

**CERTIFIED PUBLIC ACCOUNTANT**  
**ADVANCED LEVEL 2 EXAMINATIONS**  
**A2.3 ADVANCED TAXATION**  
**DATE: MONDAY, 29 NOVEMBER 2021**

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**INSTRUCTIONS:**

1. Time allowed: **3 hours and 45 minutes** (15 minutes reading and 3 hours 30 minutes writing)
2. This examination has **two** sections: **A&B**
3. Section **A** has one Compulsory Question while section **B** has Four optional questions to choose any three
4. In summary attempt Four questions.
5. Marks allocated to each question are shown at the end of the question.
6. Show all your workings
7. Question paper should not be taken out of the examination room

## **SECTION A**

### **QUESTION ONE**

K & M Bank Rwanda limited is a newly listed company on the Rwanda stock Exchange Market (RSE). The company listed 30% of its stock to the general public through the RSE in 2017. K & M bank Rwanda is a subsidiary of K & M Bank international with a head office in Turkey. The bank started its operation in Rwanda in 2014 after acquiring 100% of the local bank BSR. Immediately after the acquisition of BSR, the bank applied for an investment license from RDB which it received in the same year. The bank's head office is in Kigali with a number of branches in the various districts in the country. Below are the summarized statement of profits and loss and other comprehensive incomes of the bank for the year ended 31/12/2020

<b>Items</b>	<b>Notes</b>	<b>FRW “000”</b>
Interest income	1	18,500,000
Interest expenses	2	8,970,000
<b>Net interest income</b>		<b>9,530,000</b>
Add Other incomes	3	1,890,500
<b>Total Incomes</b>		<b>11,420,500</b>
Loan impairment	4	968,300
Selling and distribution expenses	5	2,410,600
Administration expenses	6	3,197,400
Depreciation and Amortization	7	765,900
<b>Total Expenses</b>		<b>(7,342,200)</b>
<b>Profit before tax</b>		<b>4,078,300</b>

### **Notes**

1. The interest income is classified as follows:

<b>Items</b>	<b>Notes</b>	<b>Amount FRW “000”</b>
Interest on loan and advances		14,600,000
Interest on government securities	i.	2,900,000
Interest on deposits with other banks		1,000,000
<b>Total</b>		<b>18,500,000</b>

i. The bank invested in a 10 years government bond. The interest is net of withholding tax.

2. The interest expense is classified as below:

Item	Notes	Amount FRW “000”
Interest on the deposits and loans from other banks		4,970,000
Interest on a loan from K&M International	ii.	4,000,000
<b>Total</b>		<b>8,970,000</b>

ii. During the year ended 31/12/2020, the bank received a loan equivalent to FRW 40,000,000,000 from K & M International at an interest rate of 10%. The issued and fully paid-up share capital of K & M Rwanda is FRW 8,000,000,000.

3. The other incomes of the bank include

Items	Notes	Amount FRW “000”
Gain on foreign exchange	iii.	900,000
Capital gain	iv.	20,500
Dividends	v.	140,000
Other banking activities		830,000
<b>Total</b>		<b>1,890,500</b>

iii. Of the gain on foreign exchange, FRW 500,000,000 was realized on the fair value difference of the assets held in foreign currency.

iv. The capital gain was received from the sale of shares listed at Rwanda stock exchange which are already in the secondary market.

v. The 50% of the dividends were received from KB bank which is listed at Rwanda stock exchange market. The remainder was received from Nakuti Kenya limited a listed company in the Nairobi stock exchange market. The dividends were received net of 20%.

