

UNIVERSITY EXAMINATION

CHUKA



UNIVERSITY

RESIT/SPECIAL EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF
PROCUREMENT AND LOGISTICS MANAGEMENT AND BACHELOR OF
COMMERCE

BCOM 315: TAX LAW AND PRACTICE

STREAMS:

TIME: 2 HOURS

DAY/DATE: TUESDAY 04/05/2021

11.30 A.M – 1.30 P.M

INSTRUCTIONS:

Answer question one and any other two.

QUESTION ONE

a) Discuss FIVE cannons of taxation met by VAT Kenya (10 Marks)

b) Nelly is an employee of Mataara Ltd as a manager. The following is a summary of his income from employment with Kamari limited and other incomes earned in 2019.

1. Nelly's monthly basic salary is Sh. 180,000 per month
2. He lives in a company house which he pays nothing.
4. The education fee for his two children amounting to Sh. 54,000 was paid by the company during the year.
5. He earned interest income of Sh. 149,000 during the year from her savings in Kenya post bank.
6. He drives a 1800 cc company car privately & on official duties which was purchased for sh. 2.8 million.
7. He contributed sh. 17,500 p.m. to a registered pension scheme.
8. Dividend from Chuka workers cooperative society, sh. 29,000

- 10) Profit from a supermarket business in Kisumu Ksh. 210,000
 11) P.A.Y.E deducted by his employer and forwarded to Kenya Revenue Authority (KRA) in 2012 amounted to Sh. 20,000.

Required

- i) Compute the total taxable income of Nelly for the year ended 31 December, 2019
(12 marks)
- ii) Determine tax payable by Nelly on his income in 2018. (5 Marks)
- iii) Explain how this tax is paid in Kenya (3 Marks)

QUESTION TWO

- a) Evaluate the importance of capital allowances to investors (5 Marks)
- b) Ninja Limited presents to you the following information for the year 2015, they presented you with the following profit and loss account.

	Shs	Shs
Gross Profit (you have agreed on its computation)		
801,000		
Profit on sale of fixed assets		<u>19,000</u>
		820,000
Less: Operating expenses:		
Wages and salaries	108,000	
Wife's drawings	43,000	
Audit/accounting/legal fees	75,000	
Travelling expenses	118,000	
Motor expenses	112,000	
Repairs-machinery	70,000	
Depreciation	113,600	
Rates and water	46,000	
Insurance	19,000	
Electricity	72,000	
Telephone	15,000	
Postage and stationery	6,100	

Leaking roof repairs	11,000	
Bank charges and interest	22,000	
Rent	<u>50,000</u>	<u>(880,700)</u>
Net loss for the period		<u>(60700)</u>

Notes:

Included in the motor expenses is an amount of Shs 17,000 in respect of car used privately by the family. They estimate that the private mileage is 35% of travelling.

The family lives behind their shop and the estimated private use of the building is Shs 15,000.

The family took goods worth Shs 9,000 for private use. This was treated as a business expense.

Private use of the telephone is 21% of the total expense.

The agreed wear and tear deduction for the year is Shs 75,000.

Required:

Compute the adjusted profit or loss for Income Tax purposes in respect of Ninja Limited

(15 marks)

QUESTION THREE

a) Using illustrations, Differentiate forward and backshifting of taxes

(4 Marks)

(a) Distinguish between trading losses and balancing charge

(4 Marks)

b) During the four months ended 30 April 2019 a company had the following transactions:

Month	Purchases (Ksh.)	Sales (Ksh.)
January	5,750,000	10,840,000
February	7,070,000	9,260,050
March	4,490,000	4,780,000
April	9,193,000	16,290,000

The sales and purchases are inclusive of VAT where applicable.

Additional information:

- 10% of monthly sales and purchases relate to exempt goods respectively

- 5% of monthly sales represent goods that were zero rated in december 2018

(The VAT standard rate is 16% where applicable)

Required:

The VAT accounts for the four months period ended 30 April 2019. [12 Marks]

QUESTION FOUR

a) Describe five disallowable expenses in business taxation (10 Marks)

b) ABC Ltd constructed a factory to manufacture shoes in Kisumu at a cost of Sh.110 Million. Machinery installed therein cost Sh.66 Million. The building and machinery were brought to use on 1st Jan 2019. The investment allowance approved for Kisumu was 60%. The machinery qualified for wear and tear under class I.

Required

Compute capital allowances due to the company for the year 2019. (10 marks)

Applicable Tax rates.

On the first Kshs.147,580.....10%

On the next Kshs.139,043.....15%

On the next Kshs.139,043.....20%

On the next Kshs.139,043.....25%

On all income over Kshs.564,709.....30%

Personal reliefKshs. 16,896 per year.

Car Benefits

0-999CC..... 20,000 p.m

1000-1499CC..... 25,000 p.m

1500-1999CC.....30,000 p.m

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