

**PAPUA NEW GUINEA UNIVERSITY OF TECHNOLOGY
DEPARTMENT OF BUSINESS STUDIES**

2022 First Semester Final Examination

AC213 – Introduction to Taxation (BCAC 2)

TIME: 8:30 8TH Wednesday, June 2022. TIME ALLOWED: 3 HOURS

INSTRUCTIONS TO STUDENTS

1. You have 10 minutes to read the examination paper. You must not begin writing during this time.
2. You **MUST** answer all Questions even if you are not sure of an answer.
3. Make sure that you read each question carefully before you answer them. The marks awarded for the questions are shown beside each question.
4. All answers must be written on the answer booklets provided. No other written material may be accepted. Please hand in every answer booklet provided to you after the examination.
5. Note Books, Textbooks, Notes, Mobile Phones are not permitted in the examination hall.
6. PRINT your name and student number on the answer booklet provided.
PLEASE DO IT NOW.

This Final Examination is worth 100 Marks towards your Final Grade.

Name of Examiner: Ms. Mali

Part 1: Multiple Choice Questions [20 Marks]

Question 1 Which of the following is not an assessable income?

- a.) Payments received in advance by a supplier for goods yet to be supplied.
- b.) Gains on sale of a private car but with the intent of selling more cars in the years to come.
- c.) Fees received for legal advice provided by a lawyer.
- d.) Interest received from money lending business.

Question 2 What is the rate for an employer's contribution to a superfund here in PNG?

- (a) 8%
- (b) 6.5%
- (c) 8.4%
- (d) 6%

Question 3 Which of the following is not an allowable deduction?

- (a) Purchased of trading stocks
- (b) Purchased of shares by a shareholder
- (c) Electricity bills paid by the business.
- (d) Commission paid to marketing officer by the business.

For questions 4, 5 & 6 refer to the following information provided below.

A machine valued at K95, 000 bought by a taxpayer in April 30th, 2020 to be used in the factory. The depreciation expense is calculated using prime cost rate 5%.

Question 4 What is the depreciation expenses (allowable deduction) for the year ended 2020?

- a.) K4, 750
- b.) K2, 850
- c.) K2, 770.83
- d.) K3, 166.66

Question 5 What is the written down value (WDV) for year ended 31 December, 2021?

- a.) K87, 083.34
- b.) K85, 500
- c.) K87, 400
- d.) K87, 479.17

Question 6 If the above machine is sold for K90, 000 at the beginning of year 2022. What would be the result of the transactions?

- a.) K4, 500 gain
- b.) K4, 500 loss
- c.) K2, 916.66 gain
- d.) K2, 916.66 loss

Question 7 If a taxpayer replaced wooden floor of his rental property with tiles, the costs incurred will be regarded as;

- a.) Allowable deduction
- b.) Capital expenditure
- c.) Not allowable
- d.) None of the above

Question 8 If a taxpayer paid K10, 000 for an insurance cover for the next twelve months. When will the insurance costs become allowable deduction?

- a.) when insurance is expired at the end of 12 months.
- b.) Not allowable deduction.
- c.) Capitalised as asset and claimed only when the benefits are used.
- d.) Immediately when cash is paid.

Question 9 What rate would apply to small and medium sized enterprise taxation if it earns K100, 000 in a year?

- a.) Normal marginal rate
- b.) 2%
- c.) K400 annual fees
- d.) None

Question 10 Which of the following does not come under the categories of clothing which are allowed as deductions?

- a.) Non-compulsory uniform
- b.) Protective clothing and footwear
- c.) Occupational-specific wear
- d.) Casual wear

Question 11 Which of the following businesses can claimed 20% accelerated depreciation for its assets?

- a.) Manufacturing, merchandising, communication and transport businesses
- b.) Manufacturing, communication, transport and real estates and renting
- c.) Financial intermediation, real estates and rental, merchandising
- d.) Hotels, agricultural production, real estate and rental, retailing & wholesaling

Question 12 Which of the following is not correct regarding the function of Internal Revenue Commission?

- (a) Record tax receipts.
- (b) Conduct special investigation if fraud is suspected.
- (c) Conduct office and field audits.
- (d) Follow up reminders, imposition of penalties, write off tax where necessary and ensure safe transfer of revenue to Department of Physical Planning for appropriation and expenditure by the government.

Question 13 The criteria for evaluating tax systems, “simplicity” means,

- (a) Any tax system put in place to be levied must be as simple so that cost of compliance by taxpayers and the cost of collection by the tax department are minimized.
- (b) A realistic and certain revenue generating forecast assist government to budget for the next financial year.
- (c) In PNG it is embedded in the Constitution, which calls for “equal distribution of wealth.
- (d) In terms of timing of payment or collection of tax, the system may be convenient or otherwise.

