

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**FOURTH YEAR EXAMINATION FOR THE AWARD OF
DEGREE OF BACHELOR OF EDUCATION ARTS & BUSINESS**

BUST 422: BUSINESS TAXATION

STREAMS:

TIME: 2 HOURS

DAY/DATE : TUESDAY 28 /09/ 2021

2.30 PM – 4.30 PM

INSTRUCTIONS TO CANDIDATES:

- Answer Question One and any other Two Questions.
- DO NOT WRITE ANYTHING on the question paper

QUESTION ONE

- a) Mr. Jones is a marketing manager for ABC Ltd. His income for the year ended 31st Dec 2018 are as below.
- (i) He receives a basic salary of ksh 46,000 per month
 - (ii) He paid house allowance of ksh.28,000 per month
 - (iii) He is provided with a company car 2000cc that he uses for his personal duties.
 - (iv) He is provided with a residential house by his employer
 - (v) He is provided with furniture which cost ksh 310,000
 - (vi) His employer contributes ksh.15,000 per month to an unregistered provided fund on his behalf.
 - (vii) He wife was sick and the employer paid her medical bills of ksh.260,000 from a medical scheme for senior managers only.
 - (viii) He is also a farmer and his net farming income amounted to ksh 210,000

Required:

- (a) Compute the taxable income of Mr.Jones for the year ended 31/12/2018. [14 Marks]
- (b) Compute his tax liability if any. [6 Marks]
- (c) Indirect taxes are preferred to direct taxes. Giving reasons, explain this statement. [6 Marks]
- (d) Explain two types of capital deductions that are allowed by the act and give examples. [4 Marks]

QUESTION TWO

- a) Differentiate between the following terminologies as used in taxation;
 - (i) Proportional tax and progressive tax [2 Marks]
 - (ii) Tax impact and tax incidence [2 Marks]
 - (iii) Tax avoidance and tax evasion [2 Marks]
- b) In relation to KRA act cap 496, highlight any eight functions of KRA. [4 Marks]
- c) The following transactions have been extracted from the records of Mega Stores Ltd. A registered taxpayer during the month of November 2018.

November	10	Purchased goods worth SH.400,000 from Nakumatt paying in cash.
	12	Purchased more goods worth Sh.300,000 paying by cheque
	13	Made some cash sales to Mbote traders Sh.600,000
	14	Sold goods on credit to Zum Zum traders h.1,200,000.

The purchases and sales above do not include VAT at the rate of 16% which is applicable to the goods dealt.

You are required to prepare the following accounts in the ledger of Mega Stores Ltd. For the month of November 2018.

- (a) Purchase account
- (b) Sales account
- (c) VAT account [10 Marks]

QUESTION THREE

Millers Limited is a manufacturing company located in Nairobi's Industrial area. The following profit and loss account was prepared from its books for the year ended 31st December, 2018.

Millers Ltd

Income statement for the year ended 31st December, 2018

	Notes	Sh.
Gross Profit		1,864,000
Investment income	(1)	284,636
Profit on sale of shares		<u>216,324</u>
		<u>2,364,960</u>
Directors remuneration	(2)	1,020,000
Interest	(3)	273,600
Audit fees and expenses	(4)	216,000
Bad debts	(5)	158,400
Depreciation		344,000
Miscellaneous expenses		<u>133,600</u>
Net Profit		<u>2,364,960</u>

Notes

1. Investment Income

	Sh.
Dividends from Kenya Commercial Bank (net)	72,000
Interest on fixed deposit account –NBK (net)	58,760
Interest on treasury bills	93,876
Dividends from a subsidiary company	<u>60,000</u>
	<u>284,636</u>

2. Directors remuneration

	Sh.
Directors fees	240,000
Travelling expenses – Directors	400,000
Payment to pension scheme	160,000

BUST 422

	Ex-Directors compensation for wrongful dismissal	<u>220,000</u>
		<u>1,020,000</u>
3.	Interest expenses	
		Sh
	Interest on bank overdraft	151,200
	Interest on loan from a foreign bank	50,400
	Interest on loan to purchase investment shares	<u>72,000</u>
		<u>273,600</u>
4.	Audit fees and expenses	
		Sh
	Audit fees	68,000
	Tax appeal against assessment	32,000
	Book keeping fees	48,000
	Audit expenses paid in relation to discontinued business line	<u>68,000</u>
		<u>216,000</u>
5.	Bad debts	
		Sh.
	Embezzlement by the accountant	21,600
	Received from the insurance	(12,000)
	Bad debts written off	28,800
	General provision	<u>120,000</u>
		<u>158,400</u>
6.	Miscellaneous expenses	
		Sh.
	Acquisition of 100 year lease on business premises	28,000
	Directors home coming party	24,000
	Kenya National Chamber of commerce subscription	30,000
	ASK show contribution	10,000
	Thomas Barnado's home contributions	<u>41,600</u>
		<u>133,600</u>

Required

The profit chargeable to tax for the year of income 2018 and the tax payable there on. [20 Marks]

QUESTION FOUR

- a) Other than taxes, how else can the government raise revenue? Explain. [5 Marks]
- b) Discuss the importance of residence as it relates to taxation of a company. [5 Marks]
- c) Explain factors that affect taxable capacity of citizens in a given country. [10 Marks]

.....
.