4. The loan impairment expenses are classified as below:

Item	Notes	Amount FRW “000”
General increase in the provision for doubtful debts		673,200
Specific increase in the provision for doubtful debts		295,100
		<b>968,300</b>

5. The selling and distribution expenses are classified as below:

Item	Notes	Amount FRW “000”
Advertising	vi.	768,900
Professional fees	vii.	450,500
Donations	viii.	230,600
Transport and security of cash in transit		376,300
Sales and agents commission		584,300
		<b>2,410,600</b>

vi. Included in the advertising cost is an amount of FRW 68,900,000 for the construction of 20 steal advertising billboards which are used in promoting the bank's products at the various locations where the banks operate

vii. The professional fees were paid to Axiom financial consultancy limited to carry out market research on the new advertising campaign of the bank's products. Axiom financial Consultancy limited is a registered company in United Arab Emirates.

viii. The donation was made to Gasabo child home a registered and recognized charitable organization.

6. The administration expenses include the following

Items	Notes	Amount FRW "000"
Salaries and wages		1,340,700
Technical fees	ix.	570,900
Royalties	x.	450,200
Director's remuneration	xi.	635,800
Fines and penalties	xii.	140,500
Repair and maintenance		59,300
		3,197,400

ix. The technical fees were paid to K & M bank international for installation of new software to be used by the bank.

x. The royalties were paid to KNB international limited with headquarter in Nairobi Kenya for allowing the bank to use some its internet banking software.

xi. The directors' remuneration includes FRW 300,000,000 for sitting allowances of the directors and FRW 335,800,000 as cash bonuses to the directors.

xii. The fines were charged to the bank for having little liquidity by the National bank of Rwanda.

7. Depreciation and amortization were calculated on the following assets:

A. Below are the book value and cost of the assets on 1/1/2020

	Building FRW "000"	Computer and accessories FRW "000"	ICT equipment with more than 10-year useful life FRW "000"	Other assets FRW "000"
Cost/WDV	2,000,000	850,000	1,200,000	930,400

B. During the year 2020, the bank purchased the following assets

Assets	Amount “000” FRW
New building for the branch in Kayonza	500,000
ICT Equipment with more than 10years useful life	230,900
Computers	176,500
Computer software	60,700
Motor vehicles	221,000
Furniture and fittings	76,500

**Required:**

- a) Advise the company on the taxable income and tax payable for the year ended 31/12/2020 (25 Marks)
- b) Compute the withholding tax if any which the company must withhold (4 Marks)
- c) Advise the company on the quarterly prepayments to be declared by the company in the tax period of 2021 and the dates of declaration. (4 Marks)
- d) Casio Rwanda limited is a private limited company operating in Kigali. The company deals in the manufacturing of scholastic materials which are distributed to various schools within and outside Rwanda. Kamanzi, one of the shareholders of Casio Rwanda owns 500,000 shares which he purchased at a cost 200 RWF per share. After getting married to his wife Kampire, he transferred 250,000 shares to the wife. The current market price per shares is FRW350. **Compute the capital and the capital gain if any.** (3 Marks)
- e) Ngando Traders limited has been operating in Rwanda for the last five years. The company has been operating in taxable losses for the last five years. The company’s first loss has already expired. The managing director of the company needs advice on whether he can still be able to carry forward the loss despite the fact that the five years have already expired. **Advise the management of Ngando limited on whether they can still carry forward the loss** (4 Marks)

**(Total: 40 Marks)**

## **SECTION B**

### **QUESTION TWO**

a) Mateusi Rwanda limited is a VAT registered taxpayer in Rwanda. The company manufactures a number of products some of which are exempted, and others are taxable. All products come from a single input. Below are the detailed transactions for the quarter ended 30/4/2021. All figures are exclusive of VAT

- i. Imported materials have a CIF of FRW 431,800,000. The import duty and excise tax are 25% and 10% respectively.
- ii. Sale of Zero rate goods were FRW 250,000,000.
- iii. Sale of Exempted goods FRW 187,400,600
- iv. Sale of standard rated goods was FRW220,000,000
- v. During the period the company acquired a foreign service at a cost FRW8,000,000 to train the employees on the new production technology. A foreign consultant was acquired because the company failed to access a local consultant.
- vi. A debit notes of FRW10,000,000 was issued to customer of standard supply who returned goods that were defective.

