
**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS**

F2.4: TAXATION

MONDAY: 2 DECEMBER 2019

INSTRUCTIONS:

1. **Time Allowed: 3 hours 15 minutes** (15 minutes reading and 3 hours writing).
2. This examination has seven questions and only five questions are to be attempted.
3. Marks allocated to each question are shown at the end of the question.
4. Show all your workings

QUESTION ONE

Kigali Mountain Company (KMC Ltd) is a public company Incorporated in Rwanda. KMC Ltd has been in existence for several years ago. The main head office of KMC Ltd is located in Kigali with some local and foreign branches.

KMC Ltd produce different products known as made in Rwanda and the main market of KMC is Rwanda and USA.

It is the policy of KMC Ltd to transfer some finished products to local and foreign branches at transfer price. The financial year of KMC Ltd ends 31st December.

Below is the information prepared by Accountant for the year ended 31/12/2018

Details	Amount Rwf (000)	Amount Rwf (000)
Sales		285,000
Cost of Sales		(82,000)
Gross profit		203,000
Other Incomes		
Interest		10,000
Dividend		12,000
Profit from Foreign branch		44,000
Total Income		269,000
Expenses		
Electricity	14,000	
Bad debt	60,000	
Salaries and wages	80,000	
Depreciation	39,000	
Donation	10,000	
General Expenses	32,000	
Communication	4,000	
Rent	24,000	
Income tax paid on foreign branch	4,000	
Total Expense		267,000
Profit from operation		2,000

Additional Information

1. Included in Sales are revenues generated from exporting local products to USA. The Sales made to USA were \$ **40,000**. The export to USA was made on **12/04/2018** and cash was received on the same date. The exchange rate as at 12/04/2018 was **1\$=Rwf 850** and exchange rate as at **31/12/2018** was **1\$= Rwf 880**. The local Sales made by KMC are inclusive of VAT.
2. KMC Ltd is an agent of KUG, a company based in Kenya. KUG produces leather products. KMC receives 10% on Sales made on behalf of KUG and remit the balance. Included in Sales of KMC is **Rwf 10,000,000** of Sales made on behalf of KUG.
3. 10% of dividend was received from local companies where KMC made an investment and 90% were received from foreign companies at net of 16% withholding tax.

4. Foreign branches are taxed at 20% and figure included in books of accounts of KMC was after tax.
5. Included in bad debt for the period is 30% relating to provisions of bad debt for the year and the remaining 70% of bad debts were declared insolvent.
6. Salary and wages include **Rwf 40,000,000** which was paid on 30/06/2018 and it covers the salaries and wages of managers from **1/07/2018 to 30/06/2019**.
7. Rent includes **Rwf 12,000,000** paid by KMC Ltd to cover the rent of two directors. The remaining amount related to the business.
8. General expenses are composed of

Details	Amount in Rwf (000)
Fines and penalties	8,000
VAT	9,000
Transport Costs	15,000
Total	32,000

9. The interest was received from government securities having maturity period of 5 years.
10. Included in the cost of Sales is opening stock equivalent to **Rwf 20,000,000**. The opening stock was overstated by **20%**.
11. KMC has the following assets:

	Building Rwf	Plant& machinery Rwf	Computer and Accessories Rwf
Cost	40,000,000	90,000,000	45,000,000
Accumulated depreciation as at 31/12/2017	12,000,000	21,000,000	15,000,000
WDV as at 1/01/2018	28,000,000	69,000,000	30,000,000
Additional			8,000,000
Change for the year	12,000,000	9,000,000	18,000,000
Bal c/d	16,000	60,000,000	20,000,000

REQUIRED:

- a) Advise KMC on whether it should prepare corporate income tax. **(2 marks)**
 - b) Advise KMC how and when tax declaration of corporate income tax shall be submitted. **(1 marks)**
 - c) Compute taxable income and tax payable by KMC for the year ended 31/12/2018. **(17 marks)**
- (Total 20 marks)**

QUESTION TWO

MANISHIMWE is a qualified accountant since 2016. On 01/01/2018 Virunga &ecosystem Ltd. appointed him as Chief finance officer. Virunga & Ecosystem Ltd pays MANISHIMWE **Rwf 2,500,000** as Basic salary per month. Below are other clauses included in the contract signed between MANISHIMWE and Virunga& Ecosystem Ltd.

