

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF
COMMERCE, BACHELOR OF AGRIBUSINESS MANAGEMENT AND
BACHELOR OF AGRICULTURE ECONOMICS**

BCOM 315: TAX LAW AND PRACTISE**STREAMS:****TIME: 2 HOURS****DAY/DATE: TUESDAY 21/09/2021****8.30 A.M. – 10.30 A.M.****INSTRUCTIONS**

- Answer question ONE and any other TWO questions

QUESTION ONE

- a) Explain how VAT fits in any five cannons/principles of taxation. (10 marks)
- b) The following statement of financial performance was prepared by the management of Kenbro limited for the year ended 31 December 2018

	Shs	
Sales (gross)		25,000,000
Rental income		5,000,000
Profit on sale of shares		60,000
Dividend income (net)		1,000,000
Interest income (net)		2,000,000
Insurance claim received		400,000
Miscellaneous income (taxable)		200,000
Closing stock		1,800,000
Opening stock	1,400,000	
Purchase	12,000,000	
Salaries and wages	3,500,000	
Depreciation	1,500,000	
Water and electricity	600,000	
Interest expense	2,500,000	
Rent, rate and taxes paid	1,000,000	
Donations to new political party	140,000	

Loss of stock through theft	1,100,000	
Legal expenses	600,000	
Repairs and maintenance cost	1,900,000	
Bad debt	1,300,000	
Proposed dividend	1,100,000	
Redundancy payments	1,900,000	
Promotion expenses	700,000	
Net profit	4,220,000	
	<u>35,460,000</u>	<u>35,460,000</u>

Additional information

1. Legal expense comprised

Drawing of leases (50 years)	140,000
Conveyance fees on purchase of land	100,000
Settling customers disputes	60,000
Issuance of debentures	<u>300,000</u>
	<u>600,000</u>

2. Bad debts specific Kshs. 800,000

3. Repairs and maintenance included shs. 300,000 incurred on renovation of a warehouse

4. Divided income was received from the following investments

Shares in area ltd	800,000
Shares in Timau Commercial bank ltd	200,000
	<u>1,000,000</u>

5. Interest income arose from deposits held with various financial institution

6. Insurance compensation received related to stock lost through theft

7. Capital allowances were agreed with tax authorities at shs 1,600,000 for the year ended 31 December 2018

Required

- i. Adjustable tax profit or loss of Kenbro ltd for the year ended 31st December 2018
- ii. Tax payable by industrial ltd for the years ended 31 December 2018 (20 marks)

QUESTION TWO

- a) Explain the treatment of housing benefit and domestic servants in taxation. (8 marks)
- b) Gregory, a finance manager with Safi Ltd, has provided the following information on his employment and the other income for the year ended 31 December 2018:
1. Basic salary sh. 225,000 per month (PAYE sh. 42,500 per month).
 2. The employer provided him with a house during the year.
 3. He was provided with a company car of 2000cc, which had costed sh. 1,200,000 in 2017.
 4. He was paid leave allowance equal to one month's basic salary in March 2014.
 5. He contributed 5% of his monthly basic salary to a registered pension scheme, with the employer contributing an equal amount for him.
 6. During the year the employer paid school feed for Gregory son amounting to sh. 85,000. The amount was disallowed for tax purpose on Safi Ltd.
 7. His wife was hospitalized and the employer paid sh. 540,000 towards the medical bill. The employer has a medical cover for senior staff only.
 8. He received 2,000 shares in Safi Ltd at the end of December 2018 as a reward for his outstanding performance during the year. The last valuation of the shares was sh.50 each.
 9. In December 2018, the employer decided to reimburse him for entire of the cost incurred on water, electricity, internet and cook for the entire year. The annual amounts incurred by him were sh.38,400, sh 18,000, sh 15,000 and sh 54,000 respectively.

Required:

- i. Taxable income for Gregory Omari for the year ended 31 December 2018 (10 marks)
- ii. Tax payable (if any) on the income computed in (b) (i) above (2 marks)

QUESTION THREE

- a) Explain various classification of taxes (6 marks)
- b) Bloggs Boots (K) Ltd is a leading manufacturer of a wide range of goods which are either consumed locally or exported. During the month of September 2018, the following transactions took place:

- September
2. Paid Sh. 960,000 to Dr. Greg William, an American, who had come to design the company's website.
 4. Received architect's certificates amounting to sh. 3,200,000 for the construction of an extension to the factory building which had been completed. Out of this amount, sh. 1,000,000 represents retention money.
 5. Purchased goods on credit from KLM Ltd worth sh. 1,360,000.
 6. Purchased stationery for use in the business on credit from Text Book Centre worth Sh. 500,540
 7. Sold goods to Zim Bank (K) Ltd for sh. 1,790,200
 9. Paid Maersk Shipping Line Sh.350,000 for transporting goods purchased by Zim Bank (K) Ltd.
 10. Options (K) Ltd returned goods sh.300,000 due to some major defects.
 11. Sold goods worth sh.865,000 on credit to Homa Bay Wholesalers
 12. Returned defective office stationery, which had cost sh. 50,800 to Text Book Centre.
 14. Sold goods for sh. 1,220,000 to Rwanda Miners Ltd a company based in Rwanda.
 16. Goods worth sh. 200,000 were stolen while in transit to Rwanda
 17. Granted sh. 20000 allowance to Rwanda Miners Ltd for some minor defects on some items.
 29. Sold goods for cash amounting to sh. 2,734,000
 - 23 Homa Bay Wholesalers was declared insolvent by the High Court and a winding up order issued.
 - 30 Telephone and electricity bills for the month were received. The VAT on the telephone and electricity bills was sh. 30,000 and sh. 17,500 respectively.

Required:

- i. The VAT accounts for Bloggs Boots (K) Ltd for the month of September 2018 (where applicable prices and payments made are VAT inclusive). (14 marks)

QUESTION FOUR

- a) Describe various capital allowances applicable in Kenya. (5 marks)
- b) Wala Enterprise is a partnership manufacturing timber pallets. The partners are L, M and N. The business has an account in the balance sheet entitled “Property”. The account had been used to record a variety of expenditure. At the end of year, the property account contained the following entries.

Debit entries:

	Sh.
Purchase by cash of building site	2,000,000
Cost of removing building from site to build factory	80,000
Paid contract price for new factory building completed on 1 st January 2018	5,600,000
Insurance, inspection fees and other costs directly related to construction of new building	180,000
New machinery brought to use on 1 January 2018	4,000,000
Cost of fixing machinery and testing	<u>400,000</u>
	12,260,000
Credit entries:	
Proceeds from sale of salvaged material from demolition of old building	300,000
Depreciation for the year computed at 4% of sh. 12,260,000	<u>490,000</u>
Total credits	<u>790,000</u>
Balance in property account as at 31 December 2018	11,470,000

Required:

- a) Determine the correct balance for each account. (4 marks)
- b) Show the capital allowances due to the partnership in 2018. (9 marks)
- c) If the profits, before capital allowances and salaries, made by the partnership was sh. 2,700,000, show its allocation among partners if each receives a salary of Sh. 110,000 per annum. The adjusted profit is after adjusting for these salaries. (3 marks)

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