



TECHNICAL UNIVERSITY OF MOMBASA
SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE
UNIVERSITY EXAMINATIONS
MAY 2016 SERIES

BAC 4303: TAXATION ONE – PAPER 2
BACHELOR
OF COMMERCE/ BUSINESS ADMINISTRATION

TIME: 2 HOURS.

ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS.

QUESTION ONE

- a. Discuss the concept of Residence. (10 marks)
- b. Explain any FIVE specified chargeable incomes. (5 marks)
- c. Mshindi and Bidii decided to form partnership in 2012. Their partnership agreement provides for interest on capital. Salaries and equal share of profit or loss. The following is the partnership profit and loss account for the year ended 31 December 2015.

	Sh.	Sh.
Gross profit from trading		4,000,000
Interest from a commercial bank		<u>280,000</u>
		4,280,000
Expenses		
Interest on capitals:		
Mshindi Sh. 300,000		
Bidii Sh. <u>110,000</u>		410,000
Good will written off		180,000
Depreciation		190,000
Christmas gifts	(1)	60,000

Bad debts	(2)	190,000	
Income tax		30,000	
Partners salaries:			
Mshindi	S h.	98,000	
Bidii	Sh.	<u>110,000</u>	208,000
Professional expenses	(3)	180,000	
Salaries and wages		700,000	
Subscription	(4)	130,000	
Loss on sale of property	(5)	18,000	
Motor vehicle expenses	(6)	<u>420,000</u>	<u>2,716,000</u>
Net profit			<u>1,564,000</u>

Agreed wear and tear allowances of the year 2015 was Sh. 185,000

Note:

- Sh.
1. Christmas gifts

Diaries bought for customers	32,000		
Christmas tree for a church	<u>28,000</u>		
		<u>60,000</u>	

 2. Dad debts account brought down

	Sh.		Sh.
Bad debts written of	180,000	General	220,000
Carried down		Specific	220,000
General	256,000	Recovered	28,000
Specific	<u>222,000</u>	profit and loss a/c	<u>190,000</u>
	<u>658,000</u>		<u>658,000</u>

 3. Professional expenses

	Sh.
Audit fee	65,000
Legal fee for tax appeal	50,000
Consultancy fee for an identified project	<u>65,000</u>
	<u>180,000</u>

 4. Subscription fee to:
 - Kenya National Chamber of Commerce and Industry Sh. 60,000
 - Kenya Football Association sh. 70,000

 5. The loss on sale of property I connection with disposal of a vehicle at Sh. 420,000 which was acquired the same year at a cost of Sh. 438,000

 6. Motor vehicle running expenses of for

- Petrol and repair of motor vehicle Sh. 120,000
- Installation of new engine to the partner's saloon car Sh. 300,000.

Required.

- (a) Adjustment taxable income of the partnership business (10 marks)
 (b) Division of profit/loss among the partners. (5 marks)

QUESTION TWO

- a. Explain the circumstances under which a taxpayer may be required to inform the commissioner about changes in the business under the VAT Act. (10 marks)
- b. WERE, a manufacturer, imported raw materials worth sh.2, 000,000 (VAT exclusive). He incurred conversion cost of sh. 600,000. He sold the entire final product to a wholesaler at a profit margin of 20%. The wholesaler sold the product to a retailer at a profit margin of 20%. The retailer sold the product to a final consumer at a profit margin of 25%.

Compute the VAT payable by the manufacturer, wholesaler, retailer and the final consumer.

(10 marks)

QUESTION THREE

Explain the following

- a. Recovery of taxes by the commissioner
- b. The tribunal
- c. Return of income
- d. Tribunal (20 marks)

QUESTION FOUR

- (a) Explain the essential characteristics of Direct taxes. (4 marks)
 (b) Explain the rationale for levying taxes (6 marks)

(c) Ann Waiguru commenced a manufacturing business in Nyeri of 1st of January 2015. She incurred the following expenditure:

	Ksh.
Purchase of land	4,000,000
Plant and machinery (fixed)	2,000,000
Plant and machinery (moveable)	1,000,000
Factory building	1,800,000
Warehouse	200,000
Labour lines	1,200,000
Own dwelling houses	800,000
Computers	400,000
Scanners	100,000
Engine heads	1,500,000
Saloon car	3,000,000
Furniture and fittings	100,000

Required: compute capital allowances for Ann Waiguru for the year 2015. (10 Marks)

Rates: investment allowance – 100%, industrial building allowance – 10%, **CLASS I** 37.5 %, CLASS II 30%, CLASSI II 25%, and CLASS III 12.5%.

QUESTION FIVE

- a. Argue against sin tax. (10 marks)
- b. The principle of equality helps to achieve justice in taxation. However, although everybody may agree that a tax should be just and that it should be graduated according to ability to pay, there is no unanimity as to what is the correct measure of equity. Discuss.

(10 Marks)