- i. Virunga& Ecosystem Ltd is located in volcanic region, Manishimwe is allowed **Rwf 200,000** per month as occupational hazard, other employees are not entitled to this allowance.
- ii. MANISHIMWE gets living allowances equivalent to a quarter of his Basic salary. The management of Virunga& Ecosystem Ltd decided that living allowance that was entitled to MANISHIMWE is banned as it was contrary to the financial manual of the company. The decision was taken and put into practice from 1/11/2018.
- iii. MANISHIMWE has two children (a girl and a boy). The company pays the school fees on behalf of MANISHIMWE. One student (child) pays **Rwf 200,000** per term. The other pays **Rwf 100,000** per month. The company transfers the school fees directly to school account. The academic calendar has 3 terms per year.
- iv. During the year ended 31/12/2018. The company provided a loan to MANISHIMWE equivalent to **Rwf 4,000,000**. The amount was received by MANISHIMWE on 1/06/2018 and will be paid within one (1) year at an annual interest rate of **5%**. The interbank rate is **18%** per annum.
- v. He was given a car which he uses for both private and business activities.
- vi. The company policy is to provide houses to some of the key staff, Manishimwe is among the key staff that were given houses.
- vii. MANISHIMWE is entitled to a monthly communication allowance of **Rwf 100,000**
- viii. The company contributes **Rwf 350,000** as a statutory pension of MANISHIMWE and MANISHIMWE contributes **Rwf 200,000** per month in private recognized pension fund.
- ix. Virunga & Ecosystem Ltd paid **Rwf 400,000** to MANISHIMWE as reimbursement of expenses incurred by MANISHIMWE when he was in business activities in Western region.
- x. MUKAMWIZA is a wife of MANISHIMWE, during the year 2018, she organized a birthday party and Virunga & Ecosystem Ltd contributed **Rwf 200,000**. The amount was paid to Hotel account.
- xi. During December 2018, the company provided an air ticket amounting to **Rwf 300,000** to MANISHIMWE for Christmas holiday.
- xii. MANISHIMWE paid **Rwf 250,000** per month as PAYE to RRA.

REQUIRED:

- a) Compute taxable income and tax payable of MANISHIMWE for the year 2018. **(12 marks)**
- b) Explain any four (4) employment incomes exempted from employment income tax. **(4 marks)**
- c) Explain the term resident tax payer in Rwanda. **(4 marks).**

(Total 20 marks)

QUESTION THREE

- a) Miss MUGABEKAZI Emma is a micro business woman operating a mini alimentation in Kimironko. She was registered for personal income tax under flat regime.

The following relates to her revenue and expenditures for the year ended 31st December 2018

Sale of milk	7,250,000
Sale of juices	1,165,000
Sale of Fanta	2,684,000
Sale of other consumables items	858,000
Purchase of milk	4,000,000
Purchase of juices	2,000,000
Purchase of other items	3,500,000
Loss on damaged items	280,000

Note: All the figures in table above are in Rwf.

REQUIRED:

- i. Calculate Miss MUGABEKAZI Emma taxable income and her tax liability for the year ended 31st December 2018. **(5marks)**
 - ii. Provide the deadline that Miss MUGABEKAZI Emma is required to file the tax returns and pay the tax liabilities **(1 mark)**
 - b) Miss MUGABEKAZI Emma failed to declare and pay tax liabilities on time as it is required by the tax laws. She declared two months later after deadline. Compute the tax penalties, tax interests and total taxes applicable to her **(4 marks)**
 - c) i) Explain the meaning and importance of Taxpayer Identification Number (TIN) **(4 marks)**
ii) List and explain the different types of TINs **(2 marks)**
iii) Explain characteristics of a compliant taxpayer. **(4 marks)**
- (Total 20 marks)**

QUESTION FOUR

MSD is registered with Rwanda tax administration as religious entity since 2005. The new income tax law No 016/2018 of 13/04/2018 exempts from corporate income tax entities that carry out only activities of religious, humanitarian, charitable, scientific or educational character, unless the revenue received exceeds the corresponding expenses or if those entities conduct businesses. You were contracted by MSD as a consultant in tax related matters. And their financial status is as follows:

“Rwf”

Total incomes	5,000,000,000
Total expenses	<u>4,350,000,000</u>
Excess	650,000,000

REQUIRED

- a) Advise the management of MSD on their tax obligation & entitlements. (4marks)
- b) Define the following terms as they are used in taxation:
- i. Sin tax (2 marks)
 - ii. Tax gaps (4marks)
- c) Differentiate between Self-assessment systems and Tax administration assessment systems of taxation. (4marks)
- d) State the reasons why RRA may issue an assessment procedure without notice (6 marks)
- (Total 20 marks)

QUESTION FIVE

- a) State the types of taxpayers required to submit Audited financial statements (1 marks)
- b) What are the penalties for not submitting Audited financial statements? (1 marks)
- c) Philadelphia Ltd is a newly listed company on Rwanda stock exchange. It operates with various branches in Rwanda and within East African community. It sold 20% of shares to the public. The company submitted the following to the tax administration relating to the financial year 2018.

