



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING & FINANCE
UNIVERSITY EXAMINATION FOR:
BACHELOR OF SCIENCE IN MATHS AND FINANCE
BAC 4151: PRINCIPLES AND PRACTICE OF 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) Discuss Five sources of income that are subject to tax. **(5Marks)**
(b) Why should the Kenyan government levy taxes on its citizens? **(5Marks)**

- (c) The management of Hekima Ltd has presented the following statement of comprehensive income for the year ended 31 December 2021.

	<i>Sh.</i>	<i>Sh.</i>
Gross profit		3,980,000
Other income		
Discount received		120,000
Gain on sale of equipment		82,000
Interest from Biashara Bank Ltd (Net)		100,000
Refund of import duty		<u>28,000</u>
Total revenue		4,310,000

<i>Expenses:</i>	<i>Sh.</i>	<i>Sh.</i>
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>	(2,751,800)
Net profit		<u>1,558,400</u>

Additional information:

1. Donations relate to the amounts donated to a trade association.
2. Legal fees comprised the following:

	Sh.
Setting customer disputes	76,000
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.
Directors emoluments	172,000
Christmas gifts to staff	<u>34,000</u>
	<u>206,000</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.
7. Capita allowances were agreed with the Commissioner of revenue authority at Sh. 279,000 for the year.

Required:

- a) Adjusted taxable profit or loss for Hekima Ltd for the year ended 31 2021. **(16 Marks)**
- b) Tax payable by Hekima Ltd (if any) for the year ended 31 December 2021 **(4 Marks)**

QUESTION TWO

Makaveli Ltd is a registered tax payer under VAT act who operates an electronic shop along Tum Mboya Street in Mombasa. He undertook the following transactions for the month of September, 2021.

- 1 September 2021 Purchased 10 cameras for a total of sh. 580,000
- 1 September 2021 Purchased flashbulbs for a total of sh. 232,000
- 4 September 2021 Purchased 5 slide projectors for a total of Sh. 870,000
- 4 September 2021 Paid transport cost for transporting the goods into the premises Sh. 29,000
- 9 September 2021 Sold 2 slide projectors for a total of Sh. 696,000
- 9 September 2021 Sold 8 cameras for a total of sh. 835,200
- 10 September 2021 Purchased 12 cameras for a total of sh. 696,000
- 15 September 2021 Purchased 20 compac laptop computers at Sh. 46,400 each.
- 20 September 2021 Sold on credit all the flashbulbs for a total of Sh. 510,400
- 25 September 2021 Sold 2 slide projectors for a total of Sh. 765,600
- 26 September 2021 Sold 15 compac laptop computers at Sh. 69,600 each
- 31 September 2021 Paid salaries and wages for the month of September Sh. 543,234
- 31 September 2021 Paid rent and wages for the month of September Sh. 100,000
- 31 September 2021 Paid Sh. 48,600 fuel cost for delivery vans for the month of September 2018

Required:

- (a) Given that the prices are inclusive of VAT where applicable at the respective rates, prepare the VAT account for the month of September 2021. **(17 Marks)**
- (b) State when the above tax will be due and the penalties payable is the tax is not paid on the due date. **(3 Marks)**

QUESTION THREE

Kiwanda Shoe Company Ltd commenced operations on 1 January 2021 after incurring the following expenditure:

	Sh.
Factory building	6,800,000
Processing machinery	1,600,000
Furniture and fittings	426,000
Boilers	1,226,000
Forklift	960,000

Saloon car	2,400,000
Delivery van	3,700,000
Tractor	4,266,000
Lorry (4 tonnes)	3,200,000
Computers	600,000
Staff clinic	1,080,000
Land	25,000,000
Wheelbarrow	36,000

Additional information:

1. Factory building includes the cost of showroom Sh. 600,000, a retail shop Sh. 530,000 and staff canteen Sh. 720,000.
2. A perimeter wall was constructed at a cost of 1,100,000 and completed on 1 April 2021.
3. A godown and staff quarters were constructed during the year at a cost of Sh. 1,146,000 and Sh. 1,040,000 respectively and put into use on 1 October 2021.
4. Included in the land is Sh. 2,000,000 being legal fee paid to lawyers involved acquiring the land.
5. A warehouse 2021, the following assets were acquired:

	Sh.
Conveyor belts	460,000
Workshop maintenance machine	440,000
Water pump	640,000
Trailer for tractor	330,000
Computers	200,000
Electrical weighing scale	150,000

6. During the year ended 31 December 2021, the following assets were disposed of

	Sh.
Furniture	370,000
Computers	460,000

7. During the year, the saloon car was sold for Sh. 1,000,000 and another one was purchased at a cost of Sh. 3,000,000.
8. On 1 July 2021, a television set was purchased at a cost of Sh. 64,000 and placed at the reception area.

Required:

Capital allowances for Kiwanda Shoe Company Ltd for the year ended 31 December 2021.

(20 Marks)

QUESTION FOUR

Pepe Malo is employed by Afropos Group Limited as the Chef. The group runs a chain of five star hotels both locally and foreign countries. Information relating to his earnings for the year ended 31 December 2021 was as follows:

1. Basic salary Sh. 120,000 per month (PAYE Sh. 32,500 per month)
2. The company provides him with a 2650cc vehicle for his private use. The car was acquired at a cost of Sh. 2,300,000 on January 2019.
3. He earned bonus pay of Sh. 18,000 and overtime allowance of Sh. 140,000 as per term of his contract, during the year.
4. Pepe Malo contributes Sh. 18,000 per month towards a registered defined benefit fund that is operated by the employer. The employer contributes Sh. 20,000 per month on his behalf towards the fund.
5. He contributed Sh. 8,000 per month toward a home ownership savings plan (IIOSP) with effect from 1 March 2021. The plan was registered and the funds were deposited in an approved institution.
6. Afropos Ltd, runs a scheme providing free medical services to all employees and their dependants. During the year, Pepe Malo and his wife received services worth Sh. 90,000 while their three children (aged fourteen, eighteen and twenty two years) received medical services amounting to Sh. 60,000 each.
7. He was provided with a self-contained housed by the employer in the staff quarters. He also takes Pepe Malo has a rental business whose details for the year ended 31 December 2017 were as follows:

	Sh.
Gross rent	12,000,000
Repairs and maintenance	90,000
Renovations and renewals so as to increase rent	5,420,000
Interest on mortgage	1, 250,000
Purchase of furniture for use by tenants	2, 530,000
Withholding tax paid on gross rent	1,200,000

8. In the month of August 2021, Afropos Ltd sent Pepe Malo to their hotel in Cairo for a three week training course to further his culinary skills. Towards this end, they paid for his return ticket Sh. 97,000 and Sh. 320,000 for his upkeep.

Required:

- i) The total taxable income of Pepe Malo for the year ended 31 December 2021
(14 Marks)
- ii) The tax liability (if any) from the income computed in (c) i) above **(4 Marks)**
- iii) Comment on information not utilized in your computations under (c) i) and (c) ii) above
(2 Marks)

QUESTION FIVE

- (a) Discuss how taxes can be classified on the basis of the administrative collection mechanism. **(10 Marks)**
- (b) What is the criteria for evaluating a good tax system? **(10 Marks)**

RATES OF TAX

Commissioner's prescribed benefit rates

Services	Monthly rates	Annual rates
	Sh.	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	Annual rates
		(Sh.)	(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