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**CERTIFIED PUBLIC ACCOUNTANT  
FOUNDATION LEVEL 2 EXAMINATIONS**

**F2.4: TAXATION**

**MONDAY: 30 NOVEMBER 2020**

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**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 **should be** attempted.
3. Marks allocated to each question are shown at the end of the question.

## QUESTION ONE

- a) In the context of income tax incentives and Business promotion, various incentives are offered to companies to be able to promote and facilitate business in Rwanda. The following are some of the companies which benefit from such on condition that they fulfill the tax and investment law requirements:
- i. Newly listed companies on Rwanda capital market
  - ii. A registered investment entity that operates in a Free Trade Zone

### **Required:**

**For each of the above, describe any three incentives that the above companies would benefit and entitled to if they have fulfilled the requirements. (6 Marks)**

- b) With reference to and in accordance with the Rwanda investment and income tax law, briefly explain the following terms:

- a) **Business process outsourcing;** (2 Marks)
- b) **Regional office;** (2 Marks)
- c) **Mutual fund;** (2 Marks)
- d) **Value addition;** (2 Marks)
- e) **Foreign Investor.** (2 Marks)

- c) **With aid of examples Differentiate between tax and administrative fees which are charged by the government of Rwanda. (4 Marks)**

**(Total:20 Marks)**

## QUESTION TWO

- a) Mr. Mukama has recently obtained a job with Société Petroliere Ltd (SP) as finance manager. While he was joining the company, He received a notice of assessment for the year 2007/08 in which the profit on disposal of a property amounting to Rwf 900, 000 was assessed under profits tax. The property was purchased by the company on 1 February 2007 and sold on 1 August 2007.

### **Required:**

**As a tax practitioner, advise Mr. Mukama and the company the conditions to be fulfilled for him to appeal against the tax assessment notice under Rwandan tax procedures. (6 Marks)**

- b) **Discuss any four circumstances under which Rwanda Revenue Authority may be necessary to carry out a new tax audit.** (8 Marks)
- c) **Examine and give reasons whether the following would qualify for deductions against income.**
- i. **A trading company's loan to an employee, which the employee following termination of his employment refuses to pay.** (2 Marks)
  - ii. **A tax loss carried forward for more than 5 years.** (2 Marks)
  - iii. **A bad debt expense arising from client's failure to pay uncertified construction works.** (2 Marks)
- (Total:20 Marks)**

### **QUESTION THREE**

a) Mr. Muyumbu Aloys operates an electronics shop in Nyamata town. He undertook the following transactions for the month of March 2019.

1 march 2019 purchased 10 cameras for a total of Rwf 500, 000  
4 march 2019 purchased flashbulbs for a total of Rwf 200, 000  
4 march 2019 purchased 5 slide projections for a total of Rwf 1, 000,000  
5 march 2019 sold 5 cameras each at 25% above cost price  
6 march 2019 purchased 200 wrist watches at Rwf 1, 500 each  
8 march 2019 sold 2 slide projectors for a total of Rwf 500, 000  
9 march 2019 sold flashbulbs that cost Rwf100, 000 for Rwf 150, 000  
12 march 2019 purchased 50 stop watches for a total of Rwf 50, 000  
15 March 2019 purchased 100 alarm clocks at a total value of Rwf 80, 000  
18 March 2019 sold the remaining 5 cameras each at 25% above cost price  
20 March 2019 sold 3 slide projectors for a total of Rwf 750, 000  
22 March 2019 sold 100 wrist watches at Rwf 2, 000 per watch.  
25 March 2019 sold 70 alarm clocks each at 30% above cost  
27 March 2019 sold 50 stop watches for a total of Rwf75, 000  
All prices are VAT inclusive.

