



TECHNICAL UNIVERSITY OF MOMBASA

School of Business

Department of Accounting & Finance

UNIVERSITY EXAMINATION FOR:

BACHELOR OF COMMERCE

BACHELOR OF BUSINESS ADMINISTRATION

BAC 4303: TAXATION I

END OF SEMESTER EXAMINATION

SERIES: DECEMBER 2024

TIME: 2 HOURS

DATE: Pick Date Dec 2024

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 (Compulsory)

- a) Taxation of the citizens by their government has several far-reaching effects, with this in mind, discuss any Five effects of taxation **(10Mrks)**
- b) The following information was extracted from the books of accounts of Msingi Ltd, a manufacturing company operating in Lodwar, Kenya. On 2nd January 2022, the company acquired a building to be used for manufacturing at a cost of KES 18,000,000 from Murima Ltd a manufacturing company too. Murima Ltd had constructed the building at a cost of KES 14,000,000 which included the cost of the land KES 2,500,000. Murima Ltd had neither used the building, nor calculated investment allowance on it. Apart from the building, Msingi Ltd also acquired a showroom costing KES 1,300,000 and offices costing KES 1,600,000 from Murima Ltd. Msingi Ltd also acquired the following assets at the beginning of the year.

Assets	Cost (KES)
Processing Machinery	5,400,000

Land Cruiser	3,000,000
A three-ton Lorry	2,750,000
Furniture and Fittings	1,300,000
Mercedes Benz	2,850,000
Computers	1,900,000
Saloon Car	1,500,000
Photocopier	890,000
Conveyor belts	3,750,000

Additional information

Msingi Ltd added the following to the building during the year 2022

- i. A warehouse costing KES 3,200,000
- ii. Extension to the factory building at a cost of 3,100,000

Required

- i. Determine the investment allowance for Msingi Ltd **(13Mrks)**
- ii. Given that Msingi Ltd had reported a profit of KES 41,674,270 after deducting depreciation amounting to KES 6,546,334. Determine the adjusted taxable income for the year ended 31st December 2022. **(4Mrks)**
- iii. Calculate the tax liability for Msingi Ltd. **(3Mrks)**

NOTE: WHERE APPLICABLE, USE THE TAX RATES PROVIDED AT THE BACK OF THIS QUESTION PAPER.

Question Two

- a) Taxation is one of the major ways through which governments raise revenue to finance their expenditure. Giving examples, discuss the reasons as to why the government of Kenya impose taxes on its citizen **(8Mrks)**

b) In his book on the “Wealth of Nations”, Adam Smith coined what came to be generally accepted as the canons of taxations. With this in mind, discuss any Three canons of a good tax system.

(6Mrks)

c) Giving examples, Distinguish between Allowable Deductions and Disallowable Deductions

(6Mrks)

Question Three

John Mbotela, a Kenyan resident and a civil engineer by profession has been working with Civicon Ltd, a private engineering firm in Mombasa since his retirement from the public service in 2021. The following information relates to his earnings for the year ended 31st December 2022.

- i. Received a basic salary of KES 190,000 from Civicon Ltd. He also received a one-month salary bonus in December 2022. The total PAYE deductions for during the year was KES 902, 100
- ii. He received a lumpsum pension amounting to KES 520,500 from his service in the public sector.
- iii. He received a commission of KES 186,000 during the year for promoting the company’s products
- iv. He attended a 4 days engineers conference in Watamu and was paid KES 18,000 per day by the company
- v. He received an interest of KES 101,000 during the year from his fixed deposit at Kenya post office savings bank
- vi. He has a life insurance policy where he contributes 40% premiums, while the employer contributes 60%. The annual insurance premium for the year was KES 520,000
- vii. The company gave him a saloon car of 2000cc on 1/07/2022. The initial cost of the car was KES 2,750,000.
- viii. The company gave him a medical cover worthy KES 195,000 per annum, however he only managed to utilize KES 83,000. The medical cover is given to all employees without discrimination
- ix. He was also provided with a house whose market value was KES 132,000 per month, and he contributed KES 25,000 per month as nominal rent
- x. The company settled John’s bills as follows during the year; Telephone KES 74,000; Water KES 16,500 and Electricity KES 23,800

