



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 4305: TAXATION 11
END OF SEMESTER EXAMINATION
SERIES: APRIL, 2022
TIME: 2 HOURS
DATE: APRIL, 2022

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. Section 24 (1) of the Income Tax Act (Cap 470) requires companies to adequately distribute their profits as divided within twelve months after the end of the accounting period.

Required:

Outline the circumstances under which a company may apply for exemption from the shortfall distribution requirements. **(5 Marks)**

- b. Discuss six documents required when filing capital gain tax returns. **(6 Marks)**

- c. The following information was obtained from the books of Ufundisho Ltd., a manufacturing company for the year ended 31 December 2021:

Ufundisho Ltd commenced its fertilizer manufacturing operations on 2 January 2020.

In the year ended 2021, capital deduction schedule shows that the written down values as at 31st December 2020 were as follows:-

	Written down values
	Sh.
Plant and machinery	5,261,500
Motor lorry	72,760
Delivery vans and pick-up (less than 3 tones)	2,025,000
Furniture and fittings	600,000
Staff houses	8,400,000

In 2021 it incurred the following capital expenditure:

	Sh.
Factory building	12,000,000
Computers	380,000
Processing machine	6,000,000
Drainage system	480,000
Tractors	5,600,000
Lorry (10 tonnes)	8,000,000
3 saloon cars (Sh. 2,400,000)	7,200,000
Furniture and fittings	820,000
Motor cycles	250,000
Staff clinic	860,000
Wheel barrows	36,000
Weighing machine	163,000
Fax machine	145,000

Additional information:

1. Factory building includes a warehouse costing Sh. 2,000,000 and a showroom costing Sh. 2,500,000.
2. A perimeter wall was constructed at a cost of Sh. 3,000,000 during the year.
3. The staff quarters and staff canteen were constructed at a cost of Sh. 1,500,000 and Sh. 860,000 respectively and were both put into use from 1 October 2021.
4. During the year, one of the saloon cars was sold for Sh. 900,000.
5. General expenses included Sh. 1,200,000 being payment of penalties due to non-compliance with manufacturing regulations.
- 6.
7. An extract of the income statement for the year ended 31 December 2021 was as follows:

	Sh.	Sh.
Gross profit		40,000, 000
Less:		
General expenses	3,900, 000	
Directors fees	7,200, 000	
Depreciation	10,400, 000	
Salaries and wages	4,600, 000	
Donation to a political party	820, 000	
Interest expenses	6,200, 000	
Dividend paid	4,605, 000	
Repair and maintenance	6,250, 000	(43,975, 000)
Net loss for the year		<u>(3,975,000)</u>

Required:

- i) Capital allowances due to Ufundisho Ltd for the year ended 31 December 2021 **(15 Marks)**
- ii) Taxable profit (if any) for the year ended 31 December 2021 **(4 Marks)**

Question Two

- (a) Back duty investigation refers to the assessment and collection of tax in arrears relating to the past years.

Required:

Discuss any **FIVE** sources of Information for back duty investigations **(5 Marks)**

- (b) The following is the income statement of Kahawa Co-operative Society, for the year ended 31st Dec 2021.

<u>INCOME STATEMENT</u>			
	Dr(Ksh)		Cr(Ksh)
Salaries/ Wages	2,400,000	Gross profit b/d	20,000,000
Directors fees	400,000	Sale of non-current asset	3,000,000
Rent/rates	160,000	Bad debts recovered (previously w/off)	400,000
Travelling/Entertainment	40,000	Income tax refund	2,000,000
Donations	160,000	Release of liabilities	400,000
Repairs/maintenance	2,000,000		
Bad debts reserves	1,200,000		
General expenses	3,000,000		
Income tax paid	800,000		
Net profit c/d	<u>15,640,000</u>		
	<u>25,800,000</u>		<u>25,800,000</u>

Additional information;

- i. Included in director's fees is 300,000 paid as fine for flouting traffic rules.
- ii. Repairs and maintenance include depreciation of Ksh 800,000.
- iii. General expenses include cost of delivery van purchased at Ksh 1,800,000
- iv. The cooperative society would like to shs 6,500,000 as dividends and bonuses.

- v. Assume this cooperative society is a primary society
vi. Dividends and bonuses paid during the year amounted to Sh. 9,000,000

Required;

Compute taxable income and tax liability for Kahawa Cooperative Society. **(10 Marks)**

(c) Discuss the benefit theory of taxation. **(5 Marks)**

Question Three

M/s Maneno is an employee of Vitina ltd. She has provided the following details pertaining to her income for the year of income 2021:

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 Vitina 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 2019 was Sh.840,000. The motor car was purchased on 1 January 2018. 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, 2021 she provided the following details:

	shs	shs
Net 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>

Rent was received net of a withholding tax by a licensed agent.

