



**CERTIFIED PUBLIC ACCOUNTANT
FOUNDATION LEVEL 2 EXAMINATIONS**

F2.4: TAXATION

DATE: MONDAY, 23 AUGUST 2021

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

- a. Give the difference between tax and duty (2 Marks)
- b. Using an example on each, explain the following terms used in VAT.
- i). Zero-rated goods and services (2 Marks)
 - ii). Exempted goods and services (2 Marks)
 - iii). Taxable goods and services (2 Marks)
- c. ABC Ltd is a manufacturing company operating in Rwanda, during the month of April 2018, it made the following transactions on different dates:
- On 01 Purchased 200 units at Frw 2,800 per each
 - On 02 Sold 20 units at Frw 3,600 per each
 - On 06 Purchased 150 units at Frw 3,200 per each
 - On 10 Sold 40 units at Frw 3,600 per each
 - On 25 Sold 100 units at Frw 3,600 per each
 - On 28 sold 80 units at Frw 3,800 per each
 - On 29 purchased 35 units at Frw 3,500 per each
 - On 30 sold 50 units at Frw 4,000 per each

Note: All the prices shown are VAT inclusive

Required:

Prepare VAT account of the month of April 2018.

(12 Marks)
(Total: 20 Marks)

QUESTION TWO

- a. Using an example per each, define the classification of taxes according to scope or authority imposing the tax. (4 Marks)
- b. Describe at least two determinants of taxable capacity that may be applied in Rwanda. (4 Marks)
- c. Mutima, Mutoto and Mutoka are in partnership sharing profits and losses in the ratio of 2:1:1 respectively. Their statement of comprehensive income for the year ended 31/12/2019 is as follows.

Particulars	Amount 'Frw'	Amount 'Frw'
Sales		300,000,000
Opening stock	90,000,000	
Purchases	150,000,000	
Closing stock	70,000,000	
Cost of sales		(170,000,000)
Gross profits		130,000,000

Particulars	Amount 'Frw'	Amount 'Frw'
Interest income		5,000,000
Total income		135,000,000
Expenses		
Salaries:		
Mutima	5,500,000	
Mutoto	7,000,000	
Mutoka	8,000,000	
Interest in Capital:		
Mutima	1,800,000	
Mutoto	800,000	
Mutoka	2,500,000	
Bad debt	2,000,000	
Electricity	7,000,000	
Audit fee	5,000,000	
Rent	10,000,000	
Depreciation	5,000,000	
Repair and maintenance	3,000,000	(57,600,000)
Net income		77,400,000

Additional Information:

- i. A half of the repair and maintenance account is for the purchase of the printer.
- ii. A quarter of the bad debt is the provision for bad debt.
- iii. Allowable capital allowance is Frw7,500,000.

Required:

Calculate the adjusted income for tax purposes for each partner (12 Marks)

(Total: 20 Marks)

QUESTION THREE

- a. According to Article 60 of Law n°16/2018, interest income is subject to a withholding tax of 15% on the value exclusive of VAT; but some of them are exceptional from what is said in this article.

Provide three examples of those interests that are exempted from withholding tax.

(3 Marks)

- b. i. What is royalty income?

(1 Mark)

- ii. As per Article 42 of Law n°16/2018, outline at least four elements that are included in royalty income.

(3 Marks)

c. Which one of the following is not a factor indicating employment (1 Mark)

- i. The degree of control exercised over the person doing the work.
- ii. Whether the worker must accept further work if offered.
- iii. Whether the person who has offered work must provide further work.
- iv. Whether the worker is entitled to employment benefits such as sick pay, holiday pay and pension facilities.
- v. Whether the worker works for just one person or organization.
- vi. Whether the worker hires his own helpers.

d. Vuva vuba Ltd is a transport company operating in Rwanda, during the year ended on 31st December 2020 the company submitted to Rwanda Revenue Authority their return of Pay As You Earn of all their employees as follows:

