



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING & FINANCE
UNIVERSITY EXAMINATION FOR:
BACHELOR OF COMMERCE III
BACHELOR OF IN BUSINESS ADMISTRATION III
BAC 4303: TAXATION 1
END OF SEMESTER EXAMINATION
SERIES: AUGUST, 2019
TIME:2 HOURS
DATE: AUGUST, 2019

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) Explain any **Seven** factors that affect the taxable capacity of a your country **(7Marks)**
(b) Why should the Kenyan government levy taxes on its citizens? **(3 Marks)**
(c) Kavu Ltd. prepared the following income statement for the year ended 31 December 2018:

	Sh.	Sh.
Gross profit		4,200,000
Rental income (net)		360,000
Interest income (net)		408,000
Discount received		<u>72,000</u>
		5,040,000
Expenses:		
Salaries and wages	1,200,000	
Rent and rates	340,000	
Legal expenses	480,000	
Office expenses	48,000	
Depreciation	212,000	
VAT paid	82,000	
Computer software	120,000	
Provision for reserves	96,000	

Marketing and advertisement	346,000	
Subscriptions expenses	<u>150,000</u>	<u>(3,074,000)</u>
Net profit		<u>1,966,000</u>

Additional information:

1. The company paid subscriptions for its top management to City Golf Club amounting to Sh.68,000. This amount was included in the subscription expenses.

2. Legal expenses related to:

	Sh.
Settling customer's disputes	100,000
Conveyance fees on purchase of land	160,000
Acquisition of a bank loan	48,000
Preparation of memorandum of association	<u>172,000</u>
	<u>480,000</u>

3. Marketing and advertisement expenses include:

	Sh.
Installation of neon sign	132,000
Christmas gifts to staff	146,000
Advertising campaign	<u>68,000</u>
	<u>346,000</u>

4. 25% of rent and rates relate to payments in connection with the director's private residences.

5. Office expenses include Sh.32,000 for purchase of an office cabinet.

6. Interest income (net) was received from Biashara Bank

7. The gross rental income for the year was Sh. 3,000,000

Required:

(i) Adjusted taxable profit or loss for Kavu Ltd. for the year ended 31 December 2018. **(18 Marks)**

(ii) Tax payable (if any) from the adjusted profit or loss in (b) (i) above. **(2 Marks)**

QUESTION TWO

Banki Ltd was incorporated on 1st July 2018 to manufacture shoe polish in Thika Municipality. The factory was commissioned for production with effect from 31st September, 2018. The following details related to the acquisition of fixed assets:

Land and buildings (analysis)	Sh.
Land	2,500,000
Factory buildings	50,000,000
Sewers and drainage	1,000,000
Factory canteen	5,000,000
Offices	7,000,000
Showroom	6,000,000
Worker's quarters	2,000,000
Stone fencing round factory	6,000,000
Tarmacking of driveway	3,000,000

Plant and machinery:	Sh.
Processing machinery (all new and fixed to building)	250,000,000
Furniture, fitting and equipment	3,000,000
Motor car	2,500,000
Lorry and tractor	7,000,000
Computers	3,000,000

Required:

Calculate the capital deductions due to the company for the year ended 31st December, 2018
(20 Marks)

QUESTION THREE

(a) The following transactions were extracted from the books of Plainview Traders for the month of November 2018:

1. Cash purchases from Imara Traders Sh. 102,225
2. Purchase of goods on credit from Iman Traders Sh. 113,825
3. Sale of standard rated goods to Umoja Enterprise Sh. 211,700
4. Purchase of office furniture Sh. 95,700
5. Repairs and maintenance cost of delivery van Sh. 26,825
6. Sold goods to Mawaza Agency Sh. 181,975
7. Credit sales to National Youth Service (NYS) amounting to Sh. 264,625
8. Imported goods from Moseli Ltd of Egypt Sh. 193,575 (inclusive of import duty)
9. Exported goods to Tanzania Sh. 114,470
10. Sold goods to unregistered customers Sh. 70,470
11. Mawaza Agency returned goods worth Sh. 41,325 and was issued with a credit note.
12. The owner of the business took some goods for own use worth Sh. 55,825.
13. Received a debit note from Imani Traders worth Sh. 35,525.
14. Other expenses during the month were as follows:

	Sh.
Electricity bill	17,400
Salaries and wages	172,550
Stationery	20,300

Transactions are stated inclusive of VAT at the rate of 16% where applicable and unless stated.

