

TECHNICAL UNIVERSITY OF MOMBASA
SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE
BACHELOR OF BUSINESS ADMINISTRATION
BAC 4405 : ISSUES IN TAXATION

TIME : 2 HOURS

SERIES: MAY 2016

INSTRUCTIONS

Answer question ONE (compulsory) and any other TWO .

- 1.a Briefly explain the aims of double taxation agreements. (10Mks)
- b. The following information relate to the income and expenditure of Kilimo savings and credit co-operative society (SACCO LTD) for the year ended 31st December 2014.

	Sh '000'	Sh'000'
Income		
Interest ; members loans		2800
Savings account		160
Fixed deposit account		40
Other investment income		80
Rental income		<u>500</u>
Gross income		3580
Expenditures		
Salaries to staff	1,800	
Other operating expenses	<u>600</u>	<u>(2400)</u>
Surplus		1180

The society paid dividends and bonuses to members amounting to Sh. 600,000 for the year ended 31st December 2014.

Required

- i. Taxable profit or loss by Kilimo Ltd for the year ended 31st December 2014
- ii. Tax liability (if any) from the profit and loss computed in (i) above (20Mks)

2. The following income statement was prepared by Jitegemee Co-operative Society Ltd, a district-based farmer's co-operative society, for the year ended 31 December 2012:

	Sh.'000'	Sh'000'
Turn over		18,000
Profit from canteen operations		4,000
Interest income:		
Co-operative Bank Ltd (net)	1,200	
Treasury bills (net)	750	
Member's loans (gross)	3,500	
Co-operative Insurance company Ltd (net)	80	5,530
Rental income		3,800
Total income	31,330	
Expenditure		
Cost of sales	7,200	
Staff Costs	5,400	
Depreciation	1,000	
Corporation Tax (for the year 2011)	2,800	
Insurance premium	600	
Dividend to members	4,200	
Honoraria to management committee	400	
Other operating expenses	<u>1,600</u>	<u>23,200</u>
Net profit		8,130

Additional information

1. Staff costs include court fines amounting to Sh. 200,000 and legal fees incurred in relation to:

	Sh.
Preparation of scheme of service for staff	180,000

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|-----------------------------------|---------|
| Drafting of the society's by-laws | 120,000 |
|-----------------------------------|---------|
2. Other operating expenses include Sh. 300,000 incurred to the preparation of the strategic plan for the co-operative society.

Required:

- i. Corporation tax payable by Jitegemee Co-operative Society Ltd, for the year ended 31 December 2012.
- ii. State the date (s) when the tax computed in (i) above would payable.
- iii. Comment on your treatment of interest income received by the co-operative society for the year ended 31 Dec. 2012 (20Mks)

3. Chunga Insurance Company Ltd has provided the following details with respect to its financial year ended 31 December 2012.

	Sh.
Investment income	960,000
Bad debts	350,000
Reserve for unexpired risk (1 January 2012)	840,000
Agency expenses	1,640,000
Commission on reinsurance ceded	780,000
Commission on reinsurance accepted	2,960,000
Legal expenses relating to claims	480,000
Claims recovered on reinsurance	420,000
Gross premium	18,720,000
Claims paid	5,640,000
Claims outstanding: 1 Jan 2012	680,000
31 December 2012	560,000
Life assurance fund	1,630,000
Foreign Exchange gains	360,000
Dividends from life assurance fund	172,000

Bonus utilized in reduction of premium	390,000
Rental income on premises	176,400
Purchase of furniture	86,000
Advertising expenses	102,800
Premium returned	1,460,000
Re-insurance premium paid	528,000
Management salaries	1,436,000

Additional information

1. Management salaries include Sh. 390,000 paid to an employee of the life assurance fund department.
2. Bad debts include Sh. 50,000 relating to the life assurance fund department.

Required:

A statement of taxable profit or loss of Chunga Insurance Company Ltd. for the year ended 31 December 2012. (20Mks)

4. Mr. Kokoto was trained as an engineer in the UK on returning to Kenya he registered his business as Ujenzi Contractors Ltd.

The following details related to one contract for the year ended 31 December 2012 that he had undertaken. Contract work had commenced on 1st January 2011.

Balance brought forward 1/1/2012

	Sh.
Material on site	6,000,000
Accrued wages and salaries	1,500,000
Plant written down value	190,000,000
Cost of work done	200,000,000
Value of work certified to 31 December 2011	200,000,000

Transactions during the year

Materials delivered to site: from stores	10,000,000
By suppliers	100,000,000
Additional plant purchased (cost)	10,000,000
Subcontractors fees	18,000,000

Consultancy fees	30,000,000
Inspection fees	10,000,000
Salaries and wages	120,000,000
Head office expenses	2,000,000
Material transfer out	10,000,000
Material sales	22,000,000
Plant leased from KK Ltd	400,000
Direct expenses	3,000,000
Total cash received from contractee	3,000,000
Cumulated value of work certified to Dec. 2012	700,000,000
Cost of work uncertified in the year	30,000,000
Balances carried forward:	
Materials on site	40,000,000
Wages accrual	1,000,000

Additional information

- i. Wear and tear allowance on plant and machinery is at 12.5% p.a.
- ii. Direct expenses accrued on 31 December 2012 were Sh. 400,000 for the contract.
However there was a beginning balance of Sh. 200,0000
- iii. Consultancy fees included Sh. 4,000,000 for Kokoto's personal engagement.

Required:

Compute the taxable income and tax payable by Ujenzi Contractors Ltd for the contractors for the year ended 31 December 2012. (20Mks)

5. a. Write short notes on the following:

- i. Unit trusts
- ii. Tax warranties
- iii. Indemnities (10Mks)

b. Briefly explain how capital gain is taxed through the back door? (10Mks)