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(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR
FOURTH YEAR SECOND SEMESTER
MAIN EXAMINATION

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCA 421

COURSE TITLE: TAXATION THEORY AND PRACTICE

DATE: 30TH AUGUST, 2022 TIME: 9.00AM - 11.00AM

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question **one** carries **30** marks and each of the other two questions carry **20** marks each.

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

- This Paper Consists of 7 Printed Pages. Please Turn Over.



QUESTION ONE (30 MARKS)

- a) Define taxation and analyze two characteristics of a tax (3 Marks)
- b) Explain situations when taxes can be evaded (4 Marks)
- c) Analyse situations when custom duty is rebated or refunded (4 Marks)
- d) Distinguish between taxable capacity and progressive tax regime (3 Marks)
- e) Joseph Jackoyah provided the following for the year ended 2021. He was employed as a full time director of Kilocoo Ltd at a salary of Kshs.390,000.00 per month (PA YE Kshs.180,500 per month).
- (i) Free gifts including food were received from the company Kshs.180,000.00
 - (ii) He enjoyed free medical treatment under the medical scheme operated by the company for Senior employees which was assessed at Kshs.120,000
 - (iii) House Servant valued at 50000
 - (iv) Car Allowance sh180,000
 - (v) Was provided with a car whose original cost was 1600000 with 2000cc from September 2021
 - (vi) Mr. Joseph Jackoyah and wife operate a Company fully owned by them whose taxable income has been assessed at Kshs560,000.00 after charging the wife's salary of Kshs. 300,000.00 (PAYE Kshs.90,000 per annum).Salary to the son from this company shs 300000
 - (vii) Kilocoo Ltd provides him with housing from 1st July, 2020 before this he lived in his own house.
 - (viii) Business income from a retail Shop sh 900,000
 - (ix) Farm income shs.400,000 after consuming farm produce of shs 190,000
 - (x) His wife works as a teacher in a private School and she earns Kshs.50,000 per month (PAYE shs.155,000 per month)
 - (xi) Rent from property was Kshs. 40,000 per month from August 2020.
 - (xii) Renovation on Residential house before letting cost shs 25,000
 - (xiii) The house he was living in before had a mortgage of Kshs.2, 000,000 and Kshs.550, 000 was paid on it of which Kshs. 350,000 was the capital sum.

Required

- a) Mr. Joseph Jackoyah's taxable income for 2020 (10mrks)
- b) Taxability for 2021 (4mrks)
- c) Notes and comments on information not used (2mrks)

(Total 30mrks)

QUESTION TWO (20 MARKS)

- a) Discuss your succinct understanding of the term dumping and analyse anti – dumping measures (10Mrks)
- b) Discuss ways of financing budget deficit (5mks)
- c) Discuss the factors affecting taxable capacity (5mks)
- (Total 20mrks)

QUESTION THREE

- a) Under VAT Act (Cap 476) analyse your understanding of the term tax point (4 Marks)
- b) Discuss tax payers objection as regards an assessment (6mrks)
- c) The directors of PEME limited have presented you with the following profit and loss account for the year ended 31 December 2020

	Sh.	Sh.
Gross profit		20,326,000
Interest income		2,000,500
Less: Opening expenses		
Salaries and wages,	8,000,000	
Reserve for contingencies	1,580,000	
Hire purchase interest	413,000	
Laundry Expenses	434,000	
Legal and professional fees	400,000	
Depreciation	2,450,000	
Dividends paid	1,600,000	
Repairs and maintenance	872,000	
Insurance premium	320,000	
VAT Paid	168,000	
Bad and doubtful debts	228,000	
Advertising	1,200,000	
Bank charges	170,000	
Water and electricity	1,200,000	
Rent and rates	3,020,000	
Subscription and donations	371,000	
Telephone and postage	1,204,000	

Sundry expenses	600,000	
Motor Vehicle expenses	2,300,000	16,030.000
Net Profit		5,296,500

Additional information:

- 1) Salaries and wages include sh. 66,000 paid to the income Tax Department as penalties and the interest on delayed submission of PAYE deduction.
- 2) Hire purchase interest relates to loans obtained to purchase a delivery Van Sh146, 000 and the Chairman's personal car Sh. 267,000.
- 3) The company directors and senior managers are given free laundry services at the company's laundry. The cost of cleaning their personal clothing for the year ended 31 December 2016 was Sh. 133,000.
- 4) Legal and professional expenses include Sh. 146,000 incurred while defending the Managing Director in a private suit against him.
- 5) Repairs and maintenance include the cost of acquiring a second hand laundry machine for sh. 167,000.
- 6) Bad and doubtful debts are made up of a 10% general provision against the debtors balance as at 31 December 2016 and full provision of Sh. 93,000 owed by Oriented Finance Ltd. that has been placed under receivership. The Debtors balance as at 31 December 2016 was Sh. 1,350,000.
- 7) Subscriptions and donations comprise:
 - Subscription to Rhino Golf Club for the Managing Director 260,000
 - Subscription to the chamber of Manufacturing and Commerce 63,500
 - Donation of books to the Watoto School for the Handicapped 35,000
 - Annual subscription for Finance Manager paid to the Institute of Certified Public Accountants of Kenya 12,000
- 8) Sundry expenses include Sh. 263,000 paid to Health Africa for the Managing Director's medical cover. He is the only one in the company covered by the medical scheme.
- 9) Wear and tear allowances for the year ended 31 December 2016 have been agreed at Sh. 4,320,000.

