



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) With reference to section 132(6) and the thirteenth schedule of the Income Tax Act (Cap.470), list six types of transactions for which personal identification number (PIN) is required. **(6 marks)**
- b) Munala and Madoo are in partnership trading as MUNATO Traders. They share profits and losses in the ratio of 2:3 respectively. The partnership statements of income for the year ended 31 December 2018 was as follows:

	Sh.	Sh.
Gross profit		5,130,600
Sales of motor vehicle		136,700
Foreign exchange gain		<u>72,800</u>
		5,340,100
Less expenses:		
Purchase of furniture	147,000	
Depreciation	180,000	
Conveyance fee for a plot	369,600	
Excise tax	23,100	
Salaries and wages	1,050,000	

Required:

- i) Adjusted taxable profit or loss for the partnership business for the year ended 31 December 2018. **(16 Marks)**
- ii) Determine the tax payable by Matoo **(8 Marks)**

QUESTION TWO

- a) The management of Taratibu Ltd has presented the following statement of comprehensive income for the year ended 31 December 2018.

	Sh.	Sh.
Gross profit		3,980,000
Other income		
Discount received		120,000
Gain on sale of equipment		82,000
Interest from Biashara Bank Ltd (Net)		51,000
Refund of import duty		28,000
Gain on foreign exchange transactions (realized)		<u>49,000</u>
Total revenue		4,310,000

Expenses:	Sh.	Sh.
Property rates	112,000	
Insurance	48,600	
NSSF Contributions	150,000	
Depreciation	132,500	
Salaries and wages	240,000	
Goodwill amortization	122,300	
Advertising	342,000	
Legal fees	142,000	
Traveling expenses	180,600	
Donations	156,200	
General expenses	426,000	
Bad debts	176,800	
Furniture	280,000	
Corporation tax	<u>242,800</u>	<u>(2,751,800)</u>
Net profit		<u>1,558,400</u>

Additional information:

- Donations relate to the amounts subscribed to a trade association.
- Legal fees comprised the following:

	Sh.
Acquisition of a bank loan	42,000
Setting customer disputes	34,000
Conveyance fee for purchase of land	60,000
Preparation of a Memorandum of Association	<u>6,000</u>
	<u>142,000</u>

3. General expenses include:

	Sh.
Golden handshake to a retiring director	220,000
Directors emoluments	172,000
Christmas gifts to staff	<u>34,000</u>
	<u>426,000</u>

4. Advertising expenses include Sh. 125,000 spent on acquisition of a neon sign.

5. Bad debts comprised the following:

	Sh.
General provision for bad debt	32,000
Embezzlement by the cashier	117,600
Specific provisions for bad debt	<u>26,400</u>
	<u>176,800</u>

6. It is estimated that 15% of the travelling expenses related to private usage of company motor vehicles by the directors.

Required:

- (a) Compute corporate tax liability for 2018. **(17 Marks)**
(b) State the dates when such tax should be paid. **(3 Marks)**

QUESTION THREE

a) Bakoba Ltd is a coffee processing company. The company commenced its operations on 4 January 2018 after incurring the following expenditure:

	Sh.
Factory building	9,600,000
Coffee milling machinery	2,500,000
Motor vehicle (Toyota Prado)	3,200,000
Furniture and fittings	800,000
Sports pavilion	1,600,000
Delivery vans	2,800,000
Staff canteen	620,000
Parking bay	380,000
Computers	150,000
Land	2,500,000
Mobile forklift	1,200,000

Additional information:

1. A recreation hall was constructed at a cost of Sh. 800,000 and utilized with effect from 2 October 2018.
2. The cost of computers includes Sh. 80,000 spent on acquisition of computer software.
3. A lorry (4 tonnes) was acquired on 30 June 2018 at a cost of Sh. 2,500,000.
4. A borehole was drilled at a cost of Sh. 1,800,000 and utilized with effect from 1 July after fitting a water pump costing 600,000.

Required:

Capital allowances due to Bakoba Ltd. for the year ended 31 December 2018. **(20 Marks)**

QUESTION FOUR

M/S Mutongoria is an employee of Mang'ang'a ltd. She has provided the following details pertaining to her income for the year of income 2018:

1. Her monthly basic salary Sh.105,000 (PAYE 21,000 per month)
2. She was provided with a house by the company. The rental market value was Sh.35,000 per month.
3. She controls 4% of the share capital of Kivu Ltd.
4. The company bought for her a cell phone for Sh.50,000 and provided a monthly airtime of Sh,10,000.
5. She obtained an education policy of Sh.1,000,000 where the company paid on her behalf Sh.12,000 per month to the insurance company.
6. She received an allowance of Sh.180,000 for the extra time she worked during the year.
7. She was provided with a company car of 2500cc whose book value as at 31 December 2018 was Sh.840,000. The motor car was purchased on 1 January 2016. The policy of the company is to depreciate motor vehicles at 10% on cost.
8. She is a member of a registered pension scheme where she contributed Sh.18,000 per month towards the scheme.
9. She received a year end bonus payable to executive staff of Sh.120,000
10. The employer reimbursed her for all medical expenses incurred during the year amounting to Sh.365,400. The company has a medical scheme for all staff members.
11. She also owns a rental house and for the year ended 31st December, 2018 she provided the following details:

	shs	shs
Gross rent for the year		650,000
Less: expenses:		
Salary to care taker	144,000	
Land rates	9,000	
Extension to the building	270,000	
Water and electricity	50,000	
Other expenses	<u>15,000</u>	<u>488,000</u>
Net rental income		<u>162,000</u>

12. She also runs a Hardware shop and she provided the following details for the year under consideration:

	shs
Sales	9,500,000
Expenses:	
Electricity	300,000
VAT	1,750,000
Purchases	4,650,000
Rent of premises	400,000
salaries	750,000
Wear and tear	60,000
license	20,000
Other allowable expenses	40,000

Required:

- (a) Taxable income for M/S Mutongoria for the year ended 31 December 2018 **(14 Marks)**
- (b) Tax payable (if any) on the income computed in (i) above. **(6 Marks)**

QUESTION FIVE

- (a) Discuss any **FOUR** functions of the Government of Kenya **(10 Marks)**
(b) With reference to the Income Tax Act (Cap 470) explain the tax treatment of the following incomes

Received by a company.

- (i) Dividend (3 Marks)
(ii) Interest (2 Marks)
(iii) Rent (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%

