



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING & FINANCE
UNIVERSITY EXAMINATION FOR:
BACHELOR OF COMMERCE
BACHELOR OF IN BUSINESS ADMISTRATION
BAC 4305: TAXATION 11
END OF SEMESTER EXAMINATION
SERIES: AUGUST, 2024
TIME: 2HOURS
DATE: AUGUST, 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

- 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 capital deduction schedule shows that the written down values as at 31st December 2022 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

During the year ended 31st December 2023, 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 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 Bima Insurance co. Ltd for the year ended 31st December, 2023.

	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

Mwangaza Ltd. Manufactures candles for the local market and export to neighboring countries. The company has submitted the following income statement for the year ended 31 December 2023.

	Sh.
Gross profit	6,608,000
Dividends (net)	360,000
Rental income	820,000
Foreign exchange gains realized	760,000
Insurance compensation for stolen Inventory	<u>480,000</u>
	9,028,000

Less Expenses

Salaries and wages	2,440,000	
Subscriptions and donations	120,000	
Bank charges	340,000	
Depreciation	280,000	
Office rent	1,720,000	
Electricity and water	960,000	
Advertisement costs	130,000	
Amortization of goodwill	420,000	
Repairs and maintenance	640,000	
Audit fees	320,000	
General expenses	2,400,000	
Provision of corporation tax	180,000	<u>(9,950,000)</u>
Net loss		<u>(992,000)</u>

Additional information

1. General expenses comprised the following:

	Sh.
Legal fees for breach of contract	180,000
Stamp duty on land	1,200,000
Passages to one of the directors	420,000
General provision for bad debts	600,000

2. Repairs and maintenance included:

	Sh.
Replacement of an old computer	82,000
Re-roofing the factory with tiles	420,000
General repairs	138,000

3. Advertisement costs included the following:

	Sh.
Placing advertisements in the media	48,000
Erection of a new billboard	24,000
Publicity for Christmas sales	58,000

4. Subscriptions and donations related to the following:

Sh.

Donations to political parties	90,000
Subscription to Federation of Employers	30,000

Required:

- i) Adjust taxable profit or loss of Mwangaza Ltd, for the year ended 31 December 2023.
(14 Marks)
- ii) Determine the minimum distributable dividend by Mwangaza Ltd for the year 2023
(6 Marks)

Question Three

- a) Jephtrice Imbayi works for Executive Motors Ltd. as a financial controller. She provided the following details relating to her income for the year ended December 2023:

1. Basic salary Sh. 120,000 per month (PAYE Sh. 32,000 per month).
2. During the year she was provided with a brand new saloon car of 3,000cc rating by the company. The car was purchased for Sh. 1,800,000 and the company claimed expenditure for maintenance of the car in its books of account.
3. The company has a registered pension scheme for its employees whereby it contributes 15% of each employee's basic salary. Jephtrice contributed 5% of her monthly basic salary towards the scheme.
4. She was enrolled to a medical scheme with Uzima Insurance Ltd for Sh. 480,000 annually. The medical scheme catered for senior managers only.
5. She was provided with a fully furnished residential house where the value of furniture amounted to Sh. 260,000. The market rental value of the house was Sh. 45,000 per month.
6. The employer paid the following bills for Jephtrice Imbayi during the year:

	Sh.
Electricity	180,000
Telephone	96,000
Water	42,000
7. She is a member of a home ownership savings plan (HOSP) where she contributed Sh. 12,000 per month towards the plan.
8. She received an entertainment allowance of Sh. 220,000 during the year. Half of this amount was spent on entertaining her family, while the balance was utilized in entertaining customers.
9. She was provided with a gardener and a security guard who are on the company's payroll and receive Sh. 18,000 and Sh. 22,000 per month respectively.
10. She received interest of a 10 year Government Infrastructure Bond of Sh. 78,000 during the year.

Required:

- i) Total taxable income for Jephtrice Imbayi for the year ended 31 December 2023.
(16 Marks)
- ii) The tax payable (if any) on the taxable income computed in (c) i) above

(4 Marks)

Question Four

(a) 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 2023

	<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>
Less: expenses	
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:

(c) 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 2024, 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 2024, 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 2024.

(10 marks)

(Total: 20 marks)

*

Assume that the following rates of tax applied throughout the year of income 2021:

Monthly taxable pay (Sh.)	Annual taxable pay (Sh.)	Rate of tax % in each Sh.
1 - 24,000	1 - 288,000	10%
24,001 - 32,333	288,001 - 388,000	25%
Excess over - 32,333	Excess over - 388,000	30%

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

Investment allowance:	Rate of investment allowance	Residual value (per year on reducing balance)	Prescribed benefit rates of motor vehicles provided by employer		
Capital expenditure incurred on:			(i) Saloons, Hatch Backs and Estates		
				Monthly rates (Sh.)	Annual rates (Sh.)
(a) Buildings:			(i) Saloons, Hatch Backs and Estates		
• Hotel building	50% in the first year of use	25%	Up to 1200 cc	3,600	43,200
• Building used for manufacture	50% in the first year of use	25%	1201 - 1500 cc	4,200	50,400
• Hospital buildings	50% in the first year of use	25%	1501 - 1750 cc	5,800	69,600
• Petroleum or gas storage facilities	50% in the first year of use	25%	1751 - 2000 cc	7,200	86,400
• Educational/hostels building	10% per year on reducing balance		2001 - 3000 cc	8,600	103,200
• Commercial building	10% per year on reducing balance		Over - 3000 cc	14,400	172,800
(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 reducing balance				
• Computer software, calculators, copiers and duplicating machines	25% per year on reducing balance				
• Furniture and fittings	10% per year on reducing balance				
• Telecommunication equipment	10% per year on reducing balance				
• Film equipment by a local producer	25% per year on reducing balance				
• 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 reducing balance				
(c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation	10% per year on reducing balance		(iii) Land Rovers/Cruisers	7,200	86,400
(d) Farm works	50% in the first year of use	25%			