



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

BACHELOR OF COMMERCE

BACHELOR OF BUSINESS ADMINISTRATION

BAC4303: TAXATION 1

END OF SEMESTER EXAMINATION

SERIES: AUGUST 2024

TIME: 2 HOURS

DATE: 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.

Tax bands	Annual rates of tax			Monthly rates of tax		
	Taxable Pay (KES)	Tax rates	Cumulative (KES)	Taxable pay(KES)	Tax rates	Cumulative (KES)
On the first	288,000	10%	28,800	24,000	10%	2,400
On the next	100,000	25%	53,800	8,333	25%	4,483
On the next	5,612,000	30%	1,737,400	467,667	30%	144,783
On the next	3,600,000	32.5%	2,907,400	300,000	32.5%	242,283
Excess over	9,600,000	35%		800,000	35 %	
Personal relief			KES 28,800 (a)			KES 2,400 (a)
Insurance relief			KES 60,000 (b)			KES 5,000 (b)
Affordable housing relief			KES 108,000 (c)			KES 9,000 (c)
Mortgage interest relief			KES 300,000 (d)			KES 25,000 (d)
Registered Pension/Provident Schemes relief			KES 240,000 (e)			KES 20,000 (e)

d) Commissioner's Prescribed Benefit Rates

Service	Reduced rates of benefits
Electricity (Communal or from a generator)	KES 1,500 (KES 900 for agriculture employees)
Water (Communal or from a borehole)	KES 500 (KES 200 for agriculture employees)
Telephone (Landline and mobile phones)	30 % of the cost to employer
Provision of Furniture *	1 % of the cost to employer

d) Investment allowance on Machinery

Capital expenditure incurred on:	Rate from 1 January 2022*
Machinery used for manufacture	50% in first year of use and residual value 25 % in equal instalments
Hospital equipment	50% in first year of use and residual value 25 % in equal instalments
Ships or aircrafts	50% in first year of use and residual value 25 % in equal instalments
Motor vehicles, * and heavy earth moving equipment	25 % per year in equal instalments
Computer and peripheral computer hardware and software, calculators, copiers and duplicating machines	25 % per year in equal instalments
Furniture and fittings	10 % per year in equal instalments
Telecommunications equipment	10 % per year in equal instalments
Filming equipment for local producers subject to CS approval	25 % per year in equal instalments
Machinery used to undertake exploration operations (prior to 01/01/2022, restricted to those who have a mining right)	50% in first year of use and residual value 25 % in equal instalments
Machinery used to undertake operations under a prospecting right	50% in first year of use and residual value 25 % in equal instalments
Other machinery	10 % per year in equal instalments

c) Motor Vehicles

Motor vehicle type	Engine Capacity	Monthly (KES)	Annual (KES)
Saloon, Hatch Backs & Estates	Up to 1,200 cc.	3,600	43,200
	1,201 to 1,500 cc.	4,200	50,400
	1,501 to 1,750 cc.	5,800	69,600
	1,751 to 2,000 cc.	7,200	86,400
	2,001 to 3,000 cc.	8,600	103,200
	Over 3,000 cc.	14,400	172,800
Pick-ups, Panel Van Unconverted	Up to 1,750 cc.	3,600	43,200
	Over 1,750 cc.	4,200	50,400
Land Rovers/Cruisers		7,200	86,400

Question One

a) One of the facilitators in a tax seminar commented that "tax incentives tend to aid growth of capital markets".

Justify the facilitator's comment by identifying four incentives intended to aid the growth of capital markets in your country (6 Marks)

b) Karisa and Sharon commenced trading in partnership as Kasha Enterprises on 1 January 2023. They share profits and losses in the ratio of 2:1 for Karisa and Sharon respectively. The partners were to receive monthly salaries of Sh.18, 000 and Sh.22,000 for Karisa and Sharon respectively.

The partnership did not maintain a complete set of accounting records.

The following summary of the bank statements for the year ended 31 December 2023 has been presented to you.

Receipts	Sh.	Payments	Sh.
Capital introduced:		Equipment (office)	1,500,000
Karisa	3,500,000	Rent for godown	400,000
Sharon	2,500,000	Salaries and wages	905,000
Cash sales	12,850,000	Purchase for resale	9,985,000
Receipts from debtors	5,250,000	Repairs and maintenance	860,000
Sale of motor van	1,800,000	Insurance	62,500
		Interest expense	650,000
		Motor vehicle expenses	186,500
		Sundry expenses	220,000
		Motor vans purchased	3,000,000
		Tax penalties	63,500
		Electricity expense	79,800
		Medical expenses	630,000
	=	Balance c/d	<u>7,357,700</u>
	<u>25,900,000</u>		<u>25,900,000</u>

Additional information:

1. The following payments were made in cash from cash sales before banking:

	Sh.
Motor vehicle expenses (per annum)	140,000
Wages (per annum)	162,000
Sundry expenses (per annum)	40,000
Weekly drawings	
- Karisa	17,200
- Sharon	16,400

1. During the year, discounts received from the suppliers amounted to Sh.132,500 while discounts allowed to customers amounted to Sh.118, 000.
2. As at 31 December 2023, electricity and insurance prepaid were Sh.25,000 and Sh.12,800 respectively.

