



(Knowledge for Development)

UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR
SECOND YEAR SECOND SEMESTER
MAIN EXAMINATION
FOR THE DEGREE OF BACHELOR OF BUSINESS
MANAGEMENT

COURSE CODE: BBF321

COURSE TITLE: PUBLIC FINANCE AND TAXATION

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

QUESTION ONE (COMPULSORY)

- a) Support with relevant examples the following theories of tax shifting (2 marks)
- i) Diffusion theory (2 marks)
 - ii) Demand and supply theory (2 marks)
 - iii) Concentration theory (2 marks)
- b) Evaluate five factors that may influence tax shifting (10 marks)
- c) The following information relates to Mr. Kamau, a businessman for the year ended 31st December 2019.

Profit and loss account

	Sh.		Sh.
Rent for premises		Gross profit	1,272,000
– owed by Mr. kamau	180,000	Interest income	48,000
Establishment expenses	600,000	Gross Dividends	80,000
Printing and stationery	135,000	Gross farming income	226,600
Interest expense	46,000	Profit on sale of shares	533,000
Electricity	40,000	Lottery winnings	733,300
Farm expenses	210,000		
Repairs to premises	30,000		
Depreciation	196,000		
Salary to Mr. Kamau	380,000		
Drawings by Mr. kamau	200,000		
Donations to children home	166,000		
Legal expenses	125,000		
Interest on loan to pay income tax	29,000		
Bad debts	180,000		
Staff wages	144,000		
Net profit	285,200		
	2,946,200		2,946,200

Additional information:

- i) Capital allowance has been agreed as follows:
 - Wear and tear allowance sh. 120,000
 - Farm work deduction sh. 80,000
- ii) Legal expenses include sh. 50,000 paid with regard to pursuing a dispute with the VAT department.
- iii) Establishment expenses include sh. 400,000 incurred in acquiring furniture and equipment for the business before commencement of operations.

Required:

- a) Mr. Kamau's taxable income for the year ended 31st December 2019 (10 marks)
- b) Tax payable on the taxable income in (a) above (4 marks)

SECTION B
ANSWER ANY TWO QUESTIONS.

QUESTION TWO

- a) Examine four actions that the revenue authority could take against tax payers for the recovery of overdue tax (4 marks)
- b) John, James and Joan are partners trading under the name JJJ Enterprises. They share profit and loss in the ratio 4:3:3. The income statement of the firm for the year ended 31.3.2021 is shown below.

	Sh.(000)		sh.(000)
Salaries & wages	280	Gross profit	2,300
Rates, rent and taxes	150	Miscellaneous receipts	150
Office expenses	204	Discounts	80
Printing and stationery	64	Rent from property	132
Installment tax	45	Profit on sale of shares	100
Advertising	73	Interest on deposit	120
Interest on capital			
John	60		
James	70		
Legal charges	82		
Commission to partners			
John	45		
Joan	35		
General expenses	99		
Depreciation	92		
Bad debts	68		
Donations – famine Relief	100		
General reserves	120		
Local property tax	12		
Electricity	46		
Show room expenses	117		
Net profit	104		
	2,882		2,882

Additional information:

- i) Salaries and wages include an amount sh. 40,000 paid to James.
- ii) Advertising include sh. 10,000 spent on introduction of a new product in the market.
- iii) The closing stock whose value was sh. 180,000 had been valued at market price which was 10% less of its cost price.
- iv) Legal charges included sh. 12,000 paid as fine and penalty.
- v) John's other income was sh. 120,000 from rent. He had brought forward business loss of sh. 135,000 from 2020 year of income.

- vi) Capital allowance had been agreed with the commissioner of income tax at sh. 90,000.
- vii) Joan had income of sh. 200,000 from bet winnings. She had brought forward a business loss of sh. 135,000 from the 2020 year income.

