

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

(10 marks)

(Total: 20 marks)

QUESTION FIVE

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

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

KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

WEDNESDAY: 24 May 2017.

Time Allowed: 3 hours.

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

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

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

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

Prescribed benefit rates of motor vehicles provided by employer

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

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

- QUESTION ONE**
- (a) Distinguish between “division of revenue” and “allocation of revenue” as used in revenue management at national and county government levels. (4 marks)
- (b) Outline five roles played by the county head of internal audit services in relation to public finance management. (5 marks)
- (c) During a recent seminar on “overview of public finance and management”, a senior National Treasury official remarked that, “there has been a very low budget absorption capacity by the county governments”.

In relation to the above statement:

- (i) Explain the meaning of “low budget absorption capacity”. (2 marks)
- (ii) Identify three possible causes of low budget absorption capacity. (3 marks)
- (d) The Commission on Revenue Allocation (CRA) is supposed to ensure equitable sharing of national revenue. Discuss three parameters used by the Commission in sharing revenue among county governments or their equivalent in your country. (6 marks)
- (Total: 20 marks)**

QUESTION TWO

- QUESTION TWO**
- (a) Explain the following terms as used under the Public Procurement and Asset Disposal Act, 2015:
- (i) Electronic reverse auction. (2 marks)
- (ii) Framework agreement. (2 marks)
- (b) According to the Public Procurement and Asset Disposal Act, 2015 the county treasury is required to establish a procurement function.
- In relation to the above provision, outline six responsibilities of the county government procurement function. (6 marks)
- (c) John Mpumalanga is a trader registered for value added tax (VAT). He also offers consultancy services for clients at a fee. He has provided you with the following information relating to his business for the month of March 2017:

	Sh.
Consultancy fee: Local clients	1,587,500
Clients in the Democratic Republic of Congo	389,375
Sale of goods: Exports	400,000
Local market	3,200,000
E-mail and webhosting expenses	92,000
Legal fees incurred	608,000
Import of goods for resale (cost, insurance and freight)	450,000
Consultancy fee: Client with goods on transit	500,000
Photocopying costs	90,000
Audit fee paid	260,000
Purchases: Zero rated	250,000
Standard rate	1,900,000
Sales (Exempt)	620,000

Additional information:

1. On the goods imported for resale, John incurred transport cost of Sh.50,000 and repackaging cost of Sh.20,000 before adding a mark-up of 20% and later selling them as part of exports.
2. The exempt sales had been purchased at standard rate and constituted 25% of the batch.
3. On 13 March 2017, a customer owing Sh.45,000 was declared bankrupt.
4. John received credit notes of Sh.25,000 and sent out debit notes of Sh.50,000 during the month.
5. The rate of customs duty was 25%.

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

Required:

Required:
Compute the value added tax (VAT) payable by (or refundable to) John Mpumalanga for the month of March 2017.
(10 marks)
(Total: 20 marks)

QUESTION THREE

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

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

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

Additional information:

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

	Sh.
Bakahari	220,000
Kamanda	130,000

4. Bad debts written off comprised:

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

5. General expenses comprise:

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

Required

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

QUESTION FOUR

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

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

- (b) Argue four cases against indirect taxes imposed in your country. (4 marks)

- (c) Philip Kitcher is employed as a sales manager by Salama Company Ltd. He has provided the following information relating to his income for the year ended 31 December 2016:

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

Required:

- (i) Taxable income of Philip Kitcher for the year ended 31 December 2016. (10 marks)
- (ii) Tax liability (if any) from the income computed in (c) (i) above. (2 marks)
- (Total: 20 marks)**

QUESTION FIVE

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

In relation to the above statement:

- (i) Identify two objectives of imposing tax penalties. (2 marks)
- (ii) Assess two circumstances under which the imposition of penalties might not achieve the intended objectives. (2 marks)

- (b) Outline four circumstances under which value added tax (VAT) could be refunded. (4 marks)

- (c) Kiwanda Ltd. commenced manufacturing leather bags on 2 January 2015 after incurring the following expenditure:

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

The company purchased the following assets on 1 May 2016:

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

Additional information:

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

Required:

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

(12 marks)

(Total: 20 marks)

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KASNEB

CPA PART I SECTION 2

CS PART I SECTION 2

CIFA PART I SECTION 2

CCP PART I SECTION 2

PUBLIC FINANCE AND TAXATION

WEDNESDAY: 23 November 2016.