Question 14 Under the three classes of tax system, which tax system levied flat taxes regardless of income?

- (a) Progressive
- (b) Proportional
- (c) Regressive
- (d) None

Question 15 Those assets combined together and having value of less than K1, 000;

- a.) Maybe pooled and depreciated depending on the expected life.
- b.) May not be pooled and depreciated
- c.) Immediate expensing in the same period
- d.) Definitely will be pooled and depreciated over their useful life

Question 16 What percentage do you think will be claimed as depreciation expense for industrial plant (not previously operated in PNG) in the year of purchase?

- a.) 100%
- b.) 20%
- c.) 30%
- d.) 50%

Question 17 If a SMEs turnover is less than K50, 000 per annum, what would be the tax rate/amount imposed?

- a.) K400
- b.) 2%
- c.) 5%
- d.) K200

Question 18 The criteria for evaluating tax systems, “equity of fairness” means,

- a.) Any tax system put in place to be levied must be plain and uncomplicated so that cost of compliance by taxpayers and the cost of collection by the tax department are minimized.
- b.) A realistic and certain revenue generating forecast assist government to budget for the next financial year.
- c.) In PNG it is embedded in the Constitution, which calls for “equal distribution of wealth.
- d.) In terms of timing of payment or collection of tax, the system may be convenient or otherwise.

Question 19 When an employee is provided with meal, how much is included in the employee's wages and salary to be taxed?

- (a) K35
- (b) K50
- (c) K30
- (d) K50

Question 20 An employee earning K3, 500 per fortnight is provided with a company vehicle without fuel. The taxable amount would be.

- (a) K3, 500
- (b) K3, 595
- (c) K3,625
- (d) K3, 590

Part 2: Short Answer Questions [20 Mark]

Question 1

Define capital gain and give an example. (2 marks)

Question2

Define and differentiate between residence and non-residency for tax purposes. (2marks)

Question 3

What is the main purpose for the government to impose tax? (2 marks)

Question 4

Define exempt income and give an example of exempt income. (2 marks)

Question 5

What is GST and what is the rate imposed on GST? (2 marks)

Question 6

Differentiate between direct and indirect tax and give examples? (2 marks)

Question 7

What is the role of Internal Revenue Commission (IRC)? (2 marks)

Question 8

What is capital expenditure? (2marks)

Question 9

Are revenues received in advance become assessable income prior to providing of goods and services by taxpayers? Explain (2 marks)

Question 10

Are costs paid in advance for services and goods to be received later by a taxpayer is allowable deduction? Explain (2 marks)

Part 3: Problem Solving -short calculations [35 Marks]

Question 1

A Sole Proprietor purchases a new machine for K100, 000. It received a trade-in amounting to K24, 000 for the new machine. The written down value of the old machine which was K20, 000.

- (a) What would be the value of the new machine for depreciation purpose? (4 marks)
(b) Calculate depreciation expenses using diminishing value rate of 5% for two years? (6 marks)

Question 2

An employee receives K2, 800.00, representing 4 weeks leave pay in advance. He has lodged a Tax Declaration claiming three (3) dependents. Calculate **tax payable** for this employee. (5 marks)

Question 3

An employee receives K780.00 per fortnight and has lodged a declaration claiming one (1) dependent. Calculate **tax payable** for this employee. (5 marks)

Question 4

An employee receives K 250.00 for eight (8) days' work. He has not lodged a declaration. Calculate **tax payable** for this employee. (8 marks)

Question 5

An employee receives K 1500.00 per week and has lodged a declaration claiming one (2) dependent. Calculate **tax payable** for this employee. (7 marks).

Part 4: Problem Solving – long calculations (show all your working out) [25 Marks]

Question 1

A partnership business is run by two partners, partner A and partner B. The partners have agreed to share their profit according to their portion of capital contribution. Partner A contributed 55% of capital while partner B contributed 45% of capital.

On their share of profit, they also agreed to receive salary and interest. Partner A is to receive salary of K70, 000 while partner B receives K55, 000. The interest for partner A is K15, 000 while interest for partner B is K10, 000.

The partnership made a profit in the financial year ending amounting to K240, 000.

Required;

- a.) Calculate income for each partner? (6 marks)
b.) What would be the amount IRC would expect to see on the partnership tax returns? (4 marks)

Question 2

Ms. Julie received her fortnightly wages including K 220 for overtime payment in respect of the three (3) previous fortnights. She normally receives K 870.00 per fortnight and has lodged a declaration showing 1 dependent.

The payment of overtime of K220 was broken up into;

1st Fortnight K75

2nd Fortnight K65

3rd Fortnight K80

You are required to calculate **total tax payable** for Ms Julie. (15 marks)

The End!