Particular	Rwf"000"	Rwf"000"
Sales		3,560,000
Cost of sales		2,200,000
Gross profit		1,360,000
Expenses		
Salaries and wages	86,000	
Advertising cost	50,500	
Director sitting allowances	9,000	
Rent	59,000	
Repair and maintenance	110,000	
Depreciation	314,400	
Electricity and water	16,700	
Communication	850	
Dividend paid	78,000	
VAT	54,000	
Bad debt	54,000	
Loss carried forward	600,000	
Total expenses		(1,436,450)
Net Loss		<u>(72,450)</u>

Additional information

- The rent was paid to cover the period ending 31/12/2019.
- Bad debts written off in books of accounts were declared bankrupt by court decision of 30/10/2018. However, Rwf 18,000,000 were not previously included in Philadelphia Ltd incomes.

3. Communication expenses related to amount loaded in CEO's mobile phone. He uses it in office for both private and business purposes.
4. Repair and maintenances included amount of Rwf 80,000,000 used to elect building in free trade zone
5. Salary arrears of Rwf 38,000,000 were omitted in the books of accounts.
6. The cost of sales included Rwf 178,000,000 of technical fees paid to outsourced services from Kenya.
7. The loss carried forward included amount of Rwf 270,000,000 originating from 2010.
8. The depreciation related to the following assets:

Assets	Land	Buildings	Motor vehicles	Furnitures	Computers
Cost (Rwf)	60,000,000	300,000,000	60,000,000	12,000,000	18,500,000
Acc depreciation (Rwf)	-	(90,000,000)	(15,000,000)	(3,000,000)	(18,100,000)
NBV (Rwf)		210,000,000	45,000,000	9,000,000	400,000

REQUIRED

Compute the taxable income and tax payable to the tax administration.

(18 marks)

(Total 20 marks)

QUESTION SIX

KANYARU is a businessman registered in Rwanda as KANYARU Ltd.

His main business is to distribute food and beverage products. During the quarter ended 31/03/2019, the following transactions were carried out by KANYARU Ltd.

Date	Details	Amount Rwf
01/02/2019	Export made by KANYARU Ltd	20,000,000
10/02/2019	Purchase of furniture (inclusive of VAT)	22,500,000
11/02/2019	Sales to BIRUNGA Hotel (inclusive of VAT)	14,000,000
20/03/2019	Purchase of raw materials (Exclusive of VAT)	16,000,000
22/02/2019	Consultancy service received from "KENYA" the same service can be provided locally by Rwandans.	8,000,000
24/02/2019	Sales made to MUGARAMA Hotel Exclusive of VAT	9,000,000
21/02/2019	Purchase of raw materials exclusive of VAT	18,000,000
28/02/2019	Purchase of two computers	4,200,000/(each)
28/02/2019	Sales made to Bombori restaurant (Exclusive of VAT)	5,000,000
05/03/2019	Sales made to Southern province in connection with Burial ceremony	2,000,000
04/03/2019	Purchase of telephone for Sales agent	7,000,000
08/30/2019	Payment of electricity inclusive of VAT	6,000,000
09/03/2019	Payment of fuel cost exclusive of VAT, the figure was overstated by Rwf 4 million.	8,500,000

REQUIRED:

- a) Compute VAT payable or refundable by/to KANYARU Ltd. (12 marks)
- b) KANYARU Ltd is willing to extend a contract for consultancy services from KENYA, the same service can be obtained in Rwanda but KANYARU Ltd prefers KENYAN services to those offered by Rwandans.

REQUIRED:

In accordance with law N° 37/2012 of 09/11/2012 establishing value added tax, advise KANYARU Ltd whether they should outsource the service from Kenya or from Rwanda and explain why?

(3 marks)

- c) Advise KANYARU Ltd concerning declaration of Value added tax. (2 marks)
- d) Explain two advantages of using EBM by KANYARU Ltd (3 marks)

(Total 20 marks)

QUESTION SEVEN

a) In April 2018, the government of Rwanda gazetted new income tax law which includes personal income tax, corporate income tax, withholding tax, and capital gain tax.

In October 2018, the government of Rwanda also gazetted new law determining the sources of revenue and Decentralized property tax.

REQUIRED:

- a) Explain how new laws and tax systems of Rwanda will affect the economy of the country and how they can contribute to the government budget. (7.5 marks)
- b) Explain the responsibilities of Rwanda revenue authority in respect to the above laws and in fulfilling its mandate. (10 marks)
- c) Explain any two principles of taxation. (2.5 marks)

(Total 20 marks)