



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

DEGREE IN BACHELOR OF COMMERCE

BAC 4305: TAXATION II

END OF SEMESTER EXAMINATION

SERIES: DECEMBER 2016

TIME: 2HOURS

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

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

Do not write on the question paper.

QUESTION ONE

a. Although Mkandoe 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 Mkandoe's business assets and liabilities are as follows:

	As at 1 September 2014	31 August 2015
	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 – Mkandoe 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, Mkandoe 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 Mkandoe's taxable profits. (20 marks)

b. Using a suitable example demonstrate how shortfall distribution is computed. (10 Marks).

QUESTION TWO

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

QUESTION THREE

Write brief notes on the following:

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

QUESTION FOUR

- Explain the circumstances under which a person may be required to register for VAT without reaching the turnover threshold. (10 marks)

- b. JOAN is a registered trader. She 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)

QUESTION FIVE

- a. Mr. Wanjala is a money lender who is interested in a cinema Co. Being in Kampala in 2015 on business connected with the cinema Co. he was offered an opportunity of purchasing very cheaply a large quantity of paper. He effected the purchase and within a short time he sold the whole consignment to one person at a considerable profit. He was assessed on the profit. Discuss and advise. (5 marks)
- b. Apart from certain bank deposit interest, Amina' sole means of livelihood was, and has been for many years, betting on horses from her private residence with book makers at starting prices only. He was assessed on this income as trade gains. Discuss and advise.
(5 marks)
- c. The Nyali Co. held all the shares in an Likoni Co. whose business fell to be treated for income tax purposes as a branch of Co's business. For the purposes of its business the company acquired land in Mombasa and put up its subsidiary Co. into possession later an action in the Courts was commenced against the Co. and its subsidiary Co. claiming that the Co's title to the land and building were erected there on was invalid; and Likoni co incurred substantial legal expenses over a period of years in defending the action. Are the legal expenses allowable? (5 marks)
- d. Wekesa who carried on the business of providing automatic machines for public use, dealt in, and entered into arrangements for exploiting certain automatic machines to which has to be 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 the Wekesa and the occupier of the premises. Explain the tax position of the profits. (5 marks)