#### **Required:**

**Compute the VAT payable or claimable**

(10 Marks)

b) Magnet international limited has a head office in Singapore. The company deals in the production of solar panels, and other electrical products. In the recent board meeting, the board members passed a resolution to establish a regional office in Africa. You have been appointed by RDB to represent Rwanda in a meeting with the investors. **Prepare a memo to be presented to the investors indicating why is beneficial for the investors to invest in Rwanda as far as taxes are concerned.**

(6 Marks)

c) Mahoro John is a trader in Nyarugenge, he owns a merchandised business that deals in assorted products. Mr. Mahoro is newly registered VAT taxpayer and was informed that he must comply with the obligations of EBM users in order to avoid penalties. Mr. Mahoro has approached you as a tax consultant on what he should do in order to avoid penalties that are related to EBM obligations. **Advise Mr. Mahoro on his obligation as an EBM user**

(4 Marks)

**(Total: 20 Marks)**

### QUESTION THREE

a) After completing your CPA, you were employed by one of the leading audit firms in Rwanda as the tax manager. You have been assigned a case to advise the investor who wants to invest in Rwanda. The investor has identified two investment opportunities that are to either invest in commercial buildings or to invest in machines and equipment. Each of the identified investment requires FRW 500,000,000. The investor will raise the required money by using 70% personal savings and 30% loan. The investor has identified one bank which is willing to give him the money at annual interest rate of 12%. The investor has forecasted with much certainty the rental income from each investment and found that he will receive annual gross income of FRW 187,400,500. The investor wishes to operate as an individual business.

#### Required:

**Advise the investor on the best option if he wants to minimize the tax liability as much as possible** (10 Marks)

b) Manzi, Rukundo and Uwamahoro are Certified Public Accountants. In 2018, they received a practicing certificate and registered their business as partnership, and they operate as MRU associates sharing profits and losses in the ratio of 3:2:1 respectively. On 31/12/2020, they submitted the following statement of profit and loss for tax purpose.

Items	Notes	Amounts FRW “000”
Revenues	1	430,800
Expenses		
Selling and distribution	2	120,000
Office and administration expenses	3	103,500
Finance expenses	4	110,500
Profit before tax		96,800

#### Notes:

1. The revenues include the following

Items	Notes	Amount FRW “ 000”
Audit fees		210,600
Other engagement fees		140,000
Dividends	i.	48,900
Interest	ii.	31,300

- i. The dividends were received from local company located in Kigali special economic zone
- ii. The interest was received net from government bond with a maturity period of 2 years.

2. Selling and distribution includes the following

	Notes	Amount FRW “000”
Advertising		25,000
Donation	iii.	10,700
Bad debts	iv.	24,500
Transport to visit the clients		59,800
<b>Total</b>		<b>120,000</b>

iii. The donation was made to one of the clients as an assistance to his son’s wedding in order to maintain a good relationship with the client.

iv. The bad debts relate to two clients that have closed their businesses for two years now.

3. The office and administration expense include the following

Items	Notes	Amount FRW “000”
Salaries and wages	v.	85,400
Communication	vi.	10,500
Fuel	vii.	8,900
Other office expenses	viii.	5,700
		110,500

v. 40% of the salaries are shared by the partners in accordance with their profit-sharing ratio.

vi. The communication expenses related airtime loaded on the partners’ mobile phone, it is difficult to separate the private call from the business calls.

vii. The fuel is used by the partners when they visit the clients.

viii. Other office expense relates to fine paid to ICPAR for not adhering to the professional ethical principles.

