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. Mega Ltd. A company incorporated in Kenya has recently concluded a petroleum agreement with the government of Kenya. Under the terms of the petroleum agreement, the company has been allowed to explore along the Kenyan waters and share the proceeds with the government on 50:50 basis. The company has sub-contracted Hi-tech Ltd to carry out exploration surveys along waters for a period of 3 months. You are provided with the following information with regard to Mega ltd for the year ended 31st December 2012.

	Shs.'000'
Production sales receipts	1,000,000
Geological and geophysical costs	20,000
Intangible drilling costs	10,000
Production expenditure	5,000
Salaries and wages to production staff	2,000
Directors private entertainment	4,000
Payments to government (50:50 basis)	1,000

Executive and general admin expenses	1,000
Management fees of eagle consultancy	3,000
Professional fees to Hz for consultancy services	2,000
Service fee paid to Hi-tech Ltd	200,000
Interest on loan at arm's length from Shamrock Commercial Bank	10,000
Exploration machinery purchased	10,000
Industrial building for exploration purposes	20,000

Required:

a) Compute the taxable profit and tax payable by Mega Ltd for the year ended 31st December 2012

b) Compute the amount of tax payable by Hi-tech Ltd and indicate the dates for the payments. (20Mks)

c) Briefly explain the benefits of special economic zones programs to the Kenyan economy. (10Mks)

2 a.Majengo Contractors Ltd. Operates in the construction industry. On 1 November 2010, the company won a tender for the construction of two projects; a hospital and on office complex. Construction of the two projects commenced on 1 January 2011.

The following details relate to the two projects for the year ended 31 December 2012:

	Hospital project	Office complex
	(Sh '000')	(Sh. '000')
Balance as at 1 January 2012:		
Material on site	6,000	4,000

Accrued wages and salaries	1,500	1,200
Plant (written down value)	190,000	150,000
Cost of work done	200,000	200,000
Value of work certified to date	200,000	160,000
Transactions undertaken during the year:		
Materials on site: from stores	10,000	14,000
From suppliers	100,000	128,000
Plant purchased(cost)	-	120,000
Sub contractor's fees	-	18,000
Consultancy fees	30,000	29,000
Inspection fees	10,000	5,000
Salaries and wages	120,000	180,000
Head office expenses	-	2,000
Material transfers out	10,000	17,000
Material sales	-	22,000
Plant lease charges	400	500
Direct expenses	3,000	2,000
Cash received from the contractee	300,000	600,00

	Hospital project (Sh.'000')	**Office complex project (Sh. '000')**
Cumulative value of work certified as at 31 December 2012	700,000	860,000
Value of work uncertified in the year	30,000	42,000
Balances carried forward:		
Material on site	40,000	50,000
Accrued wages	1,000	2,000

Additional information:

1. Wear and tear allowance on plants is at the rate of 12.5% per annum.
2. Direct expenses accrued and not shown above were as follows:

	Hospital project	Office complex \

	Sh.'000'	Sh. '000'
As at 1 January 2012	200	-
As at 31 December 2012	1,000	400

3. Consultancy fees for the hospital project include Sh. 40,000 prepaid for the year 2013.

Required:

Taxable profit or loss arising from each of the two construction projects for the year ended 31 December 2012. (20Mks)

3. Moto general insurance company Ltd provided the following details with respect to the financial year ended 31 December 2012.

	Sh.
Bad debts	468,000
Investment income	960,000
Reserve for unexpired risks: 1 Jan 2012	948,000
Commission on reinsurance accepted	3,484,900
Claims outstanding :1 Jan 2012	676,200
Gross premium	24,648,600
Claims paid	4,826,000
Claims outstanding: 31 Dec 2012	1,850,000
Claims recovered on reinsurance	545,700
Legal expenses relating to claims	376,800
Commission on re-insurance ceded	728,900
Agency fees	1,296,400
Foreign exchange losses	392,700
Dividends from life insurance fund	216,400

Management fees	1,804,600
Bonus utilized in reduction of premium	371,700
Royalties from patent rights	1,460,000
Repairs of rented premises	264,800
Travelling expenses	89,400
Purchase of motor vehicle	800,000
Re-insurance premium paid	724,800
Returned premium	1,314,600
Rental Income	560,000

Additional information

1. Agency fees include Sh. 16,400 relating to the life insurance fund
2. Management fees include Sh. 24,200 which relates to tax consultancy.
3. Repair of rented premises includes sh. 14,800 for purchase of furniture.

Required

A statement of adjusted taxable profit or loss for Moto General Insurance Company Ltd for the year ended 31 Dec. 2012 (20Mks)

4.a) Mr. Mambo a resident of Kenya earned income from the countries listed below during the year ended 31st December 2012.

Income from Kenya Sh. 1,765,000

Income from United Kingdom (UK); UK £4800(net)

Tax deducted amounted to UK£ 960

The average exchange rate during the year was 1 UK £ Sh. 140

A double taxation agreement exists between Kenya and UK

Required

Double taxation relief (in Sh due to Mr.Mambo) for the year ended 31/12/2012 and the tax payable (10Mks)

b) Principles that double tax treaties must adhere to. (10Mks)

5a)A special economic zone is a geographical area that has more liberal economic laws than the country's typical laws. It is an economic development tool to promote rapid economic growth by using fiscal and business incentives to attract investment and technology.

b).Briefly write short note on the following special economic zones.

a) Export processing zones
b) A free port
c) Industrial parks
d) ICT parks
e) Agricultural free zones (20Mks)