

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF MASTER OF
BUSINESS ADMINISTRATION

MBAD 815: BUSINESS TAXATION

STREAMS: MBAD (Y1S2)
DAY/DATE: FRIDAY 09/7/2021

TIME: 3 HOURS
2.30 P.M. –4.30 P.M.

INSTRUCTIONS: Answer question ONE and any other THREE questions

QUESTION ONE

(a) Taxations may be referred to as the revenue raising activity of the government. The taxes are levied for various government activities. Discuss any five activities that government is expected to carryout. [10 marks]

(b) ABC ltd commenced a business of assembling computer hardware on 1st May 2005. The company acquired the following assets from XYZ, which was winding up its business in the Kenyan capital on 30th April 2015:

- (i) House, which was used by the XYZ's director, for Kshs.15,000,000
- (ii) This was converted by ABC Co. ltd into a factory building after incurring additional alterations cost of Kshs. 4,500,000
- (iii) Factory building was acquired for Kshs. 24 million. One fifth of this building houses the head office. The office was air conditioned with air conditioners worth Kshs. 2 million

(iv) Factory plant and machinery worth Kshs. 180 million. The tax written down value (TWDV) of the machinery was Kshs. 60 million in the vendor's books.

(v) Two five ton lorries worth Kshs. 40 million in total. Their total TWDV was Kshs. 32 million and their total book value (BV) was Kshs. 28 million.

(vi) A salon car costing kshs. 23 million. This car had a nil BV and TWDV in the books of the vending company. ABC Co. ltd used the car purely for business purposes.

(vii) Processors, data key boards, printers, which were semi-assembled, were also acquired for Kshs. 20 million.

(viii) Office furniture was purchased for Kshs. 4.2 million. This asset had a TWDV of Kshs. 1,800,000/= and accumulated depreciation of kshs. 400,000

MBAD 815

(ix) Office stationery and some operational guides were also purchased for kshs. 1,900,000/=

After the commencement of the business, the following transactions took place:

(x) One of the Lorries was gutted by fire kshs. 8 million as insurance compensation was received from National Insurance Corporation for the loss.

(xi) On 1st November 2015 an eight-ton trailer was purchase for khs. 38 million

(xii) BBA sold to ABC co. ltd a godown building constructed for kshs. 15 million at kshs. 175 million. It was used for storage of ABC co. ltd finished products from 1st

January 2016.

(xiii) The remaining lorry was exchanged for a new one on 1st March 2006. ABC ltd had to pay an additional kshs. 10 million for the new lorry, the total cost of which was kshs. 24 million.

Required: compute wear and tear allowances to be granted to ABC co. ltd for the year income 2016 under the Income Tax Act. [20 marks]

(c) Wote ltd is a newly formed company carrying out finishing business. During the first year (2019) of operation it made the following transactions:

(i) Received dividend from SHINDUSA Ltd a resident corporation amounting to Kshs 6, 000,000. Wote owns 40% of the shares of SHIDUSA Ltd.

(ii) Dividends amounting to kshs 3,500,000 were received from Kwenu Ltd, which is listed on the NSE, and owned 22% by TABU ltd a non-resident company.

(iii) Dividends amounting to Kshs. 1,550,000 received from CHUCHUMA company ltd a resident company

(iv) Wote has its office along Ali Hassan Mwinyi road, the office was underutilized. The company decided to rent the front office to Juma Bakari a shop businessman, who used it as a shop after paying Kshs. 800,00 as rent.

(v) During the year the company received Kshs 400,000 as rent from Mr. James a Kenyan, with respect of a house occupied by him situated at Lavington Nairobi.

(vi) Also the company received royalty from Madengu ltd amounting to kshs. 400,000 out of lease of videos tapes used for promotion.

(vii) During this year, Wote sold 6 hectares of land which was at KUNDUCHI and received Kshs 300 million. This land was purchased for 2,000 in 1970. Three years prior to its sale, this land has been used for as agricultural land.

In addition to those transactions it earned business profit of Kshs. 100 million

Required:

By applying the relevant provisions of the KRA computer the investment income, total income and Tax payable of the company for the year ending 2019. [10 marks]

QUESTION TWO

(a) Mr. Matele has approached you with a view to obtaining help in determining his taxable income for 2015. He has supplied the following information:

1. Business Income

He runs a small garage that generate taxable income of sh. 60,000. In 2014, he had a tax loss of sh. 40,000 from this business

2. Wife’s Income

His wife was employed by Mufuta ltd as the finance Director. Her salary was sh. 52,000 p.m. Additional benefits include:

COmpnay ca 1800 cc

House at New Muthaiga (market value of rent sh. 20,000 per month)

Staff gifts of oil products worth sh. 1000 p.m

3. Capital Gains

In the course of the year, the Matele sold one plot they owned in Nairobi for sh. 1,200,000.

This represented a gain of sh. 600,000 which they used to take a holiday to Mombasa.

