

CHARTERED INSTITUTE OF TAXATION, GHANA

PROFESSIONAL EXAMINATION

FEBRUARY, 2020

PROFESSIONAL LEVEL

PAPER 2 - INCOME TAXATION

ATTEMPT ALL QUESTIONS. TIME ALLOWED: 3 HOURS

QUESTION 1

State the differences between the followings as understood from the Income Tax Act, 2015 (Act 896):

- a) Capital expenditure and revenue expenditure **8 marks**
- b) Commercial vehicle and non-commercial vehicle **8 marks**
- c) Final withholding tax and non-final withholding tax **4 marks**

TOTAL 20 MARKS

QUESTION 2

- a) Mr. Seth Manu was employed as the Sales Manager of Endurance Products Limited in Accra on 1st April, 2016 on a consolidated Annual Basic Salary of GH¢60,000 x GH¢4,800-GH¢84,000. Determine his annual basic salary for 2019 year of assessment. **7 marks**
- b) State any five (5) qualities of a good tax system. **5 marks**
- c) The Income Tax Act 2015 (Act 896) provides for four (4) allowable deductions in the ascertainment of the chargeable income of an employee. List the four allowable deductions

8 marks

TOTAL 20 MARKS

QUESTION 3

- a) Lady Bell popularly known as Kosema commenced a trading business on 1st March, 2017 preparing accounts to 31st December each year. The following assets were bought and used in the business:

ASSET	DATE OF ACQUISITION	COST IN GHANA CEDIS
Office Building	10/1/2017	650,000.00
Office Equipment	21/02/2017	70,000.00
Motor Van	25/09/2017	120,000.00
Computers	13/10/2017	48,000.00
Furniture & Fittings	18/10/2017	5,000.00
Addition to Equipment	11/9/2019	40,000.00

Required:

Compute the capital allowances due to Lady Bell for the relevant years of assessment (2017 to 2019). Please, work to the nearest Ghana Cedi. **15 marks**

Rate of Capital Allowance

Pool 1 -	40%
Pool 2 -	30%
Pool 3 -	20%
Pool 4 -	10%

b) List any five (5) badges or indicators of trade and state one decided tax case in respect of each of the stated badges or indicators. **5 marks**

TOTAL 20 MARKS

QUESTION 4

Below is an extract of the income statement of Mr. Joe Abokyi for the year ended 31st December, 2018:

	GH¢	GH¢
Gross Profit		146,000.00
Interest on Savings Account		2,000.00
Profit on Sales of Fixed Assets		8,000.00
Bad Debts Recovered		3,500.00
Dividend (Net of withholding Tax of 8%)		1,840.00
		161,340.00
Less		
Salaries	38,600.00	
Rent	8,400.00	
Electricity	3,600.00	
Telephone	9,100.00	
Loss on Sales of Fixed Assets	4,500.00	
Miscellaneous Expenses	12,400.00	

Donations	3,200.00	
Depreciation	3,700.00	
Interest on Loan	2,400.00	
Birthday Expenses	2,780.00	
Advertisement	8,900.00	97,580.00
		<hr/>
Net Profit		63,760.00

Notes forming part of the income statement:

a) Miscellaneous Expenses comprise:

	GH¢
Income Tax Paid on Account	7,300.00
Children's School Fees	3,200.00
Other Allowable business Expenses	1,900.00

b) Advertisement Consists of:

Radio Adverts	2,100.00
Construction of Metal Neon Sign	6,200.00
Advertisement tax	600.00

c) Donation is made up of:

Osu Children's Home	2,200.00
Church Harvest	1,000.00

d) One third of the telephone expenses relates to private usage

e) Other charges and allowances agreed between the proprietor and Ghana Revenue Authority were as follows:

Additional Income	4,700.00
Capital Allowance	2,896.00

Required:

Compute the chargeable income of Mr. Joe Abokyi for 2018 year of assessment. **20 MARKS**

QUESTION 5

The following information relate to Mr. Smart Mensah an employee of Success Ventures Ghana Limited, Tema for the 2018 year of assessment:

GH¢

a) Annual basic salary for the year	90,000.00
b) Responsibility allowance (10% of annual basic salary)	
c) Medical allowance	3,000.00
d) Utility bills paid by the employer	18,000.00
e) House help allowance	4,800.00
f) Provision of furnished accommodation by the employer.	
g) Provision of car and fuel by the employer for both official and private purposes.	
h) Provided with an air ticket valued at 5,000.00 by the employer to enable him travel to South Africa for his annual leave.	
i) At the end of year party held by the company, he was presented with a jumbo size fridge valued at GH¢6,000.00 for his contribution to the company.	
j) He contributed 5.5% of his basic salary to the Mandatory Pension Scheme while the employer contributed 13% on his behalf	
k) He is married with five children all of who are in approved educational institutions in Ghana. He caters for their education.	
l) He made the following donations and contributions during the year	
	GH¢
i. Donation to all peoples church	5,000.00
ii. Contribution to Tema SOS Children’s Home	3,500.00
iii. Donation to Old Boy’s Association	1,000.00

Required:

Calculate the chargeable income of Mr. Smart Mensah for 2018 year assessment. **20 MARKS**

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