



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING & FINANCE
UNIVERSITY EXAMINATION FOR:
DIPLOMA IN ACCOUNTANCY II
BAC 2208: TAXATION
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) What is meant by the word 'taxation?' (3 marks)

(b) List and explain **Five** taxes charged in Kenya. (10 marks)

(c) J Katana is a sole trader and owns a retail shop. His profit and loss account for the year ending

31st December 2021 was as under:

J Katana profit and loss account for the year ending 31st December 2021:

| | | |
|-----------------------|------------|----------------|
| | | Sh. |
| Gross profit | | 800,000 |
| Less Expenses: | | |
| | Sh. | |
| Wages and salaries | 200,000 | |
| Rent and rates | 100,000 | |
| Water and electricity | 40,000 | |
| Depreciation | 10,000 | |
| Legal expenses | 36,000 | |
| Sundry expenses | 44,000 | <u>430,000</u> |
| Net profit | | <u>370,000</u> |

Additional Information:

- (a) 40% of rent and rates and water and electricity is to be considered as personal expense of J Katana
- (b) Capital allowances allowable for the year Sh.8,000.
- (c) Legal expenses Sh.16,000 are not allowable for tax purposes.
- (d) Sundry expenses Sh.4,000 are not allowable deduction.

Required:

Calculate taxable profit of J Katana and the tax payable indicating when the tax due should be paid.

(17 Marks)

QUESTION TWO

- a) List and explain **Five** sources of income that are subject to tax in Kenya. **(10 Marks)**
- b) Discuss **Five** advantages of direct taxes. **(10 Marks)**

QUESTION THREE

- (a) James Amwayi owns a rental house and for the year ended 31st December, 2021 he provided the following details:

| | shs | shs |
|---------------------------|---------------|------------------|
| Gross rent for the year | | 11,650,000 |
| Less: expenses: | | |
| Salary to care taker | 644,000 | |
| Land rates | 9,000 | |
| Extension to the building | 1,270,000 | |
| Water and electricity | 50,000 | |
| Other expenses | <u>15,000</u> | <u>1,988,000</u> |
| Net rental income | | <u>9,662,000</u> |

Prepare for the year ended 31 December, 2021.

Determine taxable rental income. **(12 Marks)**

- (b) Explain why accounting income usually differ from taxable income. **(8 Marks)**

QUESTION FOUR

- a) Nandy Ltd is a meat processing company that was incorporated on 30 December 2020. The company started its operations on 10 January 2021 after incurring the following capital expenditure:

| Assets | Cost Sh. |
|-------------------------|-------------|
| Land | 6,500,000 |
| Processing machinery | 4,200,000 |
| Factory building | 2,800,000 |
| Tractors | 4,600,000 |
| Trailer for the tractor | 1,200,000 |
| Furniture | 860,000 |
| Labour quarters | 3,200,000 |
| Computer software | 280,000 |
| Photocopiers | 160,000 |
| Air conditioners | 980,000 |
| Isuzu pick-up | 1,800,000 |
| Sports pavilion | 640,000 |
| Lorry (3 tonnes) | 3,800,000 |
| Staff canteen | 960,000 |

Required:

Capital allowances due to Nandy Ltd for the year ended 31 December 2021. (10 Marks).

- (b) Explain Any Five canons of taxation.

(10 Marks)

QUESTION FIVE

Bonkey Magezi works for Baricho Millers Ltd as a technical Manager. He has provided the following information relating to his income for the year ended 31 December 2021.

1. Basic monthly salary Sh. 160,000 (PAYE Sh. 48,000 per month)
2. He consumed food valued at Sh. 180,000 during the year which was fully paid by the company. The company operates a restaurant which provides food to all staff.
3. Due to nature of his job, he was paid hardship allowance of Sh. 15,000 per month.
4. He contributed Sh. 48,000 per month towards a registered pension scheme while the employer contributed 10% of his monthly basic salary towards the same scheme.
5. He was provided by the company with a pick-up of 2,000 cc which had cost the company Sh. 2,800,000.
6. Bills paid for him by the company during the year were 180,000 and Sh. 120,000 for electricity and telephone respectively.
7. The company paid life insurance premium for Bonkey Magezi of Sh. 15,000 per month with effect from 1 April 2016.

8. Bonkey Magezi holds a savings account with Hekima Bank Ltd on 15 July 2016, he received Sh. 68,500 as interest from his savings account.

Required:

- a) Bonkey Magezi's taxable income for the year ended 31 December 2021. **(12 Marks)**
- b) Tax payable (if any) from the income computed in (a) above. **(8 Marks)**