TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

DIPLOMA IN ACCOUNTANCY II

BAC 2208: TAXATION

END OF SEMESTER EXAMINATION

SERIES: DECEMBER, 2024

TIME: 2 HOURS

DATE: DECEMBER, 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) What is meant by the word 'taxation?' **(3 marks)**

(b) Explain any Five canons of taxation. **(10 marks)**

(c) XYZ Ltd. is a trading company, the following is the summary of the profit and loss account of the company for the year ending 31st December 2021.

Profit & Loss Account

	Sh.		Sh.
Salaries and wages	350,000	Gross profit	1,200,000
Audit fees	12,000	Dividend received	40,000
Bank interest and charges	15,000	Discount received	15,000
General repairs	34,000		
General expenses	45,000		
Rent and rates	240,000		
Bad debts	24,000		
Depreciation	58,000		
Water and electricity	60,000		
Legal expenses	16,000		
Postage and telephone	42,000		
Net Profit	359,000		
	1,255,000		**1,255,000**

Additional Information:

1. General repairs include

		Sh.
	Alterations to toilets	25,000
	Repairs of Motor Vehicles	9,000
		34,000
2.	General expenses consist of:	
		Sh.
	Fines in respect of breach of law	10,000
	Corporation tax paid	15,000
	General administration	20,000
		45,000
3.	Legal expenses consist of:	
		Sh.
	Staff contracts	8,000
	Cost of collecting bad debts	8,000
		16,000
4.	Bad Debts Analysis:	
		Sh.
	Bad debts incurred	8,000
	Increased in provision for bad debts:	
	(i) General	10,000
	(ii) Specific	6,000
		24,000

Required:
Compute the adjusted profit of the company liable to corporation tax for the year 2023. **(17 Marks)**

QUESTION TWO

a) List and explain **Five** sources of income that are exempt from tax in Kenya. **(10 Marks)**

b) Discuss **Five** advantages of direct taxes. **(10 Marks)**

QUESTION THREE

(a) James Ogola is the proprietor of a grocery shop. His profit and loss account for the year ending 31st December 2023 was as under:-
James Ogola Profit and Loss Account for the year ending 31st December 2023.

		Sh
Gross profit		2,000,000
Less expenses:	Sh	
Wages and salaries	450,000	
Rent and rates	210,000	
Bad and doubtful debts	90,000	
Water and electricity	100,000	
Repairs and replacements	50,000	
Depreciation of delivery van	20,000	
General expenses	30,000	950,000

Net profit	1,050,000

Additional information:

i) Mr. James Ogola lives in a flat above the shop and it has been agreed that 30% of the rent and rates, water and electricity be charged by him.

ii) General expenses Sh.100,000 are relate to advertising through a permanent billboard erected at the road junction.

iii) Written down value of delivery van as at January 1, 2021 was Sh.120,000.

iv) Bad and doubtful debts include general allowance for bad debts shs. 30,000

v) Repairs and replacement include purchase of a new furniture for Shs. 20,000

Required:

Calculate the tax payable by Mr. James Ogola for the year ended 31 December, 2023. **(12 Marks)**

b) Explain why accounting income usually differ from taxable income. **(8 Marks)**

QUESTION FOUR

a) Menya Ltd is a meat processing company that was incorporated on 30 December 2022. The company started it operations on 10 January 2023 after incurring the following capital expenditure:

Assets	Cost Sh.
Processing machinery	4,200,000
Tractors	4,600,000
Trailer for the tractor	1,200,000
Furniture	860,000
Photocopiers	160,000
Air conditioners	980,000
Isuzu pick-up	1,800,000
Sports pavilion	640,000
Lorry (3 tonnes)	3,800,000
Staff canteen	960,000

Required:

Investment allowances due to Menya Ltd for the year ended 31 December 2023. **(15 Marks)**.

(b) Explain Any Five Purposes of levying tax. **(5 Marks)**

QUESTION FIVE

a) Discuss Five expenses that are deductible from rental income. **(10 Marks)**

b) What is installment tax and when is it payable. **(10 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 (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%
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: Capital expenditure incurred on:	Rate of investment allowance	Residual value (25% per year on equal instalments)
(a) Buildings:		
• Hotel building	50% in the first year of use	25%
• Building used for manufacture	50% in the first year of use	25%
• Hospital buildings	50% in the first year of use	25%
• Petroleum or gas storage facilities	50% in the first year of use	25%
• Educational/hostels building	10% per year on straight line basis	
• Commercial building	10% per year on straight line basis	
(b) Machinery:		
• Machinery used for manufacture	50% in the first year of use	25%
• Hospital equipment	50% in the first year of use	25%
• 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	
• Computer software, calculators, copiers and duplicating machines	25% per year on straight line basis	
• 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%

Prescribed benefit rates of motor vehicles provided by employer

(i) Saloons, Hatch Backs and Estates			Monthly rates (Sh.)	Annual rates (Sh.)
Up to		1200 cc	3,600	43,200
1201	-	1500 cc	4,200	50,400
1501	-	1750 cc	5,800	69,600
1751	-	2000 cc	7,200	86,400
2001	-	3000 cc	8,600	103,200
Over	-	3000 cc	4,400	172,800
(ii) Pick-ups, Panel Vans (unconverted)				
Up to - 1750 cc			3,600	43,200
Over - 1750 cc			4,200	50,400
(ii) Land Rovers/Cruisers			7,200	86,400

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