



**TECHNICAL UNIVERSITY OF MOMBASA**  
***Faculty of Business and Social Studies***

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN  
BACHELOR OF BUSINESS ADMINISTRATION  
BACHELOR OF COMMERCE

**BAC 4305: TAXATION II**

END OF SEMESTER EXAMINATIONS

**SERIES: APRIL 2015**

**TIME: 2 HOURS**

**INSTRUCTIONS:**

- Answer Question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

***This paper consists of Four printed pages***

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**QUESTION 1 (Compulsory)**

- a) Wekesa has not kept proper set of books of accounts. The following details are available for the year ended 31<sup>st</sup> December 2013

	<b>1.1.2013</b>	<b>31.12.2013</b>
	<b>Ksh.</b>	<b>Ksh.</b>
Stock	12,000	8,400
Debtors	13,500	14,700
Creditors	8,400	12,200
Premises	35,000	35,000
Electricity due	1,300	1,550

### Bank summary

	Ksh.		Ksh.
Debtors	75,000	Balance b/f	8,450
Cash sales	10,250	Creditors	36,500
Commission	1,250	Electricity	1,560
		Salaries	3,500
		Stationery	2,200
		Drawings	4,500
		Furniture	20,000
		Balance c/d	<u>9,790</u>
	<u>86,500</u>		<u>86,500</u>

Balance b/d 9,790

#### Additional information

Discount allowed Ksh. 2,400 and discount received Ksh. 1,500, bad debts written off during the year Ksh. 400. Wekesa withdrew goods costing Ksh. 150 for personal use. The cash received from cash sales and not banked was used for advertising Ksh. 2,400 and insurance Ksh. 1,250. Insurance Ksh. 250 have been prepaid for January 2014. The furniture is to be depreciated at 15% on cost. Capital allowances were agreed at Ksh. 400.

#### Required

Compute Wekesa's taxable profits.

**(20 marks)**

b) The following details were obtained from the books of Benyl Ltd:

Trading profits	Ksh. 10,000
Taxable investment income	Ksh. 5,000
Non taxable investment income	Ksh. 2,500
Tax rate	30%
Actual distribution of dividends	Ksh. 1,000

#### Required:

Compute the shortfall distribution of dividends

**(10 marks)**

## QUESTION 2

- a) State the conditions that must be fulfilled in order for an investor to qualify for investment deduction for normal manufacture. **(5 marks)**
- b) Pamoja Ltd is a manufacturing company located at Tudor, Mombasa. The following information relates to the year ended 31<sup>st</sup> December 2014

1. As at 1<sup>st</sup> January 2014 the written down values of assets were as follows:

Class I	Class II	Class III	Class IV	Factory Building
1,505,000	6,407,000	4,300,000	3,010,000	17,210,000

2. Disposals during the year were as follows:

	Class I	Class II	Class III	Class IV
	Sh.	Sh.	Sh.	Sh.
Cost	1,290,000	430,000	430,000	516,000
NBV	559,000	129,000	154,000	172,000
Sales proceeds	1,548,000	215,000	344,000	154,800

3. Additions during the year

	Sh.
Commuter	602,000
Factory extension	8,600,000
Photocopy	275,200
Scanning machine	86,000
2 ton van	1,720,000
Volvo saloon car	3,440,000
Shredder	25,800
Fax machine	65,800
Processing machinery	2,580,020

4. The old factory was constructed in 2012 and put to use on 1<sup>st</sup> July of the same year. The processing machinery purchased was installed into the new factory extension and processing commenced with effect from 1<sup>st</sup> October 2014

### Required:

Compute the capital allowances due to Pamoja Ltd for the year ended 31<sup>st</sup> December 2014.

**(15 marks)**

### QUESTION 3

Discuss the taxability of the following:

- a) Cooperative societies. (10 marks)
- b) Insurance companies. (10 marks)

### QUESTION 4

- a) Discuss the offences under the VAT Act. (10 marks)
- b) Highlight **TEN** exempt supply under the VAT Act. (10 marks)

### QUESTION 5

Mr. Kitheka an assessor encountered the following independent cases during the year of income 2014

- a) Client A received a gift from a fellow worker
- b) Client B received Ksh. 100,000 from Mr. Wangamati (his uncle) in his capacity as the employer of B.
- c) Client C was compensated by XYZ Ltd, a winding up company, Ksh. 200,000
- d) Client D, Singer, received a payment of sh. 500,000 from Opera Ltd so that D may not appear elsewhere for the purposes of performing.

### Required

Discuss the tax position of each client named above. (20 marks)