4. Investment Income

	Withhold ing tax Sh.	Net Sh.
Dividends:		
Kenya Breweries ltd	2,000	18,000
HFCK ltd	1,000	9,000
CMC ltd	4,000	36,000
Interest:		
Kenya Commercial Bank savings Account	2,000	18,000
HFCK Housing Development bond	7,000	63,000
Post Office savings Bank	-	20,000
15% 2010 Treasury Bonds	1,500	13,500

5. Employment Income – Mr. Matele

He was employed by Utajiri Limited as the Geneal Manager – sales. His salary was sh. 40,000 per month and a bonus of 2% on total sales revenue. He had a car of 2000cc which he used to visit customers otherwise his wife would pick and drop him at the place of work each day using her official car.

6. Utajiri limited insures all its sales against default from customers. The cost of the insurance was sh. 10,000 which represents 0.001 percent of sales. The company also paid sh. 20,000 to cover the life of Matele and his household items.

MBAD 815

7. PAYE of sh. 130, 000 was deducted from Matele's pay but due to an oversight in the part of the chief accountant the tax was not paid to the Collector of Income tax. His wife's PAYE was sh. 180,000 in the year.

Required:

- (i) Compute total income chargeable to tax and show the tax payable thereon.
[15 marks]
- (ii) Comment on any information not used for computing taxable income above
[2 marks]
- (iii) Is Matele to blame for failure of the company to pay his PAYE? Explain
[3 marks]

QUESTION THREE

Leo, Kesho na Kutwa trade in electrical goods and as partners in Leo unincorporated. They share profits and losses equally. The following details in the draft accounts regarding their profit and loss status as at 31 December 2015 have been provided:

	Debits		Credits
	Sh.		Sh.
Office expenses	408,000	Gross profit	2, 600, 000
General expenses	188,000	Interest earned	240,000
Salaries and wages	560,000	Discounts received	160,000
Show room expenses	234,000	Other receipts	300,000
Rents, rates and taxes	300,000	Rent income	264,000
Printing and stationery	128,000	Capital gain on shares	200,000
Installments tax paid	90,0000		
Advertising	146,000		
Legal charges	164,000		
Interest on capital	420,000		
Depreciation	184,000		
Bad debts	136,000		
commission to partners	160,000		
Donation for poverty	200,000		
Property taxes	24,000		
Electricity expenses	92,000		
General reserve	240,000		

The partners provided additional information as follows:

1. Closing stock had been understated by sh. 30,000 as at 31 December 2014
2. Leo was paid sh.100,000 as salary (included in salaries and wages) and PAYE sh. 31,000 was paid on it.
3. The firm was fined sh. 30,000 for breach of regulations. This included in legal charges
4. Interest on capital was sh. 160,000 to Leo, sh. 120,000 to Kesho and sh. 140,000 to Kutwa.
5. Commission to partners include sh. 90,000 to Leo and the balance to Kutwa

MBAD 815

6. Capital allowances had been agreed at sh. 1,800,000 with the tax authorities

Required:

- (a) Compute the total income (loss) from the partnership business [9 marks]
- (b) Show allocation of profit/loss among partners [4 marks]
- (c) How is the profit/loss of each partner to be treated for tax purpose? [2 marks]
- (d) Specify five matters you are likely to question one the above accounts and state why [5 marks]

QUESTION FOUR

Walaa construction ltd provided the following emoluments to Mr. Ole Mboga for the year ended 31 December 2015:

1. Salary of sh. 150,000 per month (PAYE deducted and paid to the commissioner sh. 62,000 per month).
2. Housing – free housing is provided, with water and electricity. He pays a nominal sh. 10,000 per month. Water consumed was for sh. 4,800 and electricity consumed was for sh. 18,000 during the year.
3. 1,000 ordinary shares for past years of service. Last valuation of shares was at sh. 50 each. The issues share capital is now 25,000 shares. The company paid a dividend of sh. 10 per share on 31 December 2015.
4. Company car of 2000 cc
5. Leave pay equal to one month's salary
6. Life insurance premium per each household member of sh.10,000 per annum. This covers himself, wife and son.
7. Pension at 10% per month. He contributes 5% towards the same scheme. The scheme is registered. Leta engineering services made an assessed loss of sh. 400,000 for the year of income 2015. Mr. Ole Mboga owns property which he bought many years ago Rent income account for the year 2015 is as follows:

	Sh.	Sh.
Gross rent		300,000
Less:		
Loan repayment	150,000	
Interest on loan	125,000	
Fencing	30,000	
Caretaker wages	55,000	
Insurance, rent and rates	25,000	
Replaced broken doors	<u>85,000</u>	
Loss to be carried forward		<u>470,000</u>
		<u>170,000</u>

Required:

- (a) Taxable income of Mr. Ole Mboga for the year of income 2015 [12 marks]

MBAD 815

- (b) Tax payable by Mr. Ole Mboga for the year of income 2015 [5 marks]
- (c) Mr. Ole Mboga is being invited by Tana Ranching Company limited to be their manager and reside at the firm. What will be the tax implications of this? Explain but do not compute if he takes up the offer and everything remains unchanged other than the residence.
[3 marks]

QUESTION FIVE

- (a) The proper distribution of the burden of taxation is one of the fundamental problems in public finance of modern democratic states. An attempt to achieve equity in taxation may be brought through the use of different theories. Identify and discuss any four theories of taxation.
[20 marks]
-