



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING & FINANCE
UNIVERSITY EXAMINATION FOR:
DIPLOMA IN ACCOUNTANCY II
BAC 2208: TAXATION
SUPPLEMENTARY/SPEC. EXAMINATION
SERIES: JUNE, 2022
TIME: 2 HOURS
DATE: JUNE, 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) Discuss any five desirable qualities of a good tax system. **(10 marks)**

(b) Pitch Ltd prepared the following income statement for the year ended 31 December 2014:

	<i>Sh.</i>	<i>Sh.</i>
Gross profit		4,200,000
Discount received		<u>72,000</u>
		4,272,000
<i>Expenses:</i>		
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	216,000	
Marketing and Advertisement	346,000	
Electricity	<u>150,000</u>	(3,074,000)
Net profit		<u>1,198,000</u>

Additional Information:

1. Legal expenses include:

	Sh.
Settling customers disputes	100,000
Conveyance fees on purchase of land	160,000

2. 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>

3. 25% of rent and rates relate to payments in connection with the director's private residences.
 4. Office expenses include Sh. 22,000 for purchase of an office cabinet.

Required:

- i) Adjusted taxable profit or loss for Pitch Ltd for the year ended 31 December 2021. **(18Marks)**
 ii) Tax payable (if any) from the adjusted profit or loss in b) i) above **(2 Marks)**

QUESTION TWO

- a) Tamu Ltd is a company engaged in the processing of sugar for sale in the local foreign markets. The company purchased the following assets during the year 2021:

Asset	Cost
Delivery van	1,800,000
5 tonne lorry	4,300,000
Photocopier	860,000
Water pump	1,480,000
Furniture & fittings	120,000
Tractor	3,200,000
Conveyor belts	1,400,000
Milling machine	11,900,000
Trailer for tractors	680,000

Required:

- Capital allowances due to Tamu Ltd for the year ended 31 December 2021. **(10 Marks)**
 b) Discuss the functions of the government of Kenya. **(10 Marks)**

QUESTION THREE

Shikah and Paker are in a farming partnership for the year ended 31 December 2021:

Mazao Enterprises
Income Statement
For the year ended 31 December 2014

	<i>Sh.</i>	<i>Sh.</i>
Income		
Sales		2,800,000
Gain on sale of a tractor		250,000
Foreign exchange gains (realized)		<u>138,000</u>
		3,188,000
Expenditure:	<i>Sh.</i>	<i>Sh.</i>
General expenses	680,000	
Rent and rates	72,000	
Purchase of land	112,000	
Salaries and wages	536,000	
Fertilizers	340,000	
Partners' drawings	480,000	
Depreciation	120,000	
Legal fees	150,000	
Interest on capital: Shikah	180,000	
Paker	200,000	
Mortgage interest	240,000	<u>3,110,000)</u>
Net loss		<u>78,000</u>

Additional information:

1. General expenses comprise:

	<i>Sh.</i>
School fees to partners children	120,000
Cost of debit recovery from customers	160,000
Cash embezzled by cashier	<u>400,000</u>
	<u>680,000</u>

2. Legal fees comprise:

	<i>Sh.</i>
Parking fines	28,000
Signing of a 100-year lease	64,000
Defending Paker in partnership business dispute	<u>58,000</u>
	<u>150,000</u>

3. Salaries and wages include Sh. 90,000 and Sh. 150,000 as salaries paid during the year to Shikah and Paker respectively.
4. Partners' drawings were in the proportion of their profit sharing ratios.

5. The farm works were constructed on 1 January 2021.
6. Mortgage interest relates to Shikah's residential home.

Required:

- a) Adjusted taxable profit or loss of the partnership for the year ended 31 December 2021. **(16 Marks)**
- b) A schedule showing the distribution of the taxable profit or loss in (a) above **(4 Marks)**

QUESTION FOUR

- (a) List any sources of income that are exempt from tax in Kenya. **(10 Marks)**
- (b) Giving examples explain direct taxes **(10 marks)**

QUESTION FIVE

- (a) What particulars should a valid VAT tax invoice contain? **(10 Marks)**
- (b) Why should the government of Kenya levy taxes to its citizens. **(10 Marks)**