4. The finance costs relate to interest on capital charged by partners.

**Required:**

**Advise the partners on their taxable incomes and the tax payable.**

(10 Marks)

**(Total: 20Marks)**



## QUESTION FOUR

a) Ms. Igabe Grace has been operating a supermarket at Kagugu, Gasabo district in Kigali for the last three years. She has only made a tax declaration for 2018. In 2019 she laid off the accountant and thus she has not been keeping the books of accounts and has not made any tax declaration on her business income since then. On 1/4/2021, she received a notice of tax assessment from Rwanda Revenue Authority (RRA) indicating that she is supposed to pay a personal income tax of FRW 87,671,200 for the unpaid taxes together with the interest and penalties since 2019 when she stopped declaring taxes. Ms. Igabe does not agree with the assessment of RRA, unfortunately she doesn't have full evidence to support her appeal. Although she does not have full information about her revenues and expenses, she has full information relating to her assets and liabilities and some other information that she thinks will help during the appeal process. Ms. Igabe Grace has approached you and she needs your assistance in processing the appeal and has supplied you with the following information:

	<b>2018</b> <b>FRW “000”</b>	<b>2019</b> <b>FRW “000”</b>	<b>2020</b> <b>FRW “000”</b>
Non-current assets			
Motor vehicle	25,000	25,000	60,000
Furniture and fittings	10,000	12,000	25,000
Computer and accessories	4,200	4,800	5,500
Investment in government bond	40,000	69,600	70,000
Current assets			
Inventory	15,400	30,800	30,500
Receivables	2,100	11,800	30,000
Cash and cash equivalents	10,900	8,700	12,600
Bank loan	30,000	25,800	15,000
Account payable	19,500	10,600	16,000

Other available relevant information:

- She has not been depreciating her assets since purchase and thus they are recognized at cost.
- The government bond has a maturity period of 10 years, and the interest rate is 12% per annum. This was not recorded anywhere.
- The interest on the bank loan is at 15% on the available balance.
- She has a standing order for the health insurance of her family of FRW 200,000 per month.

**Required:**

**Advise Ms. Igabe Grace on whether to appeal for over assessment by RRA** (17 Marks)

b) Horiat limited is a construction company in Rwanda. All the shareholders of the company are residents of Rwanda. On 1/12/2019, the company entered into a contract with the government of Rwanda to construct a road from Rubavu to Kigali at a contract price of FRW 800,000,000. The company assigned the cost accountant to estimate the cost for the project. On 31/12/2019, the cost accountant produced a report indicating FRW 750,000,000 to be spent on the project. On 1/1/2020, the company commenced the construction of the road from Rubavu. By 31/12/2020 the construction was 100% complete up to Byangabo and the costs incurred for the work certified was FRW 213,864,000.

**Required:**

**Advise the company on the revenues to be considered in the income tax declaration for the year ended 31/12/2020 and the treatment of the loss at the end of the contract** (3 Marks)

**(Total: 20 Marks)**

**QUESTION FIVE**

a) Article 3 of Ministerial order 003/20/10/TC of 11/12/2020 defines a related person as any person who acts or is likely to act in accordance with the directives, opinion or intentions of another person whether such directives, opinion or intentions are communicated or not communicated to them. **Briefly explain the persons that are considered as related person as per the law on transfer pricing** (3 Marks)

b) Positiso International PLC (PIP) is a leading manufacturer of computers with a brand name Posito. The company's head office is in UK with branches all over the world. Positiso Rwanda limited (PRL) is a subsidiary of Positiso International PLC with head office in Muhanga Southern Province. During the year ended 31/12/2020, PRL reported a profit before tax of FRW128,400,000. During the year 2020, PIP sent 850 computers to PRL at FRW148,450 each. PRL assembled the computers and sold them to external customers at FRW 200,000 each. The policy of PRL is to add a gross margin of 20% on each computer sold. The assembling costs were FRW10,000 per computer, selling and administration costs were FRW 8,000 per computer.

**Required:**

**Determine the Arm's length price, adjust the taxable profit, and compute the tax payable.**

**(8 Marks)**

c) The East African customs union has established various strategies to promote export within the member states. **Briefly comment on the various exporting strategies available within the East African common market** (5 Marks)

d) The major objective of the East African Customs Union is to ensure free movement of goods and services within the member states. **Outline the challenges of implementing the trade liberalization policy within the member state of East Africa** (4 Marks)

**(Total: 20 Marks)**

**End of Question Paper**