Period	Total basic pay (Frw)	Total benefit in kind (Frw)	NSSF Contribution by Employees (Frw)	NSSF Contribution by Employer (Frw)	Taxable pay (Frw)	Tax due for Permanent Employees (Frw)
Jan	11,565,862	17,636,624	734,678	1,179,937	29,202,486	4,348,831
Feb	11,545,690	17,557,338	731,795	1,175,308	29,103,028	4,409,814
Mar	12,183,323	19,252,508	796,153	1,278,669	31,435,831	4,824,954
Total	35,294,875	54,446,470	2,262,626	3,633,914	89,741,345	13,583,599

During the year, Vuva vuba Ltd paid for their employees the following as summarized month by month; but not included elsewhere in their tax computation and declarations.

Tax Period	Rent paid for employees (Frw)	Expenses paid for their house- especially payment of water and cleaning (Frw)
Jan	700,000	401,454
Feb	700,000	249,486
Mar	850,000	264,589
Total	2,250,000	915,529

Vuva vuba Ltd hires you as a Certified Public Accountant who is an expert in tax to make a review of their books and see if the tax filed complies with Rwandan tax law as the company is preparing for a comprehensive tax audit for the year 2019 and 2020.

Required:

As an expert in tax, re-compute the Pay As You Earn tax to be paid and fines on tax not paid. Refer to the article n° 79 of the law 026/2019 of 18/09/2019 on tax procedures

(12 Marks)

(Total: 20 Marks)

QUESTION FOUR

- a.** Itara Ltd is a company incorporated in Rwanda since the year 2017. Its statement of comprehensive income for the period ended 31st December 2019 is as follows:

	Frw	Frw
Gross Profit		20,000,000
Expenses		
Wages & Salaries	5,000,000	
Pension Costs	800,000	
Entertaining	2,000,000	
Cleaning	700,000	
Rates	400,000	
Bank Charges	90,000	
Donations	200,000	
Bad & Doubtful Debts	1,000,000	
Light & Heat	650,000	
Telephone & Postage	180,000	
Printing & Stationery	50,000	
Repairs & Maintenance	500,000	
Motor Expenses	90,000	
Legal & Professional Fees	900,000	
Depreciation	1,338,000	
Loss on the disposal of a car	300,000	<u>14,198,000</u>
Operating Profit		5,802,000
Other Income	44,000	
Net Profit		5,846,000

Notes:

- 1) Itara Ltd is owned by Brian, who works full-time in the company and the cost of wages & salaries include Brian's salary of Frw 400,000. The company operates a pension for Brian and the pension costs include an accrual of Frw 100,000.
- 2) Entertaining cost is made of:
 - Frw 600,000 for the business meeting done by MD with the company's funders.
 - Frw 1,400,000 for the Christmas gifts for suppliers.
- 3) 20% of the rates and light and heat respectively are attributable to the let portion of the building.

- 4) Donation cost is made of:
- Frw 150,000 for the donation to XYZ supermarket.
 - Frw 50,000 for the donation to eligible charity.
- 5) The bad and doubtful debts include a provision of Frw 600,000.
- 6) Repairs and maintenance cost is made of :
- Extension to trading premises of Frw 150,000.
 - General Repairs of Frw 200,000.
 - General Provision repairs to be carried out next year of Frw 150,000.
- 7) Legal & professional fees is made of:
- Legal claim by staff for unfair dismissal of Frw 650,000.
 - Professional fees for bad debt collection of Frw 250,000.
- 8) In the year 2018, the company made a loss amounting to Frw 5,000,000 and this amount has been approved by Rwanda Revenue Authority during the audit concluded in November 2019.
- 9) During our time of doing analysis, we found that the cost of depreciation was for a machine fixed on the hall that had a book value amounting to Frw 25,000,000

Required:

Calculate the corporation Income tax liability of Itara Ltd for the accounting period ended 31st December 2019. (14 Marks)

