

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

RESIT/SPECIAL EXAMINATION

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 315: TAX LAW AND PRACTICE

STREAMS: BCOM

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 03/11/2021

8.30 A.M – 10.30 A.M.

INSTRUCTIONS:

- Answer question One and any other two.

QUESTION ONE

- a) Identify three new taxes and evaluate their effectiveness in terms of collectability (6 Marks)
- b) The profit and loss account of Molo Enterprises owned by Mololo and Lolomo who share profits and losses in the ration 3:2 was as follows:-

	Sh.	Sh.
Sales		1,200,000
Opening stock	166,000	
Add purchases	375,000	
Less closing stock	<u>(150,000)</u>	<u>391,000</u>
Gross profit		809,000
Other Income		
Interest Post Office Savings Bank	120,000	
KCB Bank Interest (Net)	20,000	
Dividends(Net)	35,500	
Sale of bike	<u>16,500</u>	<u>192,000</u>
		1,001,000
Less:- Sundry expenses		<u>(458,000)</u>
Net Profit		<u>543,000</u>

Additional information

Sundry expenses in profit and loss account include:

- i. A second hand furniture bought during the year Sh.20,500
- ii. Alimony paid to Lolomo's former wife , he divorced Sh.14,500
- iii. Subscription of Sh.8,000 paid to one of the mololo's welfare club.
- iv.The bike had a book value of Kshs. 5000.
- v.Salaries to partners;Lolomo-Kshs. 20,000,Mololo-Kshs.35,000
- vi.Interest on capital;Lolomo –Kshs.25,000,Mololo-Kshs.26,000

Required

Show the adjusted taxable profit for Year 2019 and resulting tax liability for each partner

(15

Marks)

c) Mr. Walaa is a company secretary with Ruiru Ltd, a local company and was resident in Kenya for the whole of 2019. The following income details relate to his income

- i) Basic salary at Ruiru ltd was Sh.53,000 per month up to 30 June 2019. It was raised to Sh.59,000 with effect from 1 Oct. 2019.
- ii) The company made the following payments to him per month:
Commuter allowance – Sh.13,000;
House allowance of Sh.15,000 (up to 30 Sept).
- iii) On 1 October he moved to a company house.

iv) Mr. Walaa was paying personal life insurance scheme Sh.5,000 per month.

Required:

Mr. Walaa tax liability for 2019

(9 marks)

Question Two

Nelly is an employee of Mukima 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. 185,000 per month
2. He lives in a company house which he pays nothing.
4. The education fee for his two children amounting to Sh. 55,000 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 (10 marks)
- ii) Determine tax payable by Nelly on his income in 2018. (7 marks)
- iii) Explain how this tax is paid in Kenya (3 marks)

QUESTION THREE

- a) Using illustrations, Differentiate evasion and avoidance 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
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(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 allowable expenses in business taxation (10 Marks)

b) XYZ 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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