Time Allowed: 3 hours.

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

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

Year of income 2015.

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

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

Prescribed benefit rates of motor vehicles provided by employer

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

Industrial building allowance:	
Up to 2009	2.5%
From 1 January 2010	10%
Hotels	10%
Hostels/Education/Film producers 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%
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(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

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) Explain the following terms as used in public finance management:

(i) Vote. (2 marks)

(ii) County government linked corporation. (2 marks)

(b) Discuss three responsibilities of the Senate Budget Committee with regard to public finance. (6 marks)

(c) The purpose of the Intergovernmental Budget and Economic Council is to provide a forum for consultation and cooperation between the national and county governments on various issues.

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

(Total: 20 marks)

QUESTION TWO

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

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

(b) Propose three committees that should be established by a county procuring entity to ensure that procurement and asset disposal decisions are made in a systematic and structured manner. (6 marks)

(c) Mark Malechi is a registered trader for VAT purposes. He has provided you with the following details of his trading activities for the month of May 2016:

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

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

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

3. Debts of the firm are collected by an agent who charges Sh.160,000 per month. For debts aged over 120 days, Mark hires a lawyer to enforce collection. The legal fee for the month of May 2016 was Sh.300,000.

4. Goods worth Sh.280,000 were delivered to a customer in May 2016. The customer had paid for the goods in April 2016.

5. During the last several years, he had written off bad debts as follows:

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

6. During the month an extension to the business premises was constructed for which the contractor charged Sh.3,000,000.

7. He made a donation to Watoto Children's Home that comprised of goods worth Sh.480,000 and cash Sh.100,000.

8. A bad debt written off in year 2011 of Sh.90,000 was recovered during the month of May 2016.

9. He imported a pick-up motor vehicle for use in the business during the month. The cost details of the motor vehicle were as follows:

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

• 40% of logistics costs related to freight for the vehicle and the balance was a clearing agent's fee.

• 25% of insurance cost was for insurance in transit and the rest was for third party insurance cover.

10. Purchases of goods amounted to Sh.1,500,000 during the month.

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

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

Required:

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

(10 marks)

(Total: 20 marks)

QUESTION THREE

(a) Explain the following theories of tax shifting:

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

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

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

Required:

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

QUESTION FOUR

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

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

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

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

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

Additional information:

1. Legal fees comprised the following:

	Sh.
Parking fines	120,000
Collection of debts from customers	150,000
Stamp duty on land	480,000
Settling a dispute with a customer	<u>210,000</u>
	<u>960,000</u>

2. Machines and motor vehicles repairs include Sh.280,000 spent on the purchase of conveyor belts during the year.
3. During the year the company acquired the following assets:

Asset	Cost Sh.	Date of purchase and use
Computers	820,000	2 March 2015
Water pump	480,000	1 January 2015
Furniture	250,000	2 January 2015
Sugar processing machine	6,200,000	3 January 2015
Tractors	8,900,000	2 February 2015
2 saloon cars	4,800,000	10 May 2015
Heating plant	2,300,000	2 January 2015
Pick-up motor vehicles	8,600,000	5 January 2015

4. The tractor disposed of during the year had cost Sh.2,200,000 at the beginning of the year.
5. The company constructed a factory building at a cost of Sh.8,600,000 which was utilised with effect from 5 January 2015. The factory building included the showroom and a retail shop constructed at the cost of Sh.1,200,000 and Sh.960,000 respectively.
6. A godown and staff quarters were constructed at a cost of Sh.2,860,000 and Sh.1,620,000 respectively and put into use from 1 October 2015.

Required:

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

QUESTION FIVE

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

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

(4 marks)

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

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

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

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

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

Additional information:

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

Required:

- The taxable income for Loise Lubandi for the year ended 31 December 2015. (10 marks)
 - Tax payable (if any) by Loise Lubandi. (2 marks)
- (Total: 20 marks)**

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