- b. **What is an impact of loss carried forward from previous tax period on the current tax period?** (2 Marks)
- c. **Give at least two conditions showing that a company is a resident in Rwanda.** (2 Marks)
- d. **Give at least two examples of types of companies that receive tax rate incentives of tax holiday of seven years in Rwanda.** (2 Marks)
- (Total: 20 Marks)**

QUESTION FIVE

- a. Referring to article 13 of law no 25/2005 of 4/12/2005 on tax procedures, **who is required to keep books of accounts and records and what information is included in those books?** (6Marks)
- b. Kamanyana owns three properties in Nyarugenge which she rents to various business men. On property one she receives a monthly rent of Frw 650,000, on property two she receives a monthly rent of Frw 750,000 and on property three she receives a monthly rent of Frw 1,000,000. Property two was constructed using a loan of Frw 10,000,000 from the bank at an interest rate of 18% per annum.

Required:

- i. Calculate her taxable rental income. (7 Marks)
 - ii. Determine her tax liability and the tax payable. (2 Marks)
 - iii. Define the term Export Processing Zone. (2 Marks)
 - iv. Give the process of control of goods entering export processing zones. (3 Marks)
- (Total: 20 Marks)**

QUESTION SIX

- a. i. Referring to article 20 of law no 16/2005 of 18/08/2005 and article 24 of Law n° 016/2018 of 13/04/2018 establishing taxes on income, **define the term long term contract.** (2 Marks)
- ii. PXP is a construction company and it entered into a 2-year contract for the construction of the road on behalf of the government of Rwanda.

The following certificate n° 3 was issued:

Description	Frw
Contract price VAT exclusive	15,000,000
Cumulative value of work done	7,000,000
Gross value of work done on the current certificate	510,000
Cost incurred on the current certificate	382,000
Total estimated cost of the contract	2,300,000

Required:

Compute revenue to be declared on Corporate Income Tax and Value Added Tax using the percentage of completion method. (6 Marks)

- b. Define a term “manufacturing under bond” and explain the records to be maintained when using this facility. (6 Marks)
 - c. Give at least three main features of east African customs union and its three objectives (6 Marks)
- (Total: 20 Marks)**

QUESTION SEVEN

- a. State Principles of Export Promotion Schemes** (4 Marks)
- b.** Coronavirus disease (Covid-19) is an infectious disease caused by a newly discovered coronavirus. Most people infected with the Covid-19 virus can experience mild to moderate respiratory illness and can recover without special treatment. Older people, and those with underlying medical problems like cardiovascular disease, diabetes, chronic respiratory disease, and cancer are most likely to develop serious illness.

The best way to prevent and slow down transmission is to be well informed about the Covid-19 virus, the disease it causes and how it spreads. Protect yourself and others from infection by washing your hands or using an alcohol-based rub frequently and not touching your face and if the virus is being spread, the government enforces the total lockdown and most of businesses close.

The Covid-19 virus spreads primarily through droplets of saliva or discharge from the nose when an infected person coughs or sneezes, so it's important that you also practice respiratory etiquette (for example, by coughing into a flexed elbow).

Referring on the above statement, explain at least 4 effects of Covid-19 on tax revenue or to the economy of Rwanda (4Marks)

- c.** Gikamba is a business man who is registered in Rwanda since the year 2017. He deals in importing and exporting of food stuff. His sources of finance include bank loans from different banks. He pays interests on loans on time.

The following relates to loan interests paid - to the different banks.

Date	Interest paid (Frw)	Bank
30.10.2019	500,000	Bank of Kigali
30.11.2019	184,956,173	FMO Entrepreneurial Development Bank registered in Dutch
31.12.2019	385,000	Bank of Kigali
31.01.2020	307,000	Bank of Kigali
29.02.2020	158,702,509	FMO Entrepreneurial Development Bank registered in Dutch

Required:

Compute the withholding tax (only principal amount) that was supposed to be paid by Gikamba. (6 Marks)

- d. State at least six sources of revenue and property of decentralized entities.** (6 Marks)

(Total: 20 Marks)

End of question paper