

**INSTITUTE OF CHARTERED
ACCOUNTANTS (GHANA)**



**NOVEMBER 2010 EXAMINATIONS
(PROFESSIONAL)**

PART 2

**PRINCIPLES AND PRACTICE OF TAXATION
(Paper 2.4)**

Attempt ALL Questions

TIME ALLOWED:

Reading & Planning	-	15 Minutes
Working	-	3 Hours

QUESTION 1

Kwesi Borato has been an employee of Auto Services Limited since May, 2005 on a salary of GHS9,600 per annum. His other benefits are:

- i. Rent Allowance GHS600 p.a.
- ii. Transport Allowance GHS480 p.a.

He contributes 5% of his salary to the social security scheme.

In February 2008, Kwesi took advantage of his employment at Auto Services and purchased two old buses cheaply at GHS5,000 each. The market value at the time was GHS9,000 each.

He took a loan of GHS12,000 from his bankers and used GHS10,000 to pay for the cost of the buses and the remaining GHS2,000 to rehabilitate them. Interest due at the end of December, 2008 was GHS1,200.

In April 2008, he put them on the road under the supervision of his younger brother, Kweku.

His statement of Income and Expenditure for the period to 31st December, 2008 was as follows:

	GHS	GHS
Gross Receipts		234,080
Less expenses:		
Salaries & wages	4,500	
Tyres & tubes	22,000	
Maintenance	3,000	
Fuel and lubricants	78,000	
Road worthy certificates	600	
Insurance	5,400	
Vehicle income tax	360	
Bank interest	1,200	
Miscellaneous	500	
Depreciation	<u>800</u>	<u>116,360</u>
Net profit		<u>117,720</u>

He is married with only one child at Aburi Girls High School.

Required:

Compute his chargeable income for the year 2008.

20 marks

QUESTION 2

The practice of income taxation requires a clear distinction between capital expenditure and revenue expenditure. This distinction is so thin that sometimes a final decision has to be obtained at the courts.

Required:

Comment on the tax implications of capital and revenue expenditure. Cite any decided tax cases and or statements of eminent judges to support your views.

20 marks

QUESTION 3

Rudolph and Justine have been partners in the Sublime Enterprise dealing in hardwares at the Magazine in Kumasi for several years. Their accounts are made up to 31 October each year.

Their partnership agreement provided for the following:

	<u>Rudolph</u>	<u>Justine</u>
1. Distribution of profits	2/3	1/3
2. Living Allowance	GHS1,000 per month	GHS1,000 per month
3. Transport Allowance	GHS200 per month	GHS200 per month
4. Interest on Capital	10% per annum	5% per annum
5. Child Education Allowance	GHS400 per month	GHS200 per month
6. Risk allowance	GHS400 per month	GHS200 per month
7. Capital Introduced	GHS50,000	GHS25,000

Justine retired from the partnership with effect from 1st May, 2008 to set up his own business.

The accounts of Sublime Enterprises for the year ended 31st October, 2008 were stated as follows:

	GHS	GHS
Gross profit b/f		107,200
<u>Less expenses:</u>		
Salaries and allowances	43,200	
Electricity and water	1,600	
Repairs (store and workshop)	1,400	
Maintenance costs	18,200	
Rent	3,000	
Bank charges	1,500	
Audit fees	600	
Depreciation	2,200	
Sundry expenses	<u>3,100</u>	<u>74,800</u>
Net profit		<u>32,400</u>

Notes:

1. Maintenance Costs (GHS18,200)

	GHS
a. Petrol, Lubricants etc (Personal cars)	14,500
b. Office and workshop	2,300
c. Sanitation	<u>1,400</u>
	<u>18,200</u>

2. Sundry Expenses (GHS3,100)

Meals and other petty expenses

3. Salaries, allowances, interest on capital etc have been charged in the accounts.

4. A pick-up (GR 6268K) was purchased for GHS24,000 in December, 2007.

5. Capital Allowance

Residue b/f Pool2 = GHS28,000 Pool 4 = GHS6,400

Required:

Compute the chargeable income of each partner for 2008 year of assessment.

20 marks

QUESTION 4

The following is the Income Statement account of Super Farms Company Limited for the year ended 31st October, 2009.

	GHS	GHS
Gross profit for the year		561,700
Add dividend received		3,600
Rent income		<u>32,000</u>
		597,000
<u>Less expenses:</u>		
Salaries and wages	43,200	
Directors emoluments	38,600	
Electricity and water	18,400	
Repairs (vehicles and farm equipments)	56,200	
Depreciation	108,000	
Fine and penalties	2,800	
General provision for bad debts	6,400	
Defalcations	21,500	
Legal and professional expenses	13,400	
General administrative expenses	28,600	
Fuel and lubricants	32,100	
Rents and rates	8,200	
Donation	<u>2,000</u>	
Net profit		<u>379,400</u>
		<u>217,900</u>

Notes:

1. The company was incorporated in July, 1990

2. Legal and professional expenses (GHS13,400)

	GHS
a. Accountancy fees	2,500
b. Audit fees	4,600
c. Defence of title deeds	5,100
d. Defence of M.D. for dangerous driving	<u>1,200</u>
	<u>13,400</u>

3. Defalcations (GHS21,500)

a. Junior staff	16,800
b. Management	<u>4,700</u>
	<u>21,500</u>

4. Repairs (vehicles & farm equipment (GHS46,200))

a. New generator	7,500
b. New motor cycle	9,000
c. General repairs	<u>39,700</u>
	<u>56,200</u>

	GHS
5. <u>Donations (GHS2,000)</u>	
Building of Chief's Palace	2,000
6. Loss b/f	533,400
7. Capital allowance b/f	38,200
8. <u>Written down value of assets in use:</u>	
a. Pool 1	2,400
b. Pool 2	18,000
c. Pool 4	12,000
d. Pool 5	120,000

The pool 5 asset is in respect of office and cottages built at a cost of GHS200,000 in the year 2004.

Required:

Compute the tax payable by Super Farms Co Ltd.

25 marks

QUESTION 5

- (a) Kwabena Forson, a car dealer, bought a plot of land costing GHS2,800 in February, 2004 at Fadama. He put up a garage costing GHS40,000 in June, 2005 and insured it at a cost of GHS4,000.

After running his business for a while at this location, he realised that the place is a flood prone area. He therefore sold his garage for GHS75,000 incurring an agency fee of 2% of the selling price in August, 2008.

He purchased another garage at a cost of GHS60,000 in March, 2009.

Required:

Calculate any capital gains tax payable by Kwabena Forson and comment on your computation.

(10 marks)

- (b) Dan Twum, a used clothes seller at the Post Office Square in Accra, applied to be registered voluntarily as a taxable person under the VAT Act. The Commissioner has however turned down his application.

Required:

Explain to Dan Twum the probable circumstances that might have led to his disqualification.

(5 marks)

(Total:15 marks)