Required

- a) PEME Ltd's adjusted profiteer loss) for tax purposes for the year ended 31 December 2020 (8marks)
 - b) ii) Corporation tax (if any) payable by PEME Ltd . For the year ended 31December 2020 (5 marks)
- (Total 20mrks)**

QUESTION FOUR

Mr. Hand is the owner of a supermarket i account, for the year ended 2020

Sales	46,000,000
Closing Stock	460,000
Profit on sale of Residential house	250,000

Dividend Gross	<u>18,000</u>
	<u>46,728,000</u>
Less Operating Expenses	
Opening stock	2,600,000
Purchases	40,000,000
Salaries and Wages	1,250,000
Rent rates and taxes	46,000
Fire Insurance	6,000
House Hold expenses	42,000
Income tax for 2018	130,000
Advertisement	69,500
Legal & professional fee	45,500
Stationery & postage	13,800
Reserve for bad debts	23,000
Depreciation	151,600
Purchase of machinery	10,500
Interest on loan to purchase shares	20,800
Gifts and presents	8,400
Medical expenses of the proprietor	12,000
Sales tax	103,000
Net Profit	1,195,000
	<u>46,728,000</u>

Notes

1. Stock of goods at the opening and closing day had been undervalued at 10% below the cost price.
2. Sales include a figure of 50,000, representing value of goods withdrawn for private use. These goods were purchases at the cost of 40,000/=
3. Rent rates and taxes include 8,500/= for customs duty and sales tax for purchase of machinery.
4. Advertisements include 10,000/= on erecting a signboard at the shop front.
5. Analysis of the legal fees.
10,500 renewal fee for a 5 year lease.
15,000 defending a suit for alleged breach of contract (trading contract).
10,000 Appeal to local committee against assessment.
8,500 defending criminal proceedings against the proprietor for dealing in smuggled goods.
1,500 miscellaneous and allowable.
6. Wear and tear had been agreed with tax assessor at Kshs. 108,000/ =

Required

- a) Mr. Hand's Taxable income 31 Dec 2020 (15mks)
- b) Mr. Hand's Tax Liability 31Dec 2020 (5mks)

(Total 20mrks)

QUESTION FIVE

a) Section 3 of the Income Tax Act is the main charging section. Analyse the provisions of S3(1), S3(2) AND S3(3) (4mrks)

b) John Mwendwa, Charles Okori and Jackson Okoit Trade in Household goods they share profit and loss in the ratio 2:2:1 The following are the details of the draft accounts regarding their profit and loss status as at 31 December 2020

Debits.	Ksh.
Office expenses	408,000
General expenses	188,000
Salaries and Wages	800,000
Exhibition expenses	234,000
Printing and stationery	128,000
Rent and Rates	300,000
Installment tax paid	90,000
Legal charges	164,000
Interest on capital	420,000
Depreciation	184,000
Bad Debts	136,000
Commission to partners	160,000
Donations for poverty	200,000
Property taxes	24,000
Electrical expenses	92,000
General reserve	240,000
Credits	Ksh.
Gross Profit	3,600,000
Interest earned	240,000
Discount received	160,000
Other receipts	300,000
Rent income	264,000
Capital gain on shares	200,000
Reported profit 1,336,000	

The partner provides additional information as follows:

1. Closing stock had been understated by Kshs. 30,000 at 31st December 2020.
2. John Mwendwa was paid Kshs. 240,000 as salary (include in salaries and wages) and P.A.Y.E of Kshs. 16,000 was paid on it.
3. The firm was fined Kshs. 30,000 for breach of regulations. This is included in legal charges.
4. Interest on capital was shared as per profit and loss sharing ratio
5. Commission to partners included Kshs. 90,000 to. John Mwendwa and the Balance to Jackson Okoit
6. Capital Allowances have been agreed as Kshs. 1,980,000 with tax Authorities.

Required

- a) Compute total income (Loss) from the partnership business for 2020 (6mrks)
- b) Show allocation of profit and loss among partners (5mrks)
- c) Tax liability for each partner (5mrks)

(Total 20mrks)