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 Maneno for the year ended 31 December 2021 **(14 Marks)**
(b) Tax payable (if any) on the income computed in (i) above. **(6 Marks)**

Question Four

Bila and Maria are in partnership operating under the name BIMA Enterprises. They import second-hand shoes which they sell in the local market. In the year ended 31 December 2021, they presented the following accounts:

Particulars	Sh.
Sales	6,000,000
Closing stock	1,500,000
Sundry receipts	450,000
Interest on a deposit account (Net)	816,000
Interest on drawings	300,000
Dividend from ABC Mining	90,000
Gain on sale of old truck	44,000
Discount received from foreign suppliers	20,000
Foreign exchange gain	80,000
Insurance compensation for vandalized shop	<u>200,000</u>
	<u>9,500,000</u>

Particulars	Sh.
Opening stock	800,000
Purchases	3,500,000
Wages	2,200,000
Carriage inwards	280,000
Rent and rates to county government	40,000

Cargo clearance fees	85,000
Depreciation	300,000
Insurance premium	78,000
Advertising expenses	420,000
Transport to the outlets	86,000
Customs duty paid	46,000
Fines for late payment of import duty	70,000
Interest on capital paid to partners	300,000
VAT paid	145,000
Commissions paid to partners	160,000
Donations to county governments	900,000
Salaries to partners	800,000
Legal expenses	94,000
Net loss	<u>(804,000)</u>
	<u>9,500,000</u>

Additional information:

1. The partners' capital contribution was Sh. 2,000,000 and Sh. 4,000,000 for Bila and Maria respectively and the interest on capital is based on the proportion of capital contributed.
2. Profits are share in the ratio 2:1 as per their partnership deed.
3. The commission to partners was as follows:

	Sh.
Bila	82,000
Maria	78,000

4. The salary to partners was as follows:

	Sh.
Bila	200,000
Maria	600,000

5. Legal expenses relate to arbitration of personal dispute between Bila and Maria's husband.
6. Interest on drawings was as follows:

	Sh.
Bila	220,000
Maria	80,000

Required:

- a) Adjusted partnership profit for the year ended 31 December 2021. **(16 Marks)**
- b) Compute the tax payable by each Maria **(4Marks)**

Question Five

- (a) Tax planning is defined as the methods used by a tax payer to reduce his burden of taxes in a legal manner. Discuss five goals that can be achieved through tax planning.

(10 arks)

(b) The following information was extracted from the books of Juakali Ltd for the month of February 2022:

Cash Book Extract

Date	Details	Sh.	Date	Details	Sh.
1/2/22	Balance b/f	120,000	3/2/22	Cash purchases	200,000
2/2/22	Cash sales	560,000	6/2/22	Cash purchases	120,000
6/2/22	Cash sales	750,000	8/2/22	Cash purchases	240,000
15/2/22	Cash sales	420,000	9/2/22	Electricity bill	34,000
23/2/22	Cash sales	360,000	15/2/22	Payment Jan purchases	45,000
25/2/22	Refund from suppliers	240,000	19/2/22	Salary and wages	520,000
28/2/22	Cash sales	280,000	27/2/22	Sales Commission	50,000
			27/2/22	Audit fees	80,000
			28/2/22	Balance carried down	,441,000
		<u>2,730,000</u>			<u>2,730,000</u>

Additional information:

1. Sales were made up of standard, zero-rated and exempt sales in the ratio of 3:2:1 respectively.
2. Sales invoices omitted for goods sold at standard rate for the month of February 2022 amount to Sh. 1,500,000.
3. Refund from customers included bad debts recovery of Sh. 72,000 which was previously written off and VAT refund claimed and Sh. 168,000 being an amount deposited to a customer bank account erroneously.
4. Electricity bill paid relates to months of January and February 2022 and were incurred equally. 25% of the bill relates to domestic use.
5. Credit notes of Sh.35,000 were sent to customers. This relates to goods sold at standard rate.
6. Bad debts written off during the month amount to Sh. 24,000.
7. Sales return by customers of goods sold at standard rate amount to Sh. 450,000.

The above transactions are stated exclusive of VAT unless otherwise stated.

Required:

A value added tax (VAT) account for the month of February 2022 for Juakali Ltd. **(10 Marks)**

RATES OF TAX (Including wife's employment and professional income rates of tax) year of income 2021.

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

Prescribed benefit rates of motor vehicles provided by employer

	Monthly rates (Sh.)	Annual rates (Sh.)
(i) Saloons, Hatch Backs and Estates		
Upto 1200cc	3,600	43,200
1201 1500cc	4,200	50,400
1501 1750cc	5,800	69,600
1751 2000cc	7,200	86,400
2001 3000cc	8,600	103,200
Over 3000cc	14,400	172,800

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

Upto 1750cc	3,600	43,200
Over 1750cc	4,200	50,400
land Rovers/Cruisers	7,200	86,400