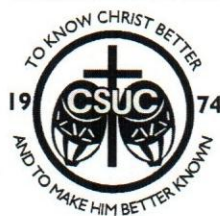


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Date.....



CHRISTIAN SERVICE UNIVERSITY COLLEGE

KUMASI, GHANA

CSUC SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

MSc ACCOUNTING AND FINANCE

END OF SECOND SEMESTER EXAMINATIONS – 2018/19 ACADEMIC YEAR

LEVEL 500

MACF 514: TAXATION AND FISCAL POLICY

MAY, 2019

100 MARKS

TIME ALLOWED: 3 HOURS

GENERAL INSTRUCTIONS TO CANDIDATES:

- Answer all questions
- Write your index number on top of the question paper and every page of the answer booklet used.

Examiner: Samuel Kwaku Agyei

Question One

A) Explain the following tax theories stating at least one advantage and one criticism of its application.

- i. Benefit theory
- ii. Sacrifice theory
- iii. Ability-to-Pay theory
- iv. Cost-of-Service theory

(10marks)

B) The income tax Act 2015 (Act 896), as amended, introduced the concept of global taxation into the tax system of Ghana.

Required:

- i. Explain the meaning of global taxation. **(3marks)**
- ii. Outline the implication of global taxation to the taxation of employment and business income. **(2marks)**
- iii. Outline the relationship between global taxation and double taxation. **(2marks)**
- iv. Explain ONE advantage and ONE disadvantage of implementing global taxation. **(3marks)**

[Total: 20 marks]

Question Two

Mr KwadwoBarimaNsu was engaged by Emuyeya Company Limited, a farming business, as the production manager on a salary scale of GHS15,000 x GHS1750 - GHS22,750 on 1st August 2011. His employment contract provided, *inter alia*, the following:

- i. Risk allowance GHS550 per month.
- ii. Clothing allowance GHS125 per quarter.
- iii. Sanitation allowance GHS175 per month.
- iv. Unaccountable entertainment allowance of GHS750 per month.
- v. Child education allowance of GHS200 per child per month.
- vi. Overtime which averages at GHS75 every week.
- vii. Bonus is based on the volume of production for a period. He is entitled to 10% of the value of production supervised by him as bonus. During the year 2017, production volumes supervised by Kwadwo was 100000 tonnes with a tonne value of GHS1.75.

Mr. BarimaNsu is not married but has fathered five children with five different beautiful women. All the children live with him in a fully furnished accommodation, on site, provided by his employers. He is responsible for the upkeep of all the children.

Mr. BarimaNsu drives a company car which is fuelled by the company for both official and private use. The only pension scheme he has is his 5.5% contribution to SSNIT.

Mr BarimaNsu runs a cement distribution shop in town which is under the supervision of his first borne, who has been doing the business with his father since completing first degree two years ago. He has, therefore, submitted the following trading results for the year ended 31st December, 2017.

**RESPONSIBLE FATHER ENTERPRISE
TRADING, PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31/12/17**

	GHS	GHS
Sales		43,620

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		Date.....
Cost of sales		11,150
Gross Profit		32,470
Dividend Income	2,350	
Derivative Income	1,250	3,600
		36,070
EXPENSES		
Salaries	10,600	
Depreciation	1,200	
Repairs and improv.	2,000	13,800
		<u>22,270</u>

Additional Information

- The closing stock (valued at GHS6,300) was valued by the company using Last-in-First-out method. The weighted average method would have placed a value of GHS7,000 on the closing stock.
- Capital allowance has been agreed at GHS1,500. This excludes any adjustments based on additional information (i) to (iv).
- Repairs and improvement on the firm's distribution van is made up as follows:
 - Normal repairs GHS500
 - Replacement of engine GHS1,500
 The opening and closing balances of the class of the distribution van were GHS12,000 and GHS18,000 respectively.
- On 1st October, 2017, Mr. BarimaNsu engaged the services of one graduate to assist in his business. The graduate is on an annual salary of GHS6,000.

Required:

- Determine the total taxable pay of Mr. KwadwoBarimaNsu for 2017 assessment year. (25marks)
- Calculate his tax liability for 2017. (5marks)

[Total: 30marks]

Question Three

AmaKonadu Company Ltd commenced operation as a manufacturer of shoes at HweeHwe, a town outside the Eastern Regional capital of Koforidua, on 28th July 2015. The business prepares accounts to 31 December every year. As at the date of commencement, the following business assets and their associated values were acquired:

	GHS
Buildings	400,000
Plant and machinery	166,000
Computers	28,000
Furniture and Fittings	48,000
Motor Van	134,000

In the years 2016 and 2017, the following events took place in the affairs of the company.

- A saloon car was bought for GHS100,000 on 1/7/16.
- A new computers together with its accessories were purchased on 31/11/16 for GHS12,000
- The company sold some furniture which were found to be too old for GHS13,500 on 20/09/16
- The company bought new furniture on 10/12/16 for GHS18,500

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- v. Between May, 2016 and August, 2016 additional works were carried out on the building and these cost the company GHS2,500
- vi. The company bought a Mitsubishi Caravan on 1st September, 2016 for GHS24,000.
- vii. Exactly in the middle of 2017, the company sold the saloon car for GHS80,000.

The company declared the following profits after charging depreciation of GHS16,500 and GHS12,420 respectively for the 2016 and 2017 years of assessment

Year to 31 st December, 2016	GHS425,000
Year to 31 st December, 2017	GHS456,800

You are required to compute the:

- (a) capital allowances claimable by the company for 2016 and 2017 assessment years. **(12 marks)**
- (b) tax liability of the company for the 2016 and 2017 assessment years. **(8 marks)**

[TOTAL: 20MARKS]

Question Four

- A) Numerous campaigns for Ghanaians to cultivate the habit of buying locally manufactured goods seem to have caught the attention of many a Ghanaian. Mr Sefa-Bonsu, a Ghanaian entrepreneur who has stayed in USA for more than 20 years, wants to cash in on this general public awareness.

He wants to do this by establishing a chocolate manufacturing company at Antoa in Ashanti region. In fact, he plans to settle in the area and help the Chief of the area push for the agenda of making the town a district capital in 10 years' time. His plan is to start a 24 acre cocoa farm this year which will supply the main raw material (cocoa seeds) for the chocolate factory when construction works are completed in 6 years' time. Farm workers will be accommodated in houses he plans to build on a section of the farm.

Mr Sefa-Bonsu's worry, though, is that in addition to the general public awareness to buy made-in-Ghana goods which he believes will provide a strong demand for the product, what other tax incentives are available for his cocoa farming business, the chocolate factory and his farm workers (if any) when he activates his business plan.

Required

Advise Mr. Sefa-Bonsu(10marks)

- B) Uncle Pee runs a sole proprietorship business at Antoa. His Chargeable income for 2016 was GHS10,000. To avoid tax, he decided to transfer his income to his associates as follows:

	Income (GHS)
Wife	2,500
Daughter	2,000
Son	2,000
Self	<u>3,500</u>
	<u>10,000</u>

Required:

If Uncle Pee is successful with his income splitting agenda, how much tax will he save? What action should the tax authorities take if they become aware that Uncle Pee's wife, daughter and son are not legitimate workers of the sole proprietorship? **(10marks)**

- C) Identify and explain FOUR key principles to guide the setting of fiscal policy objectives in Ghana. **(10marks)**

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Year 2016	Chargeable Income GHS	Rate %
First	2,592	0.0
Next	1,296	5.0
Next	1,812	10.0
Next	33,180	17.5
Exceeding	38,880	25%