

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



**NOVEMBER 2008 EXAMINATIONS
(PROFESSIONAL)**

PART 2

**TAXATION
(Paper 2.4)**

Attempt ALL Questions

TIME ALLOWED: 3 HOURS

QUESTION 1

Explain briefly the following:

- (a) Resident Individual
- (b) Resident Company
- (c) Resident Body of Persons
- (d) Permanent Establishment

20 marks

QUESTION 2

- (a) Outline any **ten (10)** documents an importer of goods will need in support of an Import Entry.

(10 marks)
- (b) A VAT registered trader is required by law to file monthly returns showing details of VAT transactions for each calendar month.

Required:

Outline the contents of such a Return.

(10 marks)

Total: 20 marks

QUESTION 3

- (a) Explain the difference between a False Return and an Incorrect Return. What are the pecuniary penalties attached or applicable to each offence?

(4 marks)
- (b) The Value Added Tax Service is expected to boost its collection by the implementation of two new measures and legislations in recent times. What are these and how do they affect collection?

(4 marks)

- (c) There have been clashes between the officers of Customs Excise and Preventive Service and the Police over arrest and detention of smugglers and smuggled goods. Why should this come about? Is there a duplication of functions? *(4 marks)*
- (d) Explain what notional allowance is. *(4 marks)*
- (e) Koliko Manufacturing Co Ltd, which manufactures drinkables, merged with Sweet Bea Manufacturing Co Ltd under the name Sweet Koliko Company Ltd in December 2006.

The position of depreciable assets of Koliko Company Ltd was as follows:

	<u>Cost</u>	<u>Residue</u>	<u>New Values</u>
Class 2	GH¢5,000	2,000	3,000
Class 4	GH¢3,000	1,000	2,000
Class 5	GH¢8,000	4,000	5,000

The new values were as a result of revaluation in December 2006 just before the merger.

What will happen to the assets of Koliko Company Ltd so far as Capital Allowances and Capital Gains Tax are concerned? *(4 marks)*

Total: 20 marks

QUESTION 4

John Brown, a self-employed pharmacist, took up part-time lectureship at the Korle Bu teaching Hospital with effect from 1st March, 2006. He was paid GH¢800 per month.

His accounts for the year ended 31st December 2006 showed a loss of GH¢8,150. Details are as follows:

	GH¢	GH¢
Gross profit b/d		26,500
Part-time lectures		<u>8,000</u>
		<u>34,500</u>

<u>Expenses</u>		
Salaries and Wages	22,820	
Electricity and Water	11,480	
Rent	600	
Bank Charges	140	
Charity	160	
Subscriptions	150	
Miscellaneous Expenses	450	
Depreciation	2,250	
Car maintenance/Repairs	<u>4,600</u>	<u>42,650</u>
Net Loss		<u>(8,150)</u>

Notes to the accounts:

- Salaries/Wages (GH¢22,820)
Included is a monthly allowance of GH¢500 for himself.
- Rent GH¢600
This was paid to his wife who inherited the building from her late father.
- Charity GH¢160
This was paid to beggars.
- Miscellaneous Expenses GH¢450
The breakdown is as follows:

	<u>GH¢</u>
a. Treatment of extended family members	260
b. Local traveling expenses	120
c. Sanitation	<u>70</u>
Total	<u>450</u>
- Capital allowances amounted to GH¢720

Required:

- Compute any tax payable
- Comment briefly on any aspect of the notes you deem necessary.

Rates of tax:

1 st	GH¢240	-	Free
Next	GH¢240	-	5%
Next	GH¢1,200	-	10%
Next	GH¢7,920	-	17.5%
Exceeding	GH¢9,600	-	25%

20 marks

QUESTION 5

Kojo Brifo has been in business since 1st January 2005. He has not been keeping accurate records. Recently, staff of the Field Audit Division of the Internal Revenue Service visited his spare parts store at Abbosey Okai in Accra, and he was found wanting so far as keeping of accurate records is concerned. As a result, he approached an Accountant to prepare his statements for him.

This is the position which was arrived at from the records available and also interviews conducted. Thereafter he was advised to start keeping records.

Assets	1/1/05	31/12/05	31/12/06	31/12/07
	¢	¢	¢	¢
Cash	20,000,000	5,000,000	2,000,000	7,000,000
Bank	-	50,000,000	60,000,000	100,000,000
Car	52,000,000	52,000,000	52,000,000	52,000,000
Treasury Bills	-	-	10,000,000	10,000,000
Debtors	-	-	5,000,000	15,000,000
TOTAL ASSETS	72,000,000	107,000,000	129,000,000	184,000,000

LIABILITIES

Loan	-	-	40,000,000	20,000,000
Creditors	50,000,000	70,000,000	40,000,000	10,000,000
TOTAL LIABILITIES	50,000,000	70,000,000	80,000,000	30,000,000

His private expenses were carefully calculated as follows:

	31/12/05	31/12/06	31/12/07
	¢	¢	¢
Food	5,000,000	6,000,000	7,000,000
Private use of car	3,000,000	4,000,000	6,000,000
Household	5,000,000	5,000,000	7,000,000
Social	2,000,000	3,000,000	6,000,000
Medical	-	-	2,000,000
TOTAL	15,000,000	18,000,000	28,000,000

The Treasury Bills yielded the following interests which have been credited to his Bank Account;

	¢	
31/12/06	=	4,000,000
31/12/07	=	15,000,000

His mother died in January 2007. He received various donations amounting to ¢40,000,000 which has been lodged in his Bank Account.

He is entitled to capital allowance on his car which he started using in his business on 1st January, 2005. It cost ¢52,000,000 in October 2004 when he bought it. One third usage is for private purposes.

You are required to find his chargeable incomes for 2005, 2006 and 2007 assessment years.

NB:

- (1) All amounts are in old cedis
- (2) He has no personal reliefs.

20 marks