



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

BACHELOR OF BUSINESS COMMERCE

BAC 4305 TAXATION II

SERIES: MAY 2016

TIME: 2 HOURS

INSTRUCTIONS

The paper consists of **FIVE** questions.

Answer question **ONE** and any other **TWO** questions.

QUESTION ONE

a. Explain the tax treatment of each of the following:

- i. Mr. Koimet carries on a business of providing automatic machines for public use. He dealt in, and entered into arrangements for exploiting certain automatic machines which were declared illegal. The machines were set up in the premises to which the public resorted, for public use, and the profits arising there from were divided between Koimet and the occupier of the premises.
- ii. Wangui was an employee of Chase Limited for several years. At the time the company went under receivership and subsequently wound up, Wangui did not have any salary arrears. However, the receiver decided to pay her Ksh. 200, 000 on the final day of winding up the company.
- iii. Muthama secured a job at the Port of Mombasa. Owing to acute shortage of residential houses commensurate to his stature, he decided to be commuting from his home, at Mutitu Andei Township, daily.
- iv. Mr. Mungatana retired at the age of 60 years. He had accumulated pension amount of Ksh. 10,000,000. He decided to convert the entire withdrawable pension amount (Ksh. 10,000,000) into a lifetime investment.
- v. Owing to instability in the banking sector, Mr. Nato, a bank manager, has engaged two employment agents to secure him a more secure job in New York city. He pays them a daily allowance of Ksh. 1,000 each.

(15 Marks)

b. Although Wahida Bana has run a small business for many years, she has never kept adequate accounting records. However, the following information has been obtained after much careful research:

1 Wahida Bana's business assets and liabilities are as follows:

	<i>As at 1 September 2014</i>	<i>31 August 2015</i>
	Ksh.	Ksh.
Stock in trade	8,600	16,800
Debtors for sales	3,900	4,300
Creditors for purchases	7,400	8,900
Rent prepaid	300	420
Electricity accrued due	210	160
Balance at bank	2,300	1,650
Cash in hand	360	330

2. All takings have been banked after deducting the following payments:

Cash drawings – Wahida Bana has not kept a record of cash

drawings, but suggests they will be in the region of Ksh.8,000

Casual labour Ksh.1,200

Purchase of goods for resale Ksh.1,800

Note: Takings have been the source of all amounts banked.

3. Bank payments during the year ended 31 August 2015 have been summarised as follows:

	Ksh.
Purchases	101,500
Rent	5,040
Electricity	1,390
Delivery costs (to customers)	3,000
Casual labour	6,620

4. It has been established that a gross profit of 33 1/3% on cost has been obtained on all goods sold.

5. Despite her apparent lack of precise accounting records, Wahida Bana is able to confirm that she has taken out of the business during the year under review goods for her own use costing Ksh.600.

Required:

Compute Wahida Bana's taxable profits. (15 marks)

QUESTION TWO

- Explain the concept of shortfall distribution. (5 Marks)
- Using a suitable example demonstrate how shortfall distribution is computed. (15 Marks)

QUESTION THREE

- Explain the taxability of petroleum companies. (10 marks)
- Explain the tax planning arrangement of a sole trader. (10 marks)

QUESTION FOUR

Write brief notes on the following:

- Taxation of co-operative societies (10 marks)
- Amateur sporting associations (10 marks)

QUESTION FIVE

- Explain the circumstances under which a person may be required to register for VAT without reaching the turnover threshold. (10 marks)
- Kadzo is a registered trader. He bought material at Ksh. 800,000, incurred conversion cost of Ksh. 200,000. He sold at a profit margin of 25% to a retailer who sold to a final consumer at a mark up of 25%. Standard rate of VAT is 16%.
Required : compute VAT payable by the final consumer. (10 marks)