**Required:**

- i. **Prepare VAT Account clearly showing the VAT payable (refundable).** (10 Marks)
- ii. **Explain briefly the offences and related penalties under VAT.** (4 Marks)

- b) A person who is registered for VAT must maintain certain records to satisfy the VAT regulations. Give six examples of such records that must be kept. (6 Marks)  
(Total:20 Marks)

#### QUESTION FOUR

BM Ltd who is registered in Kimironko market deals mainly in a general household consumable. During the year 2019, the company made various sales and purchases as shown by the following profit and loss statement for the year ended 31 December 2019:

Description	Amount" Rwf"	Amount "Rwf"
Sales	10,000,000	
Discounts	355,000	
Provision for bad and doubtful debts	35,500	
Profit on sale of assets	65,500	
Insurance recovery	170,000	
<b>Total Sales</b>		<b>10,626,000</b>
<b>Expenses</b>		
Purchases	4,820,000	
Staff wages	1,850,000	
Rent and rates	92,500	
Distribution and office expenses	701,500	
Traveling	85,600	
Repairs and maintenance	1,056,000	
Discount	122,100	
Subscription	24,000	
Bank charges & interest	35,500	
Loss on sale of assets	95,000	
Legal fees	80,000	
Audit fees	126,000	
Depreciation	917,300	
<b>Total Expenses</b>		<b>-10,005,500</b>
<b>Profit</b>		<b>620,500</b>

#### Notes:

- 10% of rent and rates relate to directors.
- Distribution and office expenses includes the following expenses:

Directors personal expenses	301,450
Contribution to a staff sports club	180,000
Donations to Agahozo shalom- a Charitable organization	100,050
Loss on staff canteen	120,000

3. Repairs and maintenance relates to extension to an office block
4. Subscriptions are to trade association.
5. Travelling expenses include business trip to Dubai to attend a trade exhibition.
6. Legal charges include the following:

Acquisition of copyrights	25,000
Debt collection	21,000
Renewal of lease for 99 years	18,000
Fines and defense of legal suits	11,000
Employment contract	5,000

7. Insurance recovery is in connection with stolen stock in the previous year.
8. Bad debts provision relates to general provision of all debts which exceeded 180 days as per the company receivables provision policy.

**Required:**

- (a) **Compute taxable profit of BM Ltd for the year ended 31 December.** (15 marks)
- (b) In attempt to diversify market and sales, the General Manager of BM Ltd on every Saturday, takes part of the goods to the newly constructed Shyorongi market to attract more clients outside Kigali. In Nyarugenge district, the threshold of market fees is fixed at 10,000 Rwf per month and per stall in Muhima, Nyarugenge and Gitega Sectors. The council of Rulindo district has decided to fix at 3,000 Rwf market fees per stall in all constructed markets across the district.

**Required:**

- a) **Calculate total monthly market fees payable by BM Ltd.** (2 Marks)
- b) **State any three areas where rental income taxes are chargeable.** (3 Marks)

**(Total:20 Marks)**

**QUESTION FIVE**

- a) Upon the receipt of a tax audit notice from tax administration, tax audit is carried out once in respect of a certain tax or in certain tax period. However, a new audit may be carried out in case tax administration consider it necessary.

**Required:**

- a) **Outline at least five elements of an audit notice from the Tax Administration in case of Tax audit.** (5 Marks)
- b) **Outline five reasons as to why a tax payer may be subject to fines and penalties** (5 Marks)
- b) Darius, Duncan and David are in partnership trading as DDD Enterprises and sharing profits and losses in the ratio of 2:2:1 respectively. In the year 2019, they reported a loss of Rwf 200,000 after charging the following items.

<b>Description</b>	<b>Amount in Rwf</b>
Accounting Depreciation	100,000
<b>Salaries paid (Gross)</b>	
Dan	400,000
Duncan	300,000
Davis	200,000
<b>Interest on capital</b>	
Dan	100,000
Davis	100,000
<b>Commission paid</b>	
Commission to Duncan	200,000
Stationery	50,000
Office expenses	100,000

**Required:**

**Prepare the adjusted partnership profit/(loss) and show profit/loss allocation among the partners.** (10 Marks)

**(Total:20 Marks)**

**QUESTION SIX**

a) In the context of Rwandan income tax, clearly explain the following terms and give examples where necessary.