Required:

- i) Compute the taxable income for the partnership (10 marks)
- ii) Calculate the taxable income of each partner for the year ended 31st December 2021 (4 marks)

QUESTION THREE

- a) 'In order to achieve its objectives, the public finance management framework envisions certain principles to guide all aspects of public finance'.
With reference to the above statement, identify and evaluate such principles (12 marks)
- b) Senate budget committee is an important organ with regard to public financial management asses the functions of this Committee in the Public Sector. (8 marks)

QUESTION FOUR

- a) XYZ Ltd imports goods vatable at standard rate and transports them to a factory in Bungoma, where they are converted into finished goods for sale in the local market. The cost of conversion is 25% of the total costs incurred in bringing the goods to Bungoma. The company then charges a profit margin of 40%. During the month of August 2019, the firm imported goods worth sh. 2,000,000 and paid import duty of 20%. It then incurred a further 10% as transport cost to Bungoma. The goods were all converted and sold in August 2019. The above costs are all inclusive of VAT.

Required:

- Compute the VAT payable by XYZ Ltd and show the due date (8 marks)
- b) Kibu Ltd deals in variety of goods. In the month of January 2021, the company accountant recorded the following transactions (exclusive of VAT)

	Sh.(000)
Wages and salaries	4,200
Audit fees paid	700
Provision for doubtful debts	400
Telephone and electricity bills	500
Export of goods	10,000
Sales at standard rate	45,000
Exempt sales	20,000
Purchases at standard rate	25,000
Purchases at zero rate	10,000

Sale of motor vehicle

1,200

Additional information:

- i) The accountant believes that the allocative method is suitable in restricting the input VAT deductible against output VAT.
- ii) On average, 20% of the standard rates purchased were sold as standard rate sales.

Required:

Input VAT deductible against output VAT using the allocative method (12 marks)

QUESTION FIVE

- a) Evaluate three areas in a business firm where the concept of tax planning may be applied (8 marks)
- b) ABC Ltd prepares its accounts on 31st December every year. The following income statement relates to 31st December 2018.

	Sh.(000)
Income	
Gross profit	460
Bad debts previously written off	2
Gross dividends 10,000	
Post office savings Bank interest	3
Gain on sale of plant and machinery	10
	485
Expenses	
Administrative expenses	80
Directors fees & expenses	10
Repairs and renewals	24
Donations and subscriptions	4
Preliminary expenses	6
Bad debts	16
Retirement benefits	100
Rent, rates and insurance	60
Patent rights written off	5
Legal and accountancy fees	83
Interest on overdue tax	5
Depreciation	20
Interest in lieu of dividends	10
	(363)
Net profit	122

Additional information :

1. Repairs and renewals	
Redecoration of existing business premises	6,000
Renovation of new buildings	10,000
Painting and carpeting of old building to create room for the manager	8,000
	24,000
2. Donations and subscription	
The kenya chamber of commerce	2,000
Kenya red cross society	1,000
Sporting facility for the staff	1,000
	4,000
3. Preliminary expenses	
Stamp duty on issue of new shares	4,000
Secretarial service fees now written off	2,000
	6,000
4. Bad debts	
This was on the account of a loan given to a supplier now declared bankrupt	
5. Legal and accountancy fees	
Staff contract agreement	4,000
Audit fees	60,000
Income tax appeal	4,000
Contract to purchase new business	11,000
Lease preparation	4,000
	83,000
6. Dividends	
Received from the subsidiary company where ABC Ltd holds 75% of the voting rights.	
7. Interest in lieu of dividends	
The company did not pay dividends in 2017 instead decided to pay interest at 10% on issued and fully paid up capital.	
8. Gain on sale of plant and machinery	
One line of business was discontinued and all plant and machinery were sold. The sale details were as below:	
	Sh.
Cost in 2015	160,000
Aggregate depreciation to 2017	65,520
	94,480
Sale proceeds	104,000
Gain	10,000

The written down value for taxation purpose as agreed by KRA assessors was sh. 93,790 at year end.

Required:

Compute the corporate tax liability

(12 marks)