



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 II
END OF SEMESTER EXAMINATION

SERIES: APRIL, 2025

TIME: 2HOURS

DATE: APRIL, 2025

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) Give a critical analysis of the benefit theory of taxation (5 marks)
b) FKM Ltd. Is a manufacturing firm which has been in operation since 2005. The investment allowance schedule shows that the written down values as at 31st December 2023 were as follows:-

Written down values

Sh.

Plant and machinery	5,261,500
Motor lorry and tractor	72,760
Delivery vans and pick-up (less than 3 tones)	2,025,000
Furniture and fittings	600,000

1. On 1 October 2023, the following assets were acquired:

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

2. During the year ended 31st December 2024, FKM Ltd acquired the following assets:

	Cost Sh.
Furniture and fittings	1,600,000
Pick-ups (less than 3 tons)	8,000,000
Lorries	3,600,000

Required:

Calculate the Investment allowances to be claimed under the second schedule of the Income Tax Act for the year ended 31 December 2023 and 2024 and shown the written Down values of the assets as at that date. **(15 marks)**

c) The following figures have been extracted from the books of Kufunika Insurance co. ltd for the year ended 31st December, 2024.

	Shs. '000'
Claims paid	105,200
Claims recoverable from Nyake Re-Insurance Ltd	20,500
Commissions to insurance brokers and agents	48,000
Expenses of Management	53,000
Reserves for unexpired risks brought down	204,000
Shares in companies	249,000
Office equipment(WDV)	30,000
Depreciation	21,000
Premiums less premiums under reinsurance	211,000
Tax deducted at source	9,000
Interest on investment(gross)	90,000
Claims outstanding	14,000
Commission on reinsurance ceded	40,000

Reserves for unexpired risk should be maintained at 50% of the net Premiums.

Required: computed the tax payable by Kufunika Insurance co. ltd a resident company that operates only a general insurance business. **(10 Marks)**

Question Two

1. John Malih has been trading as a sole proprietor for the past 4 years. The revenue authority suspects that the business has been involved in tax fraud since it commenced operations.

The firm has submitted the following records since its operations from 1 January 2020 to 31 December 2024:

	1 January 2020	31 December 2021	31 December 2022	31 December 2023	31 December 2024
	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
Business premises	144,000	160,000	172,000	152,000	160,000
Plant and machinery	68,000	72,000	87,000	82,000	92,000
Motor vehicles (commercial)	22,000	24,000	24,000	26,000	24,000
Inventory	9,000	11,200	16,200	22,000	14,800
Trade receivables	7,690	8,630	8,600	7,800	8,200
Private residence	16,400	32,400	32,400	32,400	32,400
Trade payables	14,900	19,200	20,400	18,100	15,200
Bank loan	22,400	21,800	19,400	7,900	18,900
Loan from a friend	1,580	1,320	1,180	1,690	1,020
Mortgage loan	7,800	7,800	7,800	7,800	7,800
Cash	7,400	9,600	7,800	8,260	8,840

Additional information:

During the year ended 31 December 2024, a motor vehicle was disposed of for Sh.2,600,000 (depreciation written down value was Sh.2,000,000).

Interest on mortgage was at a rate of 15% per annum on reducing balance basis. The maximum mortgage interest allowed is Sh.300,000 per annum.

- b. His personal expenses for each of the four years were as follows:

Year	Sh.
2024	3,400,000
2023	1,780,000
2021	2,960,000
2020	1,624,000

- c. Ignore capital allowances.

Required:

Determine the taxable income of John Malih for each of the four years ended 31 December 2021, 2022, 2023 and 2024. (20 Marks)

Question Three

Ochieng, Mutua and Odongo are partners in an engineering firm. They share profits and losses equally. For the year ended 31 December 2024, you have been provided with the following summary of receipts and expenditures:

	Sh.		Sh.
Salaries and wages	10,000,000	Professional fees	35,000,000
Audit and accountancy fees	430,000	Capital introduced: Mutua	6,000,000
Legal fees	160,000	Odongo	4,000,000
Rent and rates	180,000		
Water and electricity	96,000		

Telephone and postage	240,000	
Subscriptions to the Engineering Association	60,000	
Subscriptions to Starehe Sports Club	400,000	
Instalment tax paid	1,000,000	
Donations to women's group	50,000	
Interest on overdraft	136,000	
VAT paid	6,000,000	
Office expenses	240,000	
Sundry expenses	300,000	
Purchase of design materials	2,000,000	
Drawings: Ochieng	2,000,000	
Mutua	3,000,000	
Odongo	500,000	
Interest on capital: Ochieng	170,000	
Mutua	60,000	
Odongo	20,000	
Net Profit	<u>17,958,000</u>	
	<u>45,000,000</u>	<u>45,000,000</u>

Additional information:

- Salaries and wages include salaries paid to the partners as follows:

Ochieng	Sh.1,440,000
Mutua	Sh.1,200,000
Odongo	Sh. 960,000
- Legal fees include Sh.100,000 for conducting a VAT appeal.
- Telephone and postage includes Sh.60,000 paid for Mr. Ochieng's house telephone.
- Credit notes issued to clients and not included in the accounts amount to Sh.950,000.
- Agreed capital allowances for the year ended 31 December 2020 amount to Sh.4,000,000.

