

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 315: TAX LAWS AND PRACTICE

STREAMS: ODEL

TIME: 2 HOURS

DAY/DATE: FRIDAY 23 /07/ 2021

11.30 AM – 1.30 PM

INSTRUCTIONS:

- Answer Question one (Compulsory) and any other Two.

QUESTION ONE

- a) The principles of an optimal tax system, what are known as canons of taxation were laid down by Adam Smith. Explain any five principles of taxation. [10 Marks]
- b) Leo, Kesho and 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
Installment tax paid	90,000		
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 is 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
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 on the above accounts and state why. [5 Marks]

QUESTION TWO

Tafrija provided the following emoluments to Mr.Ole Itumbi for the year ended 31 December 2016:

1. Salary of Sh.160,000 per month (PAYE) deducted and paid to the Commissioner Sh. 63,000 per month)
2. Housing – Free housing is provided, with water and electricity. He pays a nominal sh.12,000 per month. Water consumed was for Sh.5,200 and electricity consumed was for Sh.19,000 during the year.
3. 1,000 ordinary shares for past years of service. Last valuation of shares was at sh.50 each. The issued share capital is now 25,000 shares. The company paid a dividend of Sh.11 per share on 31 December 2016

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.

Required:

- (a) Taxable income of Mr. Ole Itumbi for the year of income 2016. [12 Marks]
- (b) Tax payable by Mr. Ole Itumbi for the year of income 2016. [5 Marks]
- (c) Mr. Ole Itumbi is being invited by Tana Ranching Company Limited to be their manager and reside at the farm. What will be the tax implication of this? Explain but do not compute if he takes up the offer and every thing remains unchanged other than the residence. [3 Marks]

The following information is given to you from the books of Wamunyu Holdings Ltd, a farming and manufacturing company as at 31 December 2015:

	Sh.		Sh.
Written down values as at 31 December 2015:			
Motor vehicles	655,000		
Tractors	2,755,000		
Plant and machinery	530,000		
Furniture and fittings	225,000		
Combine harvester	1,012,500		
Spares for tractors	510,000		
Land rovers	1,135,000		
Office curtains	22,000		
Computers	77,000		
Fax machine	40,000		
Telephones	80,000		
Farm works (original cost Sh.21,000)		7,000	
Industrial building (original cost net of investment deduction Sh.1,000,000)	950,000		
Additions in 2016:			
Library books	25,000	Saloon car	1,500,000
Loose tools	10,000	Pick-up	850,000

Engine head for trailer	500,000	Farmhouse	200,000
New building	750,000		
Old machinery installed In new building	350,000		
Disposals in 2016:			Sh.
Saloon car (cost in 2013 – Sh.150,000)			250,000
Furniture			25,000
Computers			80,000
Tractor			75,000

Required:

Compute total capital allowances for the year 2016. State why you have not used any information and why you think it is not relevant. [14 Marks]

Show balances carried forward to 2007. [2 Marks]

Comment on the tax treatment of class II balance [2 Marks]

QUESTION FOUR

a) Discuss any four disadvantages of direct taxes as compared to indirect taxes. [8 Marks]

b) Mr. Shoma has two offers for employment in two engineering firms. The details of the two offers are as follows:

	Form A	Form B
	Sh.	Sh.
Basic pay per month	45,000	41,000
Benefits:		
Housing (market rent) p.m.	50,000	60,000
Car 1600 cc (cost)	600,000	600,000

Pension scheme which is registered by commissioner of income tax both employee contribute 5% of the basic salary for pension scheme.

Required:

What offer would you recommend to Mr. Shoma? Explain the reasons for your recommendation. [12 Marks]

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