- xi. The company paid a subscription fee of KES 63,000 for him during the year to the engineer's board
- xii. He was reimbursed private entertainment expenses of KES 118,000 by the company during the year.
- xiii. The company contributed 5% of his basic salary towards a registered pension scheme while he contributed an equal amount to the scheme

Required

- a) Determine the taxable income for John Mbotela for the year ended the ended **(15Mrks)**
- b) Determine the tax payable by John Mbotela **(5Mrks)**

NOTE: WHERE APPLICABLE, USE THE TAX RATES PROVIDED AT THE BACK OF THIS QUESTION PAPER.

Question Four

- a) Taxes can be classified into different categories, Giving Examples, discuss any three classifications of taxes **(9Mrsks)**
- b) ABC Limited statement of comprehensive income for the year ended 31st December 2022 was as follows:

<u>ABC Limited</u>		
Statement of Comprehensive Income for the Year Ended 31 st December 2022		
Details	KES	KES
INCOME		
Sales		1,920,000
Foreign exchange gain realised		620,00
Proceeds from sale of old machinery		120,000
Discount received		<u>136,000</u>
		2,796,000
EXPENDITURE		
Interest on loan	220,000	
Stationary	180,000	
Loan repayment	460,000	
Legel fees	380,000	
Depreciation	150,000	
Director's emoluments	360,000	
Dividends	980,000	
Audit fees	280,000	
General expenses	840,000	
Bad debts	96,000	
Provision for income tax	<u>120,000</u>	
		(4,066,000)
Net loss		<u>(1,270,000)</u>

Additional Information

- i. Audit fees include KES 100,000 for the audit of a subsidiary company and KES 80,000 for the preparation of revised accounts
- ii. Legal fees include: Drafting a 99 years lease agreement @ KES 80,000; Breach of contract @ KES 180,000; VAT Penalties @ KES 64,000; Legal cost of debt collection @ KES 56,000
- iii. General expenses include Office partitions @ KES 120,000; Staff Christmas party @ KES 250,000; Embezzlement by cashier @ KES 60,000; Staff catering cost @ KES 220,000; Stamp duty on land transfer @ KES 190,000
- iv. Bad debts represented the general provision as at the end of the year
- v. Capital allowances were agreed with the commissioner of revenue authority at KES 220,000 for the year.

Required:

- a) Determine the adjusted taxable income for ABC Limited for the year ended 31st December 2022. **(8Mrks)**
- b) Determine the tax liability if any for ABC Limited for the year the ended **(3Mrks)**

Question Five

- a) VAT registered tax payers in Kenya enjoy several rights and at the same time they must fulfil certain obligations recommended by the commissioner. With this in mind, outline two rights and two obligations of a VAT Taxable person in Kenya **(4Mrks)**
- b) Outline the main features/details of a tax invoice **(3Mrks)**
- c) Giving examples, differentiate between Zero rated supplies and Exempt supplies **(4Mrks)**
- d) The below information relates to XYZ limited for the month of March 2024, a trading company which deals in exportation of coffee. The company sales cardboard pallets used in loading commodities to containers locally.

Date	Company	Details	Purchase (KES)	Sales (KES)	Export Sales (KES)
2/3/24	Kasuku Ltd	Purchase of Pallets	500,000		
5/3/24	Kasuku Ltd	Purchase of Pallets	1,000,000		
7/3/24	Tea Traders	Sales of Pallets		2,000,000	
8/3/24	Kasuku Ltd	Purchase of Pallets	1,000,000		
10/3/24	Kasuku Ltd	Purchase of Pallets	3,000,000		
12/3/24	Kasuku Ltd	Purchase of Pallets	5,000,000		
15/3/24	Tea Traders	Sales of Pallets		2,500,000	
16/3/24	Tea Traders	Sales of Pallets		2,000,000	
17/3/24	Oceanic Importers	Coffee export sales			7,000,000
19/3/24	Naivas Supermarket	Office Consumables	50,000		
20/3/24	G4S Security	Security services	120,000		
24/3/24	Oceanic	Coffee export sales			20,000,000

