
CERTIFIED ACCOUNTING TECHNICIAN
STAGE 3 EXAMINATIONS
S3.3 TAXATION
DATE: FRIDAY 31, MAY 2024

INSTRUCTIONS:

1. Time Allowed: **3 hours**
2. This examination has **three** sections: **A, B and C**.
3. Section A has **10 multiple choice questions** equal to **2** marks each.
4. Section B has **2 questions** equal to 10 marks each.
5. Section C has **3 questions** equal to 20 marks each.
6. All questions are compulsory

SECTION A

QUESTION ONE

Maxime Nelson, a legal expert resident in Rwanda, has been awarded a contract for law drafting services for the Rwandan central government with a value of FRW 10,000,000 plus VAT at 18%. He is registered with the tax administration and is up to date in all her tax declarations and record-keeping.

What amounts of taxes will the Rwandan central government deduct from this fee?

- A FRW 2,100,000
- B FRW 1,800,000
- C FRW 300,000
- D FRW 1,500,000

(2 Marks)

QUESTION TWO

MRTS Ltd is a mining company dealing in precious metals. The company has been expanding rapidly and was listed on the Rwandan Stock Exchange two years ago issuing 25% of its shares to the public. In the year ended 31 December 2020 it sold FRW 200,000,000 with total expenses of FRW 160,000,000.

What is the corporate income tax payable for M Ltd for the year ended 31 December 2020?

- A FRW 11,200,000
- B FRW 12,000,000
- C FRW 0
- D FRW 10,000,000

(2Marks)

QUESTION THREE

Determine whether the following statements are true or false in relation to losses to be deducted from the business profit in the next five (5) tax periods.

1. During a tax period, foreign sourced losses can be deducted from either present or future domestic sourced business profits.
2. If during a tax period, the direct ownership of the share capital of a company, whose shares are not traded on a recognized stock exchange changes more than fifteen per cent (15%) by value, the losses incurred by that company in the tax period and previous tax periods may be deducted from the business profit in the next five (5) tax periods.

- A Both statements are true.
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- B Both statements are false.
- C Statement 1 is true and statement 2 is false.
- D Statement 2 is true and statement 1 is false.

(2Marks)

QUESTION FOUR

Volcano Ltd, is a company operating in the tourism industry, in Rwanda. For the tax period ended 31 December 2021, the company had an annual turnover of FRW 17,500,000. During the year, the company incurred purchases amounting to FRW 5,200,000.

Based on the company's turnover, **the corporate income tax due for Volcano Ltd for the year ended 31 December 2021 was:**

- A FRW 3,690,000
- B FRW 525,000
- C FRW 615,000
- D FRW 1,845,000

(2Marks)

QUESTION FIVE

Juju is working as Plant Engineer at XYZ Processing Industries. He is entitled with monthly basic salary of FRW 400,000. Due to his expertise, Managing Director of XYZ Processing Industries allowed Juju to use company's car solely for business purposes. **What is his monthly tax liability?**

- A FRW 140,000
- B FRW 480,000
- C FRW 72,000
- D FRW 128,000

(2 Marks)

QUESTION SIX

Which of the following are considered as deductible expenses in the determination of the taxable income, as per the Rwandan income tax Law?

- (i) They are incurred for the direct purpose or normal course of business
- (ii) They correspond to a real expense and can be substantiated with proper documents
- (iii) They lead to a decrease in the net asset of the business
- (iv) They are used for activities related to the tax period in which they are incurred.

- A (i) and (ii)
- B (ii) only
- C (ii) and (iii)
- D All the above

(2 Marks)

QUESTION SEVEN

Mr. Ntwali invested in treasury bonds of the government of Rwanda. During the year ended 31 December 2021, the investment was made in 6 years treasury bonds under which Mr. Ntwali has 7% bonds worth of FRW 168,000,000. Government pays interest not later than 15th January yearly for the maturity period of the bond.

What will be the tax liability due for the period ended 31 December 2021:

- A FRW 98,000
- B FRW 294,000
- C FRW 0
- D None

(2 Marks)

QUESTION EIGHT

During the year 2022, John a businessman operating in Kigali city has bought and rented his machinery (caterpillar) and received the total income worth FRW 70,000,000. The asset was bought at FRW 100,000,000 which was financed by the commercial bank at annual interest of 10%.

Which of the following will be the tax payable for the period of 2022?

- A FRW 15,150,000
- B FRW 14,140,000
- C FRW 14,958,000
- D FRW 8,208,000

(2Marks)

QUESTION NINE

Baho Ltd a Rwanda resident company has bought 30,000 shares from NPC Ltd a company registered in Rwanda by the registrar general whose shares are traded on capital market. During the year ended 31/12/2022, NPC Ltd declared the dividend of FRW 200 per each share held by Baho Ltd.

Which of the following will be considered as withholding taxes to be paid?

- A FRW 300,000
- B FRW 900,000
- C No tax applicable
- D FRW 600,000

(2 Marks)

QUESTION 10

DFR Limited is a private company and resident taxpayer in Rwanda located in Kigali city. DFR Ltd is a consulting company offering different services including tax accounting and advisory services. During the year ended 31/12/2022 the company has provided you the following data extracted from its books of accounts.

