

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF
ENTREPRENEURSHIP AND ENTERPRISE MANAGEMENT**

BCOM 315: TAX LAWS AND PRACTICE

STREAMS: Y2S2

TIME: 2 HOURS

DAY/DATE: THURSDAY 08/07/2021

2.30 P.M – 4.30 P.M

INSTRUCTIONS:

Attempt question one and any other two

QUESTION ONE

- (a) Explain any four ways that the government uses taxation to protect local infant industries.

[8

marks]

- (b) A trader made a sale at a net price (exclusive of VAT) of ksh 120,000. The goods sold were purchased at ksh 100,000 (exclusive of VAT) VAT at the standard rate is applicable to all the traders transaction.

The input tax, output tax and the amount of VAT payable.

[6 marks]

- (c) The finance Act 2020 of 30th June 2020 introduced minimum tax (MT). Describe the provisions relating to this tax.

[6 marks]

- (d) Allan and Bernard are partners trading as Alber traders sharing profit and losses equally.

The following is the statement of income for the partnership for the year ended 30th June 2021.

		Ksh 000	Ksh 000	Ksh 000
Income				
Gross profit				6,000
Interest on drawings	Allan		500	
	Bernard		60	560
				6,560
Expenditures				

General expenses			4,500	
Staff salaries & wages			3,400	
Interest on capital	Allan	160		
	Bernard	140	300	
Salaries to partners	Allan	180		
	Bernard	200	380	
Commissions to partner	Allan		200	
Legal cost for defending partner	Bernard in a tax case		120	(8,900)
Report loss for the year				2,340

Required :

Taxable income for the year ended 30 June 2021 in respect of each partner. [10 marks]

QUESTION TWO

(a) Alex Kamau is an employee of future ltd. The following income and benefits accrue to Alex Kamau for the year ended 31st December 2020.

1. Basic salary ksh 500,000 per month (PAYE ksh 95,000 per month)
2. He lives in a condominium of furnished apartments. The company furnished the apartment at a cost of ksh 300,000. He is deducted ksh 35,000 per month from his salary as rent for the house. The rental market value of such houses is ksh 55,000 per month.
3. The company provided him with a 2000 cc saloon car for official and private use and a designated driver. The vehicle had been from Bolt Taxi ltd at ksh 50,000 per month. The driver is paid ksh 24,000 per month by the company.
4. He was provided meals by the employer that amounted to ksh 45,000 per annum.
5. He received airtime for mobile phone amounting to ksh 10,000 per month from employer.
6. He is entitled to a monthly entertainment allowance and risk allowance of ksh 20,000 and ksh 8,000 respectively.
7. The following annual deductions were made from his salary for the year 2020.

	Ksh
Loan repayment	960,000
Life assurance premiums	600,000
Contribution to registered pension scheme:	

Compulsory contribution	15,000
Voluntary contribution	170,000

Required:

- (i) Taxable income for Alex Kamau for the year ended 31 December 2020. [6 marks]
- (ii) Tax liability (if any) for taxable income computed in section (part (i)). [4 marks]

QUESTION THREE

- (a) A trader incurred legal costs during the year 2020 relating to the following items in the normal conduct of his merchandising business.

	Ksh
Conveyance of land	150,000
Court expenses for breach of contract	75,000
Defending company against a law suit for smuggled goods by a director	100,000
Preparing patent documents for registration	10,000
Appeal against a tax assessment	<u>200,000</u>
Total legal expenses	<u>535,000</u>

Required :

Schedules showing legal expenses classified as either allowable and non allowable expenses.

[5

marks]

- (b) Front industries ltd set up a factory in industrial area to manufacture edible oil. The company commenced operations on 1st January 2020 after incurring the following cost in acquisition and construction:

	Sh '000'
Land	6,000
Factory building	20,000
Office & showroom	5,000
Processing machinery	12,000
Stone perimeter wall	1,500
Labour quarters	2,200
Toyota Prado (for director)	3,600
Generators	420
Furniture & fittings	1,300
Computers	850
Two lorries (each 4 tonnes)	5,000

Delivery vans 2,500

Additional information:

1. A warehouse was constructed at a cost of ksh 2,500,000 and utilized from 1st July 2020.
2. The directors Toyota Prado was involved in an accident on 1st December 2020 and the insurance company compensated the company ksh 2,800,000
3. In order to improve efficiency of purchase orders processing in the factory, a database application soft was installed at a cost of ksh 650,000.
4. During the year ended 32 December 2020, computers and office furniture valued at ksh 360,000 and ksh 64,000 respectively were disposed off.
5. A staff clinic was constructed for ksh 720,000 and brought into use from 1 October 2020.

Required:

Capital allowances due to front industries limited for the years ended 31 December 2020.

QUESTION FOUR

- (a) There are different methods of collecting income tax from companies and partnerships, based on their sources of income. Describe any four methods that are adopted by Kenya Revenue Authority. [6 marks]
- (b) Peter Ndegwa is a trader registered for value added tax (VAT). He has provided you with the following information relating to his business for the month of June 2021.

	Ksh
Consultancy fee: Local clients	1,850,000
Foreign clients	250,000
Sale of goods: Exports	350,000
Local markets	3,500,000
Legal fee expenses	450,000
Rent expense for office premises	170,000
Audit fee paid	250,000
Email and webhosting expenses	85,000
Purchases: Zero rated	250,000
Standard rate	2,100,000
Sales (exempt	550,000

Additional information

1. A customer owing ksh 50,000 was declared bankrupt during the month of the trade.
2. The trader received credit notes of ksh 25,000 and sent out debit notes of ksh 50,000 in June.
3. All the above transactions are quoted exclusive of VAT at the rate of 16% where applicable.

Required:

The VAT payable (or refundable) for the month of June 2021.

[14 marks]