Required:

- Adjusted profit and loss account for the partnership. (12 marks)
- Allocation of the profit to the partners (4 marks)
- Tax payable by each Ochieng'. (4 marks)

(Total: 20 marks)

Question Four

- With regards to capital gain tax, discuss SEVEN transactions that are exempted from capital gain tax. (7 Marks)

(b) Matatu SACCO presented the following income statement for the year ended 31st Dec 2024

	<u>Ksh</u>
Interest on member's loan	1,700,000
Interest from commercial banks	400,000
Interest from treasury bills (T-bills)	180,000
Dividends from Bidii (K) Ltd	42,000
Rental income	<u>440,000</u>
Gross income	<u>2,762,000</u>
<u>Less: expenses</u>	
Admin expenses	235,000
Depreciation	130,000
Purchase of furniture for rentals/propert	180,000
Printing and stationery	19,000
Caretaker's wages	12,000
Mortgage interest for rental property	20,000
Miscellaneous expenses	16,000
	<u>(612,000)</u>
	<u>2,150,000</u>

The SACCO intends to distribute Ksh 400,000 as dividend and bonuses to members for the year. All investment incomes have been stated gross of withholding tax.

Required:

Determine tax liability for Matatu SACCO

(13 Marks)

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 strategies that can be used to achieve tax planning goals.

(10 Marks)

(b) Mr. Joe Kamuzu is a practicing accountant operating under the name Kamuzu and Associates. His firm is registered for value added tax (VAT). During the month of March 2025, he undertook and completed the following assignments"

March 2: Tax consultancy work for Base Ltd., at a fee of Sh.240,000.

March 4: Audit for Mwanza Ltd., a company based in Tanzania for Sh.840,000.

March 10: Management consultancy services for Zeal Ltd., for a fee of Sh.360,000.

March 15: The firm was engaged by ABC Ltd., to undertake a review of the internal control systems of the company. His fees were Sh.1,200,000.

March 17: The firm provided audit services to Afro Ltd. for the year ended 30 June 2015 at Sh.480,000.

March 18: Conducted a survey on power consumption for Mwema Enterprises Ltd., at a fee Sh.2,400,000.

March 19: His firm audited the accounts of Soul Harvester Ministries, a church where he serves as a volunteer auditor. He estimated that his fees would have been Shs.720,000.

- March 20: The firm billed Afro Ltd. Sh.136,000 for debt collection services.
- March 21: The firm undertook a financial consultancy assignment for World Net South Africa, a company based in South Africa. The fees were Sh.420,000.
- March 23: Conducted audit of Matuu Ltd., at a fee of Sh.180,000.
- March 27: Provided accountancy services to Githiga Children's home on a voluntary basis. The estimated value of the services was Sh.90,000.
- March 30: Performed audit services for Mengo County Council. The fees earned was Sh.860,000.

During the month of March 2019, the firm paid for the following expenses:

	Sh.
Electricity	42,500
Water	42,000
Rent	120,000
Garbage collection	36,000
Stationery	960,000
Catering services	48,000
Computer repair	240,000
Telephone	330,400

All transactions are inclusive of VAT at a rate of 16% where applicable.

Required:

A VAT account for Kamuzu and Associates for the month of March 2025.

(10 marks)

(Total: 20 marks)

RATES OF TAX (For employment income including wife's employment, self-employment and professional income). Year of income 2023.

Personal relief Sh.2,400 per month (Sh.28,800 per annum)

Assume the following rates of tax applied throughout the year of income 2023:

Monthly taxable pay		Annual taxable pay		Rate of tax
(Sh.)		(Sh.)		% in each Sh.
1	- 24,000	1	- 288,000	10%
24,001	- 32,333	288,001	- 388,000	25%
32,334	- 500,000	388,001	- 6,000,000	30%
500,001	- 800,000	6,000,001	- 9,600,000	32.5%
Excess over	800,000	Excess over	9,600,000	35%

Investment allowance:	Rate of investment allowance	Residual value (25% per year)	Prescribed benefit rates of motor vehicles provided by employer
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Capital expenditure incurred on:		on equal instalments)	(i) Saloons, Hatch Backs and Estates			
			Monthly rates (Sh.)		Annual rates (Sh.)	
(a) Buildings:			Up to	1200 cc	3,600	43,200
• Hotel building	50% in the first year of use	25%	1201 -	1500 cc	4,200	50,400
• Building used for manufacture	50% in the first year of use	25%	1501 -	1750 cc	5,800	69,600
• Hospital buildings	50% in the first year of use	25%	1751 -	2000 cc	7,200	86,400
• Petroleum or gas storage facilities	50% in the first year of use	25%	2001 -	3000 cc	8,600	103,200
• Educational/hostels building	10% per year on straight line basis		Over	3000 cc	4,400	172,800
• Commercial building	10% per year on straight line basis					
(b) Machinery:			(ii) Pick-ups, Panel Vans (unconverted)			
• Machinery used for manufacture	50% in the first year of use	25%	Up to -	1750 cc	3,600	43,200
• Hospital equipment	50% in the first year of use	25%	Over -	1750 cc	4,200	50,400
• Ships or aircraft	50% in the first year of use	25%				
• Motor vehicles and heavy earth moving equipment	25% per year on straight line basis		(ii) Land Rovers/Cruisers			
• Computer software, calculators, copiers and duplicating machines	25% per year on straight line basis				7,200	86,400
• Furniture and fittings	10% per year on straight line basis					
• Telecommunication equipment	10% per year on straight line basis					
• Film equipment by a local producer	25% per year on straight line basis					
• Machinery used to undertake operations under prospecting rights and exploration under mining rights	50% in the first year of use	25%				
• Other machinery	10% per year on straight line basis					
(c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation	10% per year on straight line basis					
(d) Farm works	50% in the first year of use	25%				

Commissioner's prescribed benefit rates:	Monthly rates (Sh.)	Annual rates (Sh.)
Services		
(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