3. Depreciation was to be provided on equipment at 10% on straight line basis.
4. As at 31 December 2023, the amount owed to suppliers was Sh.780, 000 while the amount owed by customers was Sh.1, 420,000.
5. An amount of Sh.82.000 owed by Jamila Musa, a customer, proved irrecoverable and is to be written off as a bad debt. This amount was excluded in the total amount owed by customers as at 31 December 2023.
6. Salaries and wages include the salaries to the partners.
7. The godown had been occupied since 1 November 2023 at an annual rent of Sh.450, 000.
8. Included in the interest expense is the interest on the partners' capital contributions at a rate of 5% per annum.
9. The wear and tear allowance was agreed with the revenue authority at Sh.112, 000 for the year ended 31 December 2023.
10. Closing inventory was valued at Sh.620, 000 on 31 December 2023. (Assume that the year of income had 52 weeks).

Required:

- (i) Adjusted partnership profit or loss for the year ended 31 December 2023. (12 Marks)
 - (ii) Distribution schedule of the profit or loss calculated in (c) (i) above. (2 Marks)
- b) Discuss the relevance of the concept of residence in the determination of tax liabilities for both an individual and a corporate body. (6 Marks)
- b) Comment on the treatment of the following items for tax purposes
- i) Education fees paid by an educational institution for employees' dependents attending the institution (2 marks)
 - ii) Income received for disabled persons (2 marks)

Question Two

a) Sikudhani is expecting to retire from employment after six months. He will be sixty years of age at the time retirement. He expects to receive both a lump sum amount on the date of retirement and an annuity payable over the next ten years or until his death, whichever occurs first.

He is aware that the government has introduced certain changes impacting on the taxation of pension income. He approached you for advice on how these changes could affect the taxation of his pension income.

Required:

- a) With reference to the tax rules and regulations in force as at 31 December 2023, advise Charles Temo on taxation of pension income.

(6 Marks)

- b) Discuss the impact of ICT on Tax Administration and management in developing Countries. (10 Marks)
- c) Outline four roles of professional ethics in tax practice (4 Marks)

Question Three

Teemen Mining Company Ltd started prospecting for minerals in Kwale in year 2020. Expenditure relating to research, testing and winning access to minerals amounted to Sh.48 million.

The company paid Sh. 124 million to the government to acquire the rights over the minerals and shs.180 million for purchase of land.

The following assets were constructed or purchased during the year 2021:

1. Labour quarters were constructed at a cost of Sh. 15 million.
2. Senior manager's house was constructed on the site at a cost of Sh.6 million.
3. The director's house was acquired at a nearby trading centre at a cost of Sh.9 million.
4. Specialised processing machineries for mining were acquired at a cost of Sh.860 million.
5. Computers were purchased at a cost of Sh.0.72 million.
6. A forklift was acquired at a cost of Sh.4.5 million.
7. A saloon car for the general manager was purchased at a cost of Sh.3 million.
8. Office furniture was acquired at a cost of Sh. 1.5 million.
9. An aircraft was acquired for Sh. 144 million.
10. A store was constructed at a cost of Sh.21 million.

Required:

The capital allowances due to the company for the years ended 31 December 2021, 2022 and 2023. (12 marks)

- b) Discuss FIVE Principles of an Optimal Tax system (8 marks)

Question Four

- a) As a tax student, you have been nominated by your institution to make a seminar presentation regarding the various rights conferred to a registered taxpayer under the VAT Act.

Required:

Summarize eight rights of a registered taxpayer that you would include in your presentation. (6 Marks)

(b)The following is a cash book summary of Wizwas Traders for the month of December 2023:

Cash book summary

Receipts	Sh.	Payments	Sh.
Receipts from debtors	1,160,000	Salaries and wages	680,000
Refunds from	340,000	Rent and insurances	300,000
creditors	819,920	Motor vehicle	180,000
Cash sales		expenses	400,000
		Drawings	661,200
		Trade payables	84,800
	=	Printing and	<u>13,920</u>
	<u>2,319,920</u>	stationery Electricity.	2,319,920

The following additional details were available:

Balance:	1 December 2023	31 December 2023
	Sh.	Sh.
Trade debtors	800,000	243,600
Trade payables	649,600	700,000
Rent and insurance	200,000	180,000
Electricity	9,280	6,960
Printing and stationery	40,000	36,000

1.

2. A debtor of Sh.300, 000 had his debts written off after he was declared bankrupt.
3. Customers returned goods worth Sh.203, 040 as they were defective.
4. Customers who paid promptly were allowed a discount amounting to Sh.60, 320 during the month of December 2013.
5. A cheque of Sh.64, 960 received from a debtor had been dishonoured by the bank.
6. The business returned goods to the suppliers worth Sh.52, 200.
7. The company paid within the agreed discount period and received a discount amounting to Sh.48, 200.

8. Motor vehicle expenses include motor vehicle valuation expenses of Sh.58, 000. Valuation is carried out once every year in the month of December.
9. Cash purchases amounted to Sh.638, 000.
10. Thy business is registered for VAT purposes. All transactions are inclusive of VAT at the rate of 16% where applicable.

Required:

- i) Calculate for Wizwas Traders, the VAT payable or refundable for the month of December 2023. (10 marks)
- iii) Advise the management of Wizwas Traders whether the firm is eligible for turnover tax (4 marks)

Question Five

- a) The government of your country is exploring ways of preventing loss of tax revenue from imports.
As a tax expert advise the government of possible ways of preventing the loss of tax revenue from imports. (4 Marks)
- b) Discuss three challenges associated with the harmonization of taxation policies across regions and trading blocks (6 Marks)
- c) Explain four positive roles of excise duties in an economy (6 Marks)
- d) With reference to the customs and Excise Act (Cap, 272), distinguish between the following terms
 - i) Customs warehouse and bonded warehouse (2 marks)
 - ii) Prohibited goods and restricted goods (2 marks)