**a. Controlled transaction;** (1 mark)

**b. Micro Enterprise.** (1 mark)

b) Teta Clinics Ltd which is owned by Teta and known as a pharmaceutical hub in Kigali has given the following financial details of the clinic for the year ended 31 December 2019.

<b>Description</b>	<b>Amount Rwf</b>
Gross professional fees received	3,000,000
Directors' fees received (deducted at source)	360,000
Interest income from AB bank ltd-gross	72,000
Dividend income (net)	102,000
Subscription to professional association and publication	60,000
Donations to destitute children's home	30,000
Subscription to wildlife magazine	6,000
Debt collection (patients) expenses	18,000
Wages for clinic assistant	360,000
Replacement of clinic instruments	120,000
Rent for the clinic premises	420,000
Electricity and water - clinic	120,000
General expenses- clinic	210,000

Car hire expenses- for use in practice	150,000
Uniform for staff	115,000
Payment of school fees for own children	120,000
Contribution pension fund for herself	180,000
Payment of life insurance premium for herself	60,000
Terminal benefits paid to the retired receptionist	150,000
Depreciation on furniture- clinic	36,000
Rents received from sub rentals	42,000
Rent collection expenses	6,000
Wages paid to cleaners on watchman-clinic	150,000
Tarmacking of drive way - personal residence	240,000
Additional servant quarters-personal residence	420,000
<b>Total</b>	<b><u>6,547,000</u></b>

**Required:**

**Compute Teta Clinics Ltd taxable income for the year ended 31 December 2019.** (10 Marks)

C) Briefly explain the tax treatment of the following items under income tax in Rwanda:

<b>Training and research expenses;</b>	<b>(2 Marks)</b>
<b>Profit on assets in foreign currency;</b>	<b>(2 Marks)</b>
<b>Sitting Allowance;</b>	<b>(2 Marks)</b>
<b>Income from the rent of movable and immovable assets.</b>	<b>(2 Marks)</b>

## QUESTION SEVEN

a) Briefly explain the tax treatment of the following items under income tax in Rwanda:

- i. **Use of or Availability to use a company premises by employee;** (2 Marks)
- ii. **Use of or availability to use a company car by employee.** (2 Marks)

b) Mr. Kabera Robert is employed as an accounting manager of Jali Partners Ltd, a manufacturing company incorporated and carrying out business in Rwanda. The following information relates to the salary and allowances of Kabera during the year 2018:

1. He earns a monthly Salary of Rwf1, 500,000 and after the year end, he emerged an employee of the year and got a bonus of Rwf300, 000
2. Mr. Kabera lived in Kabuga estates and the rentals were to be paid by Jali Partners ltd upon producing a tenancy agreement. From January 2018 he paid the house for his residence a monthly rent of Rwf220, 000. His employer refunded Rwf180, 000 to him upon production of tenancy agreement and rental receipts per month.
3. Mr. Kabera obtained a loan of Rwf4,500, 000 from his employer at 3% interest per year to purchase a car for his own use. During the year, he paid interest of Rwf135, 000 to his employer. If he had obtained the loan from a similar bank in Rwanda, he would have been required to pay at an interest of 5% per year.

4. Mr. Kabera paid the following expenses during the year:
- |   |           |
|---|-----------|
| a) Legal charges paid to a lawyer to settle a court case        | 100,000   |
| b) School fees for a master's degree program at ULK             | 1,400,000 |
| c) Fines paid to National Police for violation of traffic rules | 125,000   |

**Required:**

**Compute tax payable by Mr. Kabera for the year 2018** (6 Marks)

c) **Explain at least five circumstances Which may trigger a tax investigation** (10 Marks)

**END OF THE PAPER**