



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING & FINANCE
UNIVERSITY EXAMINATION FOR:
DEGREE IN BUSINESS ADMINISTRATION
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. Discuss the concept of shortfall distribution of dividends.
- b. Compute shortfall distribution of dividends from the following details.

Income before tax:

- i. Trading income ksh. 200,000
 - ii. Investment income –taxable - ksh100,000
 - iii. Investment income – non taxable - ksh100,000
 - iv. Actual dividends distributed. Ksh. 20,000
- Tax rate: 30%

Required: Compute shortfall distribution of dividends.

- c. Mr. Mmuirui bought kimeti Ltd. A saw milling company, on 1 January 1999. The purchase price of the business was equivalent to the written values of the assets for the purpose as shown below:

	Sh.
Milling machines	12,000,000
Two forklifts	2,400,000

One lorry (25 tones)	800,000
Two computers	180,000
Two saloon cars	1,300,000
Furniture and fittings	650,000

The owners of Kimeti Ltd. Has been operating in a rented building Muiruri constructed a building adjacent to the acquired premises at a cost of sh. 28,000,000 and shifted to this new building on 1 April 1999. In an effort to expand the business . Muiruri incurred the following expenditure during the year 1999

	Sh.	
Milling machines	12,000,000	
Furniture	80,000	
Computers	240,000	
Three saloon cars (3000cc)	3,300,000	
One lorry	1,300,000	
Fork-lifts	1,800,000	
Muiruri sold the following assets during the year 1999		

	Sh.
Computer	65,000
Fork –lifts	800,000
Furniture	80,000

Required

Capital allowances for the company for the year ended 31,December 1999.

QUESTION TWO

Explain the taxability of the following:

- Cooperative societies
- Insurance companies

(20 marks)

QUESTION THREE

Discuss the following independent cases:

- A tip given by a patient to her medical doctor.
- Cash given by an employee to an employment agent to search for a better job.
- School fees paid to a college to acquire necessary skills for better performance at the work place.
- Upkeep money given to a spouse of an employee while on a foreign business trip.

(20 marks)

QUESTION FOUR

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

QUESTION FIVE

Following is the Balance Sheet of Mr.Oyoti, a small trader, as on 31st March, 2008:

Liabilities	Sh.	Assets	Sh.
Creditors	1,00,00	Cash	10,00
Capital	4,00,00	Bank	20,00
		Stock	80,00
		Debtors	1,00,00
		Fixed Assets	<u>2,90,00</u>
	<u>5,00,00</u>		<u>5,00,00</u>

A fire occurred on the night of 31st March, 2009, destroying the accounting records as well as the closing cash of the trader. However, the following information was available:

- (i) Debtors and creditors as on 31st March, 2009 showed an increase of 20% as compared to 31st March, 2008.
- (ii) Credit period:
Debtors : 1 month
Creditors : 2 months
- (iii) Stock was maintained at the same level throughout the year.
- (iv) Cash sales constituted at 20% of the total sales.
- (v) All purchases were on credit basis only.
- (vi) Current ratio on 31st March, 2009 was exactly 2.
- (vii) Total expenses excluding depreciation for the year amounted to Sh.5,00,000.
- (viii) Depreciation was provided @ 10% on the closing book value of fixed assets.
- (ix) Bank and cash transactions for the financial year 2008-09 were as under:
 - (a) Payment to creditors included Sh.1,00,000 by cash.
 - (b) Received from debtors included Sh.11,80,000 by way of

- cheques. (c) Cash deposited into the Bank Sh.2,40,000.
- (d) Personal drawings from Bank Sh.1,00,000.
- (e) Fixed assets purchased and paid by cheques Sh.4,50,000.
- (f) Assume that cash destroyed by fire is written off in the Profit and Loss account. You are required to compute taxable profits of the business.