

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



**MAY 2012 EXAMINATIONS
(PROFESSIONAL)**

PART 2

PRINCIPLES AND PRACTICE OF TAXATION

(Paper 2.4)

Attempt ALL Questions

TIME ALLOWED:

Reading & Planning - 15 Minutes

Workings - 3 Hours

QUESTION 1

- (a) To guard against loss of revenue, every tax legislation makes provisions for strict conditions under which tax collected may be refunded.

Required:

State the conditions under which a refund of VAT paid on business inputs may be made.

(10 marks)

- (b) For purposes of maximizing revenue generation for the government of Ghana, the activities of related persons is of paramount concern to the tax administration.

Required:

To name any **five (5)** related persons and briefly state how their activities, generally, may affect revenue generation.

(10 marks)

(Total: 20 marks)

QUESTION 2

Alhassan Rice has been a rice farmer for several years making up his accounts to December 31, each year. On 1st July, 2009, Mahama Jato joined the business.

Details of the partnership deed were as follows:

	<u>Rice</u>	<u>Jato</u>
Capital Introduced	GHC5,000	GHC2,500
Profit Sharing Ratio	2	1
Cost of Living Allowance	GHC200 per month	GHC200 per month
Risk Allowance	GHC300 per month	GHC300 per month
Interest on Capital	GHC500 per month	GHC250 per month
Management Allowance	GHC300 per month	GHC100 per month

These allowances were charged in the accounts in arriving at the following profits:

Year to December 31, 2009	GHC30,000
Year to December 31, 2010	GHC45,000

Residual values of assets in use in the business as at 1st January, 2009 were as follows:

Tractors	GHC5,600
Farm House	GHC12,000

A combined harvester was purchased in March, 2010 at a cost of GHC80,000.

Required:

Determine the chargeable incomes of the partners for the relevant years.

20 marks

QUESTION 3

Candle Light Limited manufactures candles at Amanokrom in the Eastern Region for export to neighbouring West African countries. The company has submitted the following accounts for the year ended 30th June, 2009.

	GHC	GHC
Gross profit as per accounts		6,608,000
Dividends (Net)		36,000
Rents		<u>140,000</u>
		6,784,000
<u>Less expenses:</u>		
Salaries and wages	2,440,000	
Subscriptions and donations	120,000	
Office rent	340,000	
Bank charges	27,000	
Depreciation	720,000	
Electricity and water	1,420,000	
Adverts	130,000	
Travelling and transport	630,000	
Audit fees	38,000	
Legal expenses	51,000	
Repairs and maintenance	420,000	
Registration and licence	10,000	
Sundry expenses	<u>430,000</u>	
Net profit		<u><u>8,000</u></u>

Notes to the accounts

1. <u>Travelling and transport (630,000)</u>	
This is made up as follows:	
a. Local travelling (staff bus running expenses)	290,000
b. <u>Overseas Travelling</u>	
i. Suppliers of inputs	210,000
ii. Medical check-ups (Director)	<u>130,000</u>
	<u>630,000</u>
2. <u>Repairs and Maintenance (420,000)</u>	
a. Replacement of old machines	120,000
b. Re-roofing of factory	160,000
c. General repairs	<u>140,000</u>
	<u>420,000</u>
3. <u>Adverts (130,000)</u>	
a. Media	65,000
b. Erection of new signboard	42,000
c. Publicity for Christmas sales	<u>230,000</u>
	<u>130,000</u>
4. <u>Subscriptions and donations (120,000)</u>	
i. Cardio-centre	75,000
ii. Great Olympics F.C.	10,000
iii. Flood victims	<u>35,000</u>
	<u>120,000</u>
5. <u>Sundry expenses (430,000)</u>	
Sanitation	60,000
Casual labour	130,000
Improvement and extension (Drainage Systems)	170,000
New poly-tanks and erection	<u>70,000</u>
	<u>430,000</u>
6. <u>Capital Allowance</u>	
Unutilized B/F	124,000
Current	320,000
7. Loss B/F	380,000

Required:

Compute the tax payable by the company.

25 marks

QUESTION 4

Isaac Duncan retired prematurely from the Ministry of Agriculture and joined Farm Products Limited as a consultant farm manager with effect from 1st November, 2007.

He was placed on a salary scale of GHC21,600, x 720 – GHC24,480 per annum plus the following allowances:

- | | | |
|----|--------------------------|------------------|
| a. | Risk allowance | GHC120 per month |
| b. | Responsibility allowance | GHC100 per month |
| c. | Inconvenience allowance | GHC 50 per month |

He was provided with accommodation at the farm with day and night watchman, a pick-up with fuel and a labourer to keep his residence always tidy. They were all paid GHC50 a month each.

Due to the nature of the work, Mr. Duncan took a life assurance policy for himself and group policy for his wife and two children.

Details are as follows:

<u>Policy Holder</u>	<u>Capital Sum</u>	<u>Premium</u>
Isaac Duncan	GHC5,000	GHC55 per month
Group	GHC2,000	GHC25 per month

Duncan's children were so brilliant that on application, the company decided to subsidize their education with GHC600 per annum each with effect from 1st October, 2008.

Mr. Duncan rented his residence at Cantonments to William Glad and Associates for GHC500 per month with effect from 1st January, 2008.

Required:

Compute Mr. Duncan's chargeable income for the year of assessment 2009.

20 marks

QUESTION 5

- (a) Act 592 (Internal revenue Act, 2000) has provisions for various types of gifts that are taxable under different circumstances.

Required:

Identify these gifts and to state any differences in their mode of assessment.

(10 marks)

- (b) The Internal Revenue Act, 2000 (Act 592) provides various sanctions for offences committed under its provisions. These sanctions, in the main, take the form of fines, penalties, imprisonment or both by the courts.

However, a person who has committed an offence may choose to avoid the court proceedings.

Required:

Explain stating any processes involved, that enables a taxpayer to avoid the proceedings.

(10 marks)

(Total: 20 mark)