



(Knowledge for Development)

UNIVERSITY EXAMINATIONS

2022/2023 ACADEMIC YEAR

THIRD YEAR SECOND SEMESTER

SUPPLEMENTARY AND SPECIAL EXAMINATION

**FOR THE DEGREE OF BACHELOR OF SCIENCE IN
ENTREPRENEURSHIP AND COOPERATIVE MANAGEMENT**

COURSE CODE: CMP 327

**COURSE TITLE: TAXATION FOR SMALL BUSINESSES AND
COOPERATIVES**

DATE: 9TH AUGUST, 2023 TIME: 2.00PM – 4.00PM

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

Section A (compulsory)

Question one

- a) The constitution and the public management Act provide for the establishment of public funds. In relation to the above statement, examine the functions of the following funds;
- i) Commission on revenue allocation (4 marks)
 - ii) Contingencies fund (4 marks)
 - iii) Revenue fund for county government (4 marks)
- b) ABC Ltd imports goods available 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 ABC Ltd and show the due date (8 marks)
- c) Omega 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 as 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)
- d) Explain four measures that the national treasury should put in place when administering the equalization Fund in accordance with article 204 of the constitution (8 marks)
- e) Critically evaluate the functions of the controller of budget in relation to public finance management (10 marks)

Section B

Answer any Two questions

Question Two

- a) Outline the stages to be followed in the budget process for the national government in any financial year (10 marks)
- b) Examine the role of public finance in stabilizing the economy of the country (10 marks)

Question Three

- a) Suggest the circumstances under which a tax payer may lodge an appeal with the local committee (4 marks)
- b) Mr. Job Mwamba is a tax manager with Mambo Super market. During the year ended 31st December 2020, he reported the following:
- i) Basic salary per month sh.75,000 (payee sh.14,000 per month).
 - ii) He is provided with motor vehicle of 2000 cc by the employer. The motor vehicle was leased from Motor Leasing Ltd for sh.22,500 per month. As at 1 January 2020, the motor vehicle was valued at sh.400,000 after deducting accumulated depreciation of sh. 150,000.
 - iii) He was housed by the employer in a fully furnished house (cost of furniture sh.180,000) until 30 September 2020. During the period, he contributed 10% of his basic pay as rent.
 - iv) On 30th September 2020, he obtained a mortgage from Makazi Building society Ltd of sh. 4,000,000 at an interest rate of 18% per annum. He shifted his own residential house with effect from 1 October 2020.
 - v) The employer paid his life assurance premiums amount to sh. 100,000 during the year.
 - vi) He is a member of a registered retirement benefits scheme to which he contributed sh. 15,000 per month while the employer contributed an equal amount.
 - vii) During the spare time, he provided tax free advice to his friends. These services were valued at sh. 100,000.
 - viii) His wife owns residential property. In the year, she reported the following:
 - a) Gross rental income sh. 400,000 per annum

- b) Repair and innovation costs before letting sh. 80,000
- c) County council rates sh. 8,000 per annum.
- d) Insurance for the property sh. 12,000 per annum
- e) Construction of a fire exit as per the county council regulations sh. 30,000.

Required :

- a) Taxable income for Mr. Job Mwamba for the year ended 31st December 2020 (14 marks)
- b) Mr. Job Mwamba's tax liability (2 marks)

Question Four

- a) Explain four measures that the national treasury should put in place when administering the equalization Fund in accordance with article 204 of the constitution (8 marks)
- b) Critically evaluate the functions of the controller of budget in relation to public finance management (12 marks)

Question Five

A, B and B are partners trading under the name ABC 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		
A	60	
C	70	
Legal charges	82	
Commission to partners		
A	45	
B	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 B.
- 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) A'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) C had income of sh. 200,000 from bet winnings. He had brought forward a business loss of sh. 135,000 from the 2020 year income.

Required:

- i) Compute the taxable income for the partnership (14 marks)
- ii) Calculate the taxable income of each partner for the year ended 31st December 2021 (6 marks)