



TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

DIPLOMA IN ACCOUNTANCY

BAC 2208: TAXATION

SPECIAL/SUPPLEMENTARY EXAMINATIONS

SERIES: FEBRUARY 2015

TIME: 2 HOURS

INSTRUCTIONS:

- This paper consists of **FIVE** questions.
- Answer question **ONE (Compulsory)** and any other **TWO** questions.

This paper consists of Four printed pages.

QUESTION 1 (Compulsory)

- a) Outline **FOUR** advantages of withholding tax. **(8 marks)**
- b) In relation to tax, explain **FOUR** differences between dividends and bonus. **(8 marks)**
- c) State any **FOUR** services which are exempt from VAT. **(4 marks)**
- d) Dogo, Biggy and Small are in partnership, trading as Mwana Enterprises. They share profits and losses in the ratio 2:2:1. In the year 2011, they reported a profits of sh. 100,000 after charging the following item:

| | Sh. |
|---------------------------|------------|
| Depreciation | 50,000 |
| Salaries: Dogo | 200,000 |
| Biggy | 150,000 |
| Small | 100,000 |
| Interest on capital: Dogo | 50,000 |
| Biggy | 50,000 |
| Small | 25,000 |
| Office expenses | 50,000 |

Required:

- i) Determine the adjusted partnership profits. **(8 marks)**
- ii) How is taxation of a partnership different from taxation of companies? **(2 marks)**

QUESTION 2

Mr. Odipo earned the following income in the year 2012:

- Salary shs. 70,000 per month (Net of PAYE of sh. 20,000 pm)
- Was provided with a company saloon car of 1800cc, which was used for both business and private. Its actual cost was sh. 850,000.
- He was accommodated in a furnished house whose market rental value was sh. 15,000 per month. He pays sh. 5,000 p.m as rent furniture in the house had cost sh. 250,000 (but can be hired for sh. 5,000 pm.)
- His employer settled his water and electricity bills of sh. 5,000 and sh. 16,000 p.a respectively.
- He was awarded free lunches at a weekly rate of sh. 1,500 in that year.
- Mr. Odipo made the following contributions:
 - i) Sh. 7,500 p.m. to home ownership savings plan.
 - ii) NSSF sh. 200 pm
 - iii) Direct expense against employment income sh. 10,000
 - iv) Mortgage interest sh. 170,000 p.a.

- In addition to his employment income Mr Odipo made the following from other source.
 - i) Barber shop profit of sh. 20,000 pm.
 - ii) Dividend income from a local cooperative sh. 40,000 (gross)
 - iii) Rental income sh. 120,000 (he had used sh. 20,000 to repair the rental units).

Required:

- a) Compute taxable income, tax liability and comment on any item not used. **(16 marks)**
- b) Give **FOUR** reasons why the government charges tax. **(4 marks)**

QUESTION 3

- a) Identify any **THREE** situations under which tax arrears may arise. **(6 marks)**
- b) Magap has not been maintaining proper books of account since the inception of his business in the year 2008. The following balances have been obtained from the available business records for the four year period ended 31st December 2011.

| | Year ended 31st December | | | |
|----------------------------|--|------------------|------------------|------------------|
| | 2008 | 2009 | 2010 | 2011 |
| | Sh. '000' | Sh. '000' | Sh. '000' | Sh. '000' |
| Leasehold property | 9,800 | 9,800 | 9,800 | 9,800 |
| Motor vehicles | 4,200 | 600 | 7,800 | 4,800 |
| Furniture | 720 | 720 | 720 | 600 |
| Bank overdraft | 240 | 360 | 180 | 96 |
| Loss on sale of investment | - | 84 | - | 170 |
| Debtors | 360 | 420 | 340 | 500 |
| Mortgage loan | 900 | 760 | 680 | 600 |
| Stock | 560 | 480 | 360 | 400 |
| Computers | 500 | 640 | 600 | 560 |
| Bank account | 140 | 168 | 172 | 186 |

Required:

Estimate the accumulated taxable income of Magap for the four year period ended 31st December 2011. **(14 marks)**

(Capital allowances were agreed at a total of sh. 76,000 for the four year period).

QUESTION 4

- a) Briefly explain any **THREE** limitations of value added tax. **(6 marks)**
- b) The following revenue and expenditure items were extracted from the books of Maji Tamu Enterprises relating to the two month period ended 31st December 2012:

| | 2008 |
|---|------------------|
| | Sh. '000' |
| Revenue items | |
| Sale of water | 84,000 |
| Sale of a commercial building | 1,200,000 |
| Goodwill on sale of commercial building | 60,000 |
| Expenditure items | |
| Cost of drilling a borehole | 800,000 |
| Purchase of water treatment chemicals | 10,000 |
| Legal fees | 20,000 |
| Royalties paid | 15,000 |
| Electricity expense | 30,000 |
| Cost of imported borehole equipment | 80,000 |

Note:

The cost of imported borehole equipment excludes import duty of 20%. (*ignore capital allowances*).

Required:

VAT payable by (refundable to) Maji Tamu Enterprises for the two-month period ended 31st December 2012. (Transactions are quoted as VAT – exclusive). **(14 marks)**

QUESTION 5

Define wear and tear allowance. Discuss what additions and disposals do qualify and get considered respectively for wear and tear. **(20 marks)**