Required:

A value added tax (VAT) account for Plainview Traders for the month of November 2018.
(12 Marks)

b) Discuss the role of Kenya Revenue Authority in the economic development of Kenya. (8 Marks)

QUESTION FOUR

- (a) Discuss in details advantages of direct taxes.
(b) Discuss the main canons of taxation.

(10 Marks)
(10 Marks)

QUESTION FIVE

Sokoine works as a Finance Manager for Zamalek Motors Ltd. He has provided the following information relating to his income for the year ended 31 December 2018:

1. Basic monthly salary Sh. 180,000 payable in arrears. (PAYE Sh. 42,000 per month).
2. He earned bonus pay of Sh. 18,000 and overtime allowance of Sh. 140,000 as per term of his contract, during the year.
3. The company caters for staff lunch on an equal basis at the staff canteen. During the year, the company spent Sh. 320,000 on his lunch.
4. He contributes 5% of his monthly basic salary to a registered pension scheme when the company contributes a further 10% on his behalf.
5. He was provided with a company car of 2,500 cc which was acquired by the company on 1 July 2016 at the cost of Sh. 3,500,000.
6. He was paid a hardship allowance of Sh. 280,000 during the year when he was deployed to supervise the company's branches in remote parts of the country in addition to the normal subsistence allowance.
7. He was reimbursed private entertainment expenses of Sh. 120,000 during the year.
8. The company paid his monthly rent of Sh. 85,000.
9. The following domestic expenses were paid for him by the company during the year:
Sh.

Electricity bill	65,000
Telephone bills	140,000
Furniture	280,000
10. The company paid subscription fees on his behalf to the golf sports club amounting to Sh. 180,000.
11. He has a life insurance cover for self and family for which he paid premiums of Sh. 48,000 per month.

Required:

- a) Taxable income for Sokoine for the year ended 31 December 2018. (15 Marks)
b) Tax payable (if any) on the income computed in (b) i) above (5 Marks)

RATES OF TAX (Including wife's employment and professional income rates of tax)
year of income 2018.

Monthly taxable pay (Sh.)	Annual taxable pay (Sh.)	Rate of tax % in each Sh.
0 - 12,298	1 - 147,580	10%
12,298 - 23,885	147,580 - 286,624	15%
23,885 - 35,472	286,623 - 425,666	20%
35,472 - 47,059	425,666 - 564,709	25%
Excess over 47,059	Excess over - 564,709	30%

Personal relief Sh. 1,408 per month (Sh. 16,896 per annum)

Prescribed benefit rates of motor vehicles provided by employer

		Monthly rates (Sh.)	Annual rates (Sh.)
Capital allowance:	(i) Saloons, Hatch Backs and Estates		
Wear and tear allowance:	Upto 1200cc	3,600	43,200
Class I 37.5%	1201 1500cc	4,200	50,400
Class II 30%	1501 1750cc	5,800	69,600
Class III 25%	1751 2000cc	7,200	86,400
Class IV 12.5%	2001 3000cc	8,600	103,200
	Over 3000cc	14,400	172,800

Software(straight-line) 20%

Telecommunication equipment (straight-line) 20%

Loose tools and implements (straight-line) 33.3%

Industrial building allowance:

Upto 2009	2.5%
From 1 January 2010	10%
Hotels	10%
Hostels/Education buildings	50%
From 1 January 2010 – Commercial building: Shop, office or show room)	25%

Farm works allowance

100%

(ii) Pick-ups, Panel Vans (unconverted)

Investment deduction allowance

100%

Upto 1750cc	3,600	43,200
Over 1750cc	4,200	50,400

(iii) land Rovers/Cruisers 7,200 86,400

Shipping investment deduction 40%

Mining allowance:

Year 1	-	40%
Years 2 – 7	-	10%

Commissioner's prescribed benefit rates

Services	Monthly rates Sh.	Annual rates Sh.
(i) Electricity (Communal or from a generator)	1,500	18,000
(ii) Water (Communal or from a borehole)	500	6,000

Agriculture employees: Reduced rates of benefits

(i) Water	200	2,400
(ii) Electricity	900	10,800