

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE OF
BACHELOR OF AGRICULTURAL ECONOMICS**

BCOM 315/AGBM 415: TAX LAW AND PRACTISE

STREAMS: BSC (AGEC)

TIME: 2 HOURS

DAY/DATE: MONDAY 10/12/2018

11.30 AM – 1.30 PM

INSTRUCTIONS:

Answer Question One and any other Two

Question One

- (a) Explain five roles of taxation in a developing economy. [10 marks]
- (b) Taxation is for common good. Elaborate this statement. [4 marks]
- (c) Mr. Kuchanganyikiwa was employed as a human resource officer at Kenya Railways. The offer provides for the following
- (i) A basic salary of ksh. 120,000 per month
 - (ii) A fuel allowance of ksh 15 per kilometer. He estimates to cover 10000 kilometers per annum, three quarters of which is official duties.
 - (iii) He was loaned ksh. 2000000 at 5% per annum. Assume a prescribed rate of 15%
 - (iv) He was provided with mobile airtime at ksh 5000 per month
 - (v) The company provided a house for him free of charge
 - (vi) He would have the company pay ksh. 180,000 as school fees for his children in the next two years
 - (vii) Mr. Kuchanganyikiwa offers to contribute ksh. 25000 per month to a registered pension scheme
 - (viii) He offers to contribute ksh. 5000 per month to the Sacco
 - (ix) He contributes ksh. 1500 per month as premium for a life insurance cover.

Required:

- (i) Annual taxable income of Mr. Kuchanganyikiwa. [8 marks]

- (ii) Annual net tax liability [7 marks]
 (iii) When is this tax paid [1 mark]

Question Two

- (a) Describe five disallowable expenses in a sole proprietorship business. [5 marks]
 (b) Mt Kenya merchants reported the following transaction in its books for the month of December 2018.

Supply of goods – 2000000
 Telephone & electricity – 100000
 Sales at zero rate – 100000
 Purchase of office equipment – 40000
 Exempt sales – 150 000
 Imported goods – 120 000
 Bad debts written off – 30 000
 Legal costs – 70 000
 Transport costs – 20 000
 Return inwards – 150 000
 Transactions are quoted as VAT inclusive 16% where applicable.

Required:

VAT payable or refundable for the month of December. [11 marks]

- (c) Explain how VAT meets the cannon of convenience and simplicity. [4 marks]

Question Three

- (a) The following is a summary of statement of comprehensive income of Gatecomb, a company based in Kitale for the year ended 31 December 2017

	'000'	'000'
Gross profit	466000	
Investment income	71159	
Profit on disposal of fixed assets	<u>54081</u>	
		591240
Expenses: director remuneration	25500	
Depreciation	86190	
Audit fees	54000	
Interest	68400	
Miscellaneous	33400	
Bad debts	<u>39600</u>	
		<u>536590</u>
		54650
		=====

Additional information:

- (i) Investment income includes dividend from Faulu Bank Ltd ksh. 24,000,000
- (ii) Directors remuneration includes payment of ksh. 55 million for wrongful termination
- (iii) Audit fees includes a tax appeal against assessment ksh. 8000000
- (iv) Bad debts include defalcation of chief Cashie of ksh. 4000000. Ksh 2000000 was recovered under fidelity insurance
- (v) Investment income includes ksh. 15,000,000 interest from loan to a friend

Required:

- (i) Compare Gatecomb Ltd taxable income (profit [13 marks]
 - (ii) Determine her tax liability assuming is a resident company [3 marks]
- (b) Differentiate between tax avoidance and tax evasion. [4 marks]

Question Four

- (a) Explain five tax planning measures that may be taken by a company. [10 marks]
- (b) A company had the following non-current assets

Factory building (NBV)	5680000
Processing machinery (NBV)	2420000
Motor vehicle (NBV)	1500000
Furniture & fittings (NBV)	840000
Office equipment (NBV)	<u>670000</u>
	11,110,000
	=====

Additional information

- (i) Office equipment as at 1st January comprised of the following

Computers	240000
Telephone	96000
Tax machine	120000
Neon signs	36000
Office equipment	<u>178000</u>
	670000
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- (ii) The reported profit before accounting for capital allowance was ksh. 1840000
- (iii) The following additional expenses of transactions had not been accounted for
 - General expenses – ksh 346,600
 - Insurance – ksh 550,800

(iv) The insurance included a prepayment of ksh 70000

Required:

(a) Capital allowance due [7 marks]

(b) Adjusted taxable profit or loss [3 marks]
