

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



NOVEMBER 2011 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

So So Limited, incorporated in June, 2005 to manufacture plastic-ware commenced business in February, 2006. Accounts are made up to 31st March each year.

The following depreciable assets were acquired and put to use in the business.

<u>Asset</u>	<u>Date of Purchase</u>	<u>Cost (GHS)</u>
1. Factory Building	October, 2005	60,000
2. Plant & machinery	September, 2005	30,000
3. Nissan Pickup (CK 408 Y)	December, 2005	21,000
4. Distribution Van (KK 623 D)	April, 2006	20,000
5. Equipment	November, 2005	2,400
6. Furniture & Fittings	February, 2006	3,000
7. Benz saloon (TT 413 D)	July, 2007	28,000

Profits declared were as follows:

Period to 31-3-2007	GHS42,000
Year to 31-3-2008	GHS60,000

Required:

Determine the company's chargeable income for all relevant years.

20 marks

QUESTION 2

Somo and Lava have been in partnership for several years trading as Sola The Best Enterprise. Accounts are made up to 31st December each year and profits are shared in the ratios 2:1.

The partnership agreement has the following additional monthly provisions (GHS):-

	Somo	Lava
a. Salaries	800	400
b. Rent allowance	400	400
c. Travelling Allowance	300	300
d. Interest on Capital	200	100

The written down values of assets used in the business as at 1st January, 2006 were as follows:

Class 2	GHS12,000
Class 4	GHS8,000

The following additional assets were acquired:

a.	Toyota Saloon Car	GHS16,000 (May 2006)
b.	Distribution Van	GHS24,000 (July 2006)
c.	Building	GHS52,500 (February 2007)
d.	Furniture and Fittings	GHS2,000 (August 2008)

The partnership profits as adjusted for tax purposes were stated as follows:

Year Ended 31-12-2006	GHS43,000
Year Ended 31-12-2007	GHS62,000
Year Ended 31-12-2008	GHS47,000

Required:

Compute the chargeable income of each partner for the years of assessment 2006, 2007 and 2008.

25 marks

QUESTION 3

Solomon Adams retired from Reliance Insurance Company Limited in September, 2008. In October 2008, he invested half of his retiring awards in a retail business as a general merchant and also converted his private car (GL 2163 K) into a taxi. The value of the car as at 1st October, 2008 was GHS8,000.

His personal Income Tax Return Form; I.T. Form 21, for the year ended 31st December, 2008 showed the following details:-

	GHS
1. Salary (1/1/08 – 30/9/08)	6,300
2. Pension (1/10/08 – 31-12-08)	1,200
3. Interest on Treasury Bills	800
4. Taxi Services (Net)	13,500
5. Trade (Net)	750

Attached to his personal Return Form was a statement of income and expenditure account for the period 1st October, 2008 to 31st December, 2008. Details were as follows:-

Solomon Adams

Trading and Taxi Services Account
Period 1st October, 2008 to 31st December, 2008

	GHS	GHS	GHS
Sales		33,620	
<u>Less: Purchases</u>		<u>26,300</u>	
Gross profit		7,320	
<u>Less Expenses:</u>			
Electricity and Water	2,800		
Store Rent	1,350		
State Assistant	1,500		
<u>Registration and Licence</u>	20		
Personal Allowance	900	<u>6,570</u>	750
 <u>Gross Receipts (Taxi)</u>		 15,995	
<u>Less: Repairs and maintenance</u>	520		
Fuel and Lubricants	1,300		
Driver's salary	360		
Sundry Expenses	135		
<u>Preliminary expenses</u>	<u>180</u>	<u>2,495</u>	<u>13,500</u>
Total Income			<u>14,250</u>

Other Information Obtained from Mr. Adams:-

1. Repairs and Maintenance (Taxi) (GHS520)

a. Routine repairs and maintenance		180	
b. <u>Accident:</u>			
Repairs (Taxi)	130		
Repairs: Mr. Kotey's vehicle	160		
Tips	<u>50</u>	<u>340</u>	
Total GHS		<u>520</u>	

2. Sundry Expenses (GHS135)

Road Worthy	30		
Vehicle Income Tax	90		
Clearing	<u>15</u>		
Total	<u>135</u>		

3. Preliminary Expenses (GHS180)

Registration etc	60		
Painting	<u>120</u>		
Total GHS	<u>180</u>		

Required:

Determine Mr. Solomon Adams' chargeable income for the year 2008. Provide brief comments to explain the basis of your computations.

20 marks

QUESTION 4

The Gift Tax and Capital Gains Tax provisions in Act 592 have a direct linkage with some other provisions in the Act.

Required:

Comment, highlighting these provisions and give reasons.

20 marks

QUESTION 5

Write brief notes on the following:-

- a. Transaction Value under the CEPS (Management) Law, 1993 (P.N.D.C. Law 330). **(5 marks)**

- b.
 - i. Taxable Transactions under the VAT Act, 1998 (Act 546) **(5 marks)**

 - ii. Give any **five (5)** examples **(5 marks)**

(Total: 15 marks)