Descriptions/Periods	2016 (FRW million)	2017 (FRW million)	2018 (FRW million)	2019 (FRW million)	2020 (FRW million)	2021 (FRW million)	2022 (FRW million)
Profit or loss	(100)	(200)	50	(130)	(250)	(200)	(300)

What is the loss to carry forward in the period of 2023?

- A** FRW (880) million
- B** FRW (1080) million
- C** FRW (1130) million
- D** FRW (300) million

(2 Marks)

SECTION B

QUESTION 11

On 1st January 2021, Mutebi is employed by Equity Bank Rwanda under the following contractual terms:

- i. Monthly salary of FRW 900,000
- ii. House which is rented by the company. Such house is well equipped with TV and other house equipment's worth of FRW 4,000,000. Each month, the company receives the invoice of 400,000 from Zaha, Mutebi's landlord
- iii. She receives communication allowances of FRW 300,000 per month
- iv. She was sent to official mission in Australia. The company reimbursed her FRW 900,000 spent in official mission
- v. The company contributes pension of 5% of the gross salary and 120,000 per month in statutory pension fund and qualified pension fund respectively.
- vi. She has domestic staff paid by the company at FRW 60,000 per month
- vii. Equity Bank pays FRW 150,000 per month as education fees to her children.
- viii. She receives medical insurance contribution of FRW 70,000 per month. The general Policy of all employees is FRW 60,000 per month paid in state medical insurance scheme
- ix. She has been given a company car for which he drives for both personal and private affairs.

In addition to employment income, she has other sources of income:

- i. Consultancy service of FRW 600,000 VAT inclusive from Rwanda National Police, a purely public institution. There was no Withholding tax as he owns a Valid QUITUS FISCAL.
- ii. She carries out agriculture and livestock farming. In December 2021, she received gross income of FRW 24,000,000

Required:

Compute taxable income and the tax payable for the year ended 31/12/2021 resulted from Mutebi's emoluments (10 Marks)
(Total: 10 Marks)

QUESTION 12

Mr. Kamana is businessman in Huye as Sole Proprietor, the following have been given to you to assist him to prepare the tax return for the year ended 31st December 2021

Account Code	Account name	Amount in FRW "000"	
		Dr	Cr
"0001	Depreciation and amortization	400,000	
"0002	Salaries and wages	480,000	
"0003	Administration expenses	576,000	
"0004	Selling and Distribution	691,200	
"0005	Finance cost	123,000	
"0006	Computers	147,600	
"0007	Communication	45,000	

"0008	Marketing expenses	300,000	
"0009	Other costs	300,000	
"0010	Donation	230,000	
"0011	Sales		3,478,248
"0012	Bad debt	450,000	
"0013	Salesmen commission	540,000	
"0014	Loan from Equity Bank		648,000
"0015	Motor Vehicle	1,554,168	
"0016	Cash Balances		777,600
"0017	VAT Payable		933,120
Total		5,836,968	5,836,968

Additional Information:

1. The amount corresponding to bad debt was related to the client who was not able to settle his debts for the past 2 years.
2. Sales figure was reported VAT inclusive
3. Depreciation and amortization related to Motor Vehicles acquired. However, RRA allows only FRW 200,000,000 as tax depreciation
4. The other costs relate to the legal expenses worth of FRW 100,000,000. The remaining was cash paid to his wife to celebrate her birthday
5. Omitted electricity used solely for business worth of FRW 4,000,000. The amount was recognized VAT inclusive.
6. Communication was used for both business and private purpose.
7. Donation was given to a recognized charitable organization.

Required:

Compute Mr Kamana's taxable income and the income tax payable for the year ended 31/12/2021.

(10 Marks)

(Total: 10 Marks)

SECTION C

QUESTION 13

- a) Explain the term arm' length principle as used in the transfer pricing matters. (2 Marks)
- b) GTC Rwanda Ltd a company resident in Rwanda is a subsidiary of a GTC Group a company resident in United Kingdom. During the period of 2022, the GTC Rwanda Ltd had paid the total management fees of FRW 60 million which is 16% of its turnover, the assessment of RRA revealed that the management fees within the sector should not exceed 10%.

Required:

Compute the transfer pricing adjustment if any. (4 Marks)

- c) Explain the term Thin Capitalization as used in Rwanda taxation system (2 Marks)
- d) You have been provided with the following information extracted from MB Rwanda Ltd accounts as of 31 December 2021, MB is a Rwanda company and a 100% a subsidiary of MB Group a Belgium Company.

Description	FRW "000"
Shareholders' equity (50,000 at FRW 150 each)	7,500
Related party loan at 14% Annual interest	40,000
Reserve allowances	9,325
Total	56,825

During the year, MB Rwanda ltd paid the interest of FRW 5,600,000 to MB group.

Required:

Compute the allowable and non-allowable expenses for the period and show all your workings. (7 Marks)

- e) Kayitesi is an international trader who import different shoes from China and sell them to the local market,

The following is information relates to her business during the period of 2022.