	Importers				
26/3/24	Kasuku Ltd	Purchase of Pallets	1,000,000		

Required

- i. Determine the VAT payable/claimable by XYZ limited **(8Mrks)**
- ii. State the date upon which VAT is paid to the commissioner of KRA in Kenya **(1Mrks)**

RATES APPLICABLE IN THIS QUESTION PAPER

1. PAYE New Tax Bands

Tax Bands	Annual (KES)	Rates (%)
On the first	288,000	10%
On the next	100,000	25%
On the next	5,612,000	30%
On the next	3,600,000	32.5
On all income in excess of	9,600,000	35%

2. Reliefs

Reliefs	Amount
Personal Relief	KES 2,400 per month, KES 28,800 per annum
Insurance Relief	15% of actual premiums paid subject to a limit of KES 5,000 per month or KES 60,000 per annum

3. Commissioners prescribed Benefit rates

Services	Annual (KES)	Monthly (KES)
Electricity	18,000	1,500
Water	6,000	500
Furniture	1% per month on cost or hire value	
Telephone (Landline and Mobile phones)	30% of bills paid	

4. Prescribed benefit rates of motor vehicles provided by the employer

a) Saloons, Hatch backs and Estates		
Cc rating	Monthly (KES)	Annual (KES)
Up-to 1200	3,600	43,200
1201-1500	4,200	50,400
1501-1750	5,800	69,600
1751-2000	7,200	86,400
2001-3000	8,600	103,200
Over 3000	14,400	172,800
b) Pick-ups and panel Vans (Uncovered)		
Cc rating	Monthly (KES)	Annual (KES)
Up-to 1750	3,600	43,200
Over 1750	4,200	50,400
c) Lan Rovers and Land Cruisers		
Cc rating	Monthly (KES)	Annual (KES)
Lan Rovers and Land Cruisers	7,200	86,400

5. Investment Allowance Deduction Rates on Commercial building

Description	Rate
Building used for manufacture	50% in the first year of use; 25% per year on reducing balance on the residual value
Hotel buildings	50% in the first year of use; 25% per year on reducing balance on the residual value
Hospital buildings	50% in the first year of use; 25% per year on reducing balance on the residual value
Petroleum buildings	50% in the first year of use; 25% per year on reducing balance on the residual value
Educational building	10% per year on reducing balance

Commercial building	10% per year on reducing balance
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6. Investment Allowance Deduction Rates on Machinery

Description	Rate
Machinery used for manufacture	50% in the first year of use; 25% per year on reducing balance on the residual value
Hospital equipment	50% in the first year of use; 25% per year on reducing balance on the residual value
Ships or aircrafts	50% in the first year of use; 25% per year on reducing balance on the residual value
Motor vehicle and heavy earth moving equipment	25% per year on reducing balance
Computer and peripheral computer	25% per year on reducing balance hardware and software, calculators, copiers and duplicating machines
Furniture and fittings	10% per year on reducing balance
Telecommunication equipment	10% per year on reducing balance
Filming equipment by a local film	25% per year on reducing balance producer licensed by Cabinet Secretary filming
Machinery used to undertake operations under a prospecting	50% in the first year of use; 25% per year on reducing balance on the residual value
Machinery used to undertake exploration under a prospecting right	50% in the first year of use; 25% per year on reducing balance on the residual value
Other machinery	10% per year on reducing balance

7. Investment Allowance Deduction Rates on Other Capital expenditure

Description	Rate
Purchase or acquisition of indefeasible right to use fibre optic cable by a telecommunication operator	10% per year on reducing balance
Farm works	50% in the first year of use; 25% per year on reducing balance on the residual value

Contribution to pension scheme

It is given at 30% of the taxable income from employment subject to a limit of KES 20,000 per month or KES 240,000 per annum; or the actual contribution: whichever is lower