

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 315: TAX LAW AND PRACTICE

STREAMS: BCOM Y3S2 ODEL

TIME: 2 HOURS

DAY/DATE: TUESDAY 03/12/2019

2.30 PM – 4.30 PM

INSTRUCTIONS:

ATTEMPT QUESTION ONE AND ANY OTHER TWO

QUESTION ONE

- (a) Explain factors affecting taxable capacity of any county government. [10 marks]
- (b) The directors of Spectre Company Limited presented the following income statement for the year ended 31 December 2012.

	Kshs
Revenue	
Sales	30,780,000
Interest on Government securities (Gross)	50,000
	<u>30,830,000</u>
Expenses	
Purchases	24,000,000
Wages	2,320,000
Carriage inwards	370,000
Rent	300,000
Insurance	190,000
Trade expenses	100,000
Repairs – buildings	300,000
Repairs – machinery	56,000
Advertising	254,000
Legal charges	80,000
Audit fees	70,000

Depreciation	3,017,000
Provision for doubtful debts	104,000
Debenture interest	600,000
Interim dividend	400,000
Proposed dividend	<u>731,000</u>
	<u>32,892,300</u>
Net loss	<u>2,062,300</u>

The following additional information is provided:

1. Purchase returns and sales returns were shs 490,000 and shs. 580,000 respectively
2. Wages include shs 32,000 per month paid to a “consultant” who helps the company wherever there is a problem with the VAT department.
3. Repairs to machinery include small loose tools written off by shs. 15,000
4. Bad debts which are specifically bad are shs. 92,000
5. Capital allowances agreed at shs. 2,320,000

Required:

- (a) Taxable profits for the year of income 2012 [15 marks]
- (b) Tax payable if any for 2012 [3 marks]
- (c) Comment on the results [2 marks]

QUESTION TWO

- (a) Evaluate the weaknesses of the three tax systems. [9 marks]
- (b) Adrian owns 7 houses in Masii. All houses were let out in the year 2018. The total rent for the whole 2018 was 20,000 per month per house. The following expenses were paid by Adrian during the year; -

(i) Rates paid to local council	29,000
(ii) Repairs to rooms	19,000
(iii) Mortgage interest	51,000
(iv) Alteration to maintain rent	6,000
(v) Watchman wages	60,000
(vi) Additional toilets	30,000
(vii) Personal life insurance premiums	48,000

Required:

- (i) Calculate Adrian Taxable rental income [9 marks]
- (ii) Calculate the tax payable [2 marks]

Question Three

- (a) Malusi was employed as a salesman in Keroche Ltd at a basic salary of kshs. 70,000 per month. He was entitled to a company house which he paid a nominal rent of kshs 500. During the year he received a bonus of kshs. 40,000. The company provides a medical allowance for sales men at kshs. 52,000 per month. Malusi contributed kshs. 8000 per month to unregistered pension scheme.
Required: Compute the annual taxable pay and tax liability. [10 marks]
- (b) New Ltd based in Mombasa started trading in the last three years. The written down value of her assets as at January 2013 were as follows: -

	Shs
Cost of land	450,000
Cost of buildings	1,610,000
New machinery installed	1,230,000
Deliver vans	420,000

During the year the delivery van was disposed at kshs. 425,000 and a new one of kshs 800,000 acquired. An extra heavy machinery was installed in the premises. It had cost kshs. 2,000,000.

Required:

Calculate the capital allowances due to the company under the second schedule of income Tax Act for the year 2013. [10 marks]

Question Four

- (a) Identify and explain some of the cannons of taxation not exemplified by VAT. [6 marks]
- (b) Given below were the purchases and sales made by Kalenga Limited during the month of December 2010. The prices were inclusive of VAT at the standard rate of 16 percent for purchases. The sales were exclusive of VAT rate.

December	1	Purchased 400 units at shs 5,600 per unit
		Sold 49 units at shs 7,200 per unit on the same day
	5	Sold 80 units at shs 7,200 per unit
	10	Sold 200 units at shs 7,200 per unit
	20	Purchased 300 units at shs 6,400 per unit
	25	Sold 80 units at shs 7,200 per unit
	31	Sold 200 units at shs 8,000 per unit

There was no inventory at the beginning of the month but 100 units were in stock at the end of the month.

Required:

- (a) The VAT accounts for the month of December 2010. [12 marks]
- (b) On what date is VAT due payable? [2 marks]
-