- a) On 1/01/2022 He purchased the goods from Chine on credit worth USD 189, 523
- b) On 08/01/2022 He sold some goods worth USD 102,000 on credit
- c) On 15/02/2022, She paid the total amount of goods purchased on credit
- d) On 20/02/2022, she received the total payment related to the goods sold on credit.

The exchange rate are as follows FRW per USD

01/01/2022: 1010
08/01/2022: 1015
15/02/2022: 1085
20/02/2022: 1105

Required:

Prepare the Journal entries and indicate the exchange difference that should be taxable or deductible (5 Marks)

(Total: 20 Marks)

QUESTION 14

- a) Marc and Jane have entered into a partnership and established in Rwanda in accordance with Rwanda laws, whereby they were engaged in supplying medical products to different pharmacies in Rwanda, and the partnership is owned equally by the two partners. A partnership has made a profit before tax of FRW 5,000,000 in the year 2022 and it decided to pay dividends to the two partners. The partners were not registered with the tax administration and were entitled each to 50% of the remaining profit after tax.

Required:

Calculate the tax to be paid by the partnership and the withholding tax applicable to each of the partners for the period ended 31 December 2022. (4 Marks)

- b) Julius is a sole trader in Musanze district who deals with electronic devices, during the period of 2022, he has reported a taxable profit of FRW 55, 000,000 from his business. He also received the interest of FRW 8,000,000 from his deposit in a local bank. The amount was net of Withholding tax.

Required:

- i. **Compute the total tax payable for the period ended 31 December 2022.** (5 Marks)
ii. **What is the deadline for filing and payment of the tax computed in (i) above** (1 Mark)
iii. **Compute the Income Quarterly prepayment for the period of 2023, clearly indicating the deadline for each quarter.** (2 Marks)

- c) J&D Ltd has started his business in 2022 and obtained the investment certificate as a registered investor under RDB in the same year, the following assets were bought in a period of 2023:

Date of Acquisition	Asset description	Cost (FRW " 000")
1/1/2023	Land	85,000
1/1/2023	Building	960,000
1/1/2023	3 Motor vehicles @ FRW 40 million each	120,000
1/1/2023	Furniture and fittings	47,000
1/1/2023	computer & accessories	45,000

Required:

Compute the total capital allowance for the period of 2023. (8 Marks)

(Total: 20 Marks)

QUESTION 15

MCE Rwanda Ltd a company resident in Rwanda is a subsidiary of MCE Kenya which deals with production of beverage products including soda and lemonade. The company is a registered investor and its shares are listed on Rwanda Stock Exchange Market. During the year ended 31st December 2022.

The company submitted the following statement of profits and loss for the income tax assessment:

Particulars	Notes	FRW “000”
Sales		2,050,000
Cost of sales	1	(1,200,500)
Gross profit		849,500
Other Income	2	50,000
Total income		899,500
Expenses		
Salaries and wages	3	(43,100)
Electricity		(8,000)
Repair and maintenance	4	(12,800)
Fines and penalties		(12,300)
Depreciation	5	(23,600)
Purchase of furniture		(18,000)
Communication	6	(8,000)
Donation	7	(18,670)
Bad debt	8	(3,000)
Fuel	9	(11,200)
Management fees	10	(50,000)
Finance costs	11	(25,700)
Entertainment	12	(10,000)
Total Expenses		(238,370)
Profit before tax		661,130

Notes: The following information is also relevant:

1. The cost of sales was obtained after allowing the closing stock of FRW 50 million. At the end of year, they discovered that closing stock was understated by 10%.
2. Other income includes FRW 20 million income sourced from sale of agriculture products including beans and maize located in upcountry. The remaining amount is the dividend received from NPK Ltd a local registered company and was received net of Withholding tax.
3. Included in Salary is the provision of performance bonus of FRW 12 million which will be approved by the Board in March 2023.
4. Included in repair and maintenance is an amount of FRW 4 million that was used to renovate the company’s building.

5. The allowable capital allowance for tax purpose agreed by Rwanda Revenue Authority is FRW 16 million.
6. The communication expenses relate to airtime loaded on the mobile telephones of all employees. It is very hard to separate the private from business calls.
7. The donation was given to a non-charitable organization.
8. The bad debt expenses relate to customers who have not managed to pay their debts for the previous three years, the company tried to recover the amount, but the client was unable to pay the amount owed and company decided to write it off.
9. The Fuel cost is loaded to the marketing manager's car, and it is not easy to identify the portion of business and private
10. Management fees was paid the parent company in Kenya.
11. The Finance cost include the interest of FRW 18 million paid to the loan sourced from parent company, during the period, the parent company had provided a loan of FRW 100 million, the share capital of MCE Rwanda Ltd is FRW 19 million. The remaining amount is the realized exchange loss on the payment of the loan.
12. 50% of the entertainment expenses were used to launch the new product to the clients. The remainder was used to entertain staff during the annual party.

Required:

Compute the adjusted taxable income and corporate income tax payable for the year ended 31 December 2022

(20 Marks)

(Total: 20 Marks)

End of Question Paper

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