

**THE INSTITUTE OF CHARTERED  
ACCOUNTANTS (GHANA)**



**MAY 2006 EXAMINATIONS  
(PROFESSIONAL)**

**PART 2**

**TAXATION  
(Paper 2.4)**

Attempt ALL Questions

**TIME ALLOWED: 3 HOURS**

## QUESTION 1

- a) PeeKay Ltd commenced trading as a retailer on 1<sup>st</sup> October 2004. It's sales have been as follows:

| 2004     |            |
|----------|------------|
|          | €          |
| October  | 15,000,000 |
| November | 10,000,000 |
| December | 20,000,000 |

| 2005      |            |          |             |
|-----------|------------|----------|-------------|
|           | €          |          | €           |
| January   | 25,000,000 | February | 35,000,000  |
| March     | 20,000,000 | April    | 25,000,000  |
| May       | 50,000,000 | June     | 60,000,000  |
| July      | 40,000,000 | August   | 50,000,000  |
| September | 30,000,000 | October  | 30,000,000  |
| November  | 40,000,000 | December | 100,000,000 |

The company's sales are all standard rated and the above figures are exclusive of VAT. PeeKay only sells goods and at present issues sales invoices that show

- i) the invoice date and number
- ii) the type of supply
- iii) the quantity and description of the goods supplied
- iv) PeeKay name and address and
- v) the name and address of the customer

The company does not offer any discount for prompt payment.

### Required:

- a) Explain from what date PeeKay Ltd will be required to compulsorily register for VAT and what action the company must then take in compliance with Value Added Tax Act (1998) Act 546. (6 marks)
- b) Explain the circumstances in which PeeKay will be allowed to recover Input VAT incurred on goods purchased prior to the date of VAT registration. (6 marks)
- c) State the additional information that PeeKay will have to show on its sales invoices in order that these are valid for VAT purposes. (8 marks)

**(Total: 20 marks)**

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## QUESTION 2

- a) Explain what a Practice Note is and its main purposes. (10 marks)
- b) Explain the meaning of a Private Ruling and under what circumstances will a Private Ruling bind the Commissioner of the Internal Revenue Service? (10 marks)

(Total: 20 marks)

## QUESTION 3

- a) The Internal Revenue Service has adopted the Pool System in granting capital allowance since 2001.

State any five (5) features of the Pool System. (10 marks)

- b) Agyingo Company Limited commenced business on 1<sup>st</sup> March 2003 making his account to coincide with that of the government.

The following assets were bought and used in the business.

| ASSET                                 | DATE OF ACQUISITION | COST<br>¢   |
|---------------------------------------|---------------------|-------------|
| Plant & Machinery                     | 30/4/03             | 120,000,000 |
| Motor Vehicle – Toyota<br>(GT 4002 T) | 29/12/03            | 60,000,000  |
| 2 Computers                           | 11/8/03             | 50,000,000  |
| Furniture & Fittings                  | 15/3/03             | 40,000,000  |
| Office Buildings                      | 3/2/04              | 150,000,000 |
| Motor Vehicle – BMW<br>(GT 366V)      | 6/5/04              | 350,000,000 |
| Addition to Building                  | 15/1/04             | 80,000,000  |

Car Number GT 4002 T used by the General Manager was sold to him for ¢15,000,000 on 25/3/05. Profits declared up to 31/12/05 were as follows:

|                    | ¢           |
|--------------------|-------------|
| Period to 31/12/03 | 75,000,000  |
| Year to 31/12/04   | 190,000,000 |
| Year to 31/12/05   | 165,000,000 |

You are required to determine the chargeable Income of the company for the relevant years. (15 marks)

**(Total: 25 marks)**

#### QUESTION 4

- a) Under the provisions of the Internal Revenue Act, 2000 Act 592.
- i) Outline the kinds of gifts that are taxable. (6 marks)
  - ii) What types of gifts are exempt from gifts tax? (4 marks)
- b) Agya Baffour is currently a resident of Ghana. In 2005 assessment year his total employment Income amounted to ¢180,000,000. He is single and has not filed a claim for any relief. He is a contributor to the Social Security Fund. During the year under review he received net royalties of ¢15,000,000 from Nigeria where he worked for about ten years after completing University of Ghana. Tax on the rent Income was ¢3,000,000.

Required:

Compute the net tax payable by Agya Baffour for the 2005 assessment year on the basis that Double Taxation Agreement exists between Ghana and Nigeria.

(10 marks)

#### Annual Individual Tax Rate Schedule

|           | <u>Income</u> | <u>Tax Rate</u> | <u>Tax Amount</u> |
|-----------|---------------|-----------------|-------------------|
| First     | 1,800,000     | 0%              | -                 |
| Next      | 1,800,000     | 5%              | 90,000            |
| Next      | 4,800,000     | 10%             | 480,000           |
| Next      | 27,600,000    | 15%             | 4,140,000         |
| Next      | 36,000,000    | 20%             | 7,200,000         |
| Exceeding | 72,000,000    | 28%             | 20,160,000        |

**(Total: 20 marks)**

## QUESTION 5

Mr John Ayensu, Managing Director of a Kenkey Processing Factory at Tema acquired the following shares from EMIS Limited, a Private Company.

|                                |     |            |
|--------------------------------|-----|------------|
| 10,000 shares in February 2002 | for | 40,000,000 |
| 5000 shares in December 2002   | for | 30,000,000 |
| 3000 shares in June 2003       | for | 20,000,000 |

In September 2005 he sold 8000 shares for  $\text{¢}60,000,000$  and used the proceeds to complete his private house. The market price per share of EMIS Limited as at September 2005 was  $\text{¢}8,000$ .

### Required:

- a) Determine the cost of the share sold.
- b) Compute the capital gain payable by John Ayensu.

**(Total: 15 marks)**