

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE
OF BACHELOR OF COMMERCE

BCOM 411: TAX LAWS AND PRACTICE

STREAMS: BCOM

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 06/12/2017

2.30 P.M. – 4.30 P.M.

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS

QUESTION ONE

- (a) Distinguish between excise duty and custom duty. [4 marks]
- (b) Moses Kamau works for Tint Ltd. during the year ended 31st December 2016, he received the following incomes and emoluments.
- (i) Basic salary of sh. 160,000 per month (PAYE sh. 42, 000 per month)
 - (ii) He was provided with a 2, 200 cc land rover which had cost the company sh. 4.6 million in the year 2011.
 - (iii) In the month of December 2016, he received a sitting allowance of sh. 280,000
 - (iv) He is a member of the registered retirement's benefits scheme of which he makes monthly contributions of sh. 30,000
 - (v) He was housed by the company in a rented house with water, telephone and electricity. The house had a market rental value of sh. 64,000 per month and he paid a nominal rent of sh. 25,000 per month.
 - (vi) The company paid is annual electricity, water and telephone bills averaging to sh. 18,000, sh. 12500 and sh. 16,000 respectively.
 - (vii) During the year, the company paid school fees for his son amounting to sh. 280,000. This amount was disallowed for tax purposes on Tint ltd.
 - (viii) In December 2016, Moses Kamau received an entertainment allowance of sh. 120,000. Half of this amount was spent on entertaining customers.
 - (ix) Moses Kamau has a life insurance policy and contributes a monthly premium of sh. 15,000 per month.

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Required:

- (a) Taxable income for Moses Kamau for the year ended 31 December 2016. [12 marks]
- (b) Tax liability (if any) Moses Kamau's for the taxable income. [5 marks]
- (c) Peter Karanja received a net rental income of sh. 1.8 million from his commercial rental premises during the year. This was after deducting the following expenses.

	Sh.
Caretakers wages	620,000
Building an extension	840,000
Interest on mortgage	120,000
Fixing metallic doors	320,000

Required:

- Taxable rental income. [5 marks]
- (d) Describe the characteristics of excisable goods and services. [4 marks]

QUESTION TWO

- (a) Distinguish between balancing deductions and balancing charges. [2 marks]
- (b) Mambo and Kamau are in a partnership operating a hardware shop as Maka Enterprises and sharing profit and losses equally. The following is the income statement of the partnership business for the year ended 31 December 2017.

	Sh. '000'	Sh. '000'
Sales		9,280
Unrealized foreign exchange gain		<u>94</u>
		9,374
Less expenses:		
Cost of goods sold	4,000	
Purchase of computers	160	
Salaries and wages	360	
General expenses	720	
Legal expenses	940	
Repairs and maintenance	25	
Interest on partners capital	450	
Mambo's mortgage interest	65	
Donations to Tennis club	35	
Commission to Kamau	<u>21</u>	<u>(6,776)</u>
Net profit		<u>2,598</u>

Additional information:

1. Legal expenses include:

Drafting a partