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: 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) Discuss any five desirable qualities of a good tax system. **(10 marks)**

(b) Uwanja Ltd prepared the following income statement for the year ended 31 December 2021.

	Sh.	*Sh.*
Gross profit		2,100,000
Discount received		36,000
		2,136,000
Expenses:		
Salaries and wages	600,000	
Rent and rates	170,000	
Legal expenses	240,000	
Office expenses	24,000	
Depreciation	106,000	
VAT paid	41,000	
Computer software	108,000	
Marketing and Advertisement	173,000	
Electricity	75,000	(1,537,000)
Net profit		599,000

Additional Information:

1. Legal expenses include:

	Sh.
Settling customers disputes	50,000
Conveyance fees on purchase of land	80,000

2. Marketing and advertisement expenses include:

	Sh.
Installation of neon sign	66,000
Christmas gifts to staff	73,000
Advertising campaign	34,000
	173,000

3. 25% of rent and rates relate to payments in connection with the director's private residences.
4. Office expenses include Sh. 11,000 for purchase of an office cabinet.

Required:

i) Adjusted taxable profit or loss for Uwanja Ltd for the year ended 31 December 2021. **(18Marks)**

ii) Tax payable (if any) from the adjusted profit or loss in b) i) above **(2 Marks)**

QUESTION TWO

a) Chungu Ltd is a company engaged in the processing of sugar for sale in the local foreign markets. The company purchased the following assets during the year 2021:

Asset	Cost Sh.
Delivery van	3,600,000
5 tonne lorry	2,300,000
Photocopier	430,000
Water pump	1,480,000
Furniture & fittings	60,000
Tractor	6,400,000
Conveyor belts	2,400,000
Milling machine	11,900,000
Trailer for tractors	1,680,000

Required:

Investment allowances due to Chungu Ltd for the year ended 31 December 2021. **(10 Marks)**

b) Discuss the functions of the government of Kenya. **(10 Marks)**

QUESTION THREE

Shikah and Paker are in a farming partnership for the year ended 31 December 2021:

Mazao Enterprises
Income Statement
For the year ended 31 December 2014

	Sh.	Sh.
Income		
Sales		2,800,000
Gain on sale of a tractor		250,000
Foreign exchange gains (realized)		138,000
		3,188,000

	Sh.	Sh.
Expenditure:		
General expenses	680,000	
Rent and rates	72,000	
Purchse of land	112,000	
Salaries and wages	536,000	
Fertilizers	340,000	
Partners' drawings	480,000	
Depreciation	120,000	
Legal fees	150,000	
Interest on capital: Shikah	180,000	
Paker	200,000	
Mortgage interest	240,000	3,110,000)
Net loss		78,000

Additional information:

1. General expenses comprise:

	Sh.
School fees to partners children	120,000
Cost of debit recovery from customers	160,000
Cash embezzled by cashier	400,000
	680,000

2. Legal fees comprise:

	Sh.
Parking fines	28,000
Signing of a 100-year lease	64,000
Defending Paker in partnership business dispute	58,000
	150,000

3. Salaries and wages include Sh. 90,000 and Sh. 150,000 as salaries paid during the year to Shikah and Paker respectively.
4. Partners' drawings were in the proportion of their profit sharing ratios.
5. The farm works were constructed on 1 January 2021.
6. Mortgage interest relates to Shikah's residential home.

Required:

a) Adjusted taxable profit or loss of the partnership for the year ended 31 December 2021. **(16 Marks)**

b) A schedule showing the distribution of the taxable profit or loss in (a) above **(4 Marks)**

QUESTION FOUR

(a) Explain Five allowable deductions from employment income. (10 Marks)

(b) Discuss advantages of indirect taxes (10 marks)

QUESTION FIVE

(a) Mlima traders is registered for VAT purposes. The following details were obtained from the records of their business for the month of September, 2022:

Date		Purchases Shs	Sales Shs.
September	1	1,500,000	2,200,000
	8	4,800,000	3,600,000
	14	1,600,000	2,000,000
	20	900,000	1,200,000
	22	640,000	700,000
	28	820,000	960,000
	30	560,000	840,000

Additional information:

i) Goods valued Shs. 400,000 were returned to the suppliers on 15th September.

ii) A debtor for shs. 620,000 was declared bankrupt and Mlime were granted bad debt reliefs for the full amount.

iii) All prices are inclusive of VAT at 16%

Required:

VAT account for month of September, 2022. **(10 Marks)**

(b) Why should the government of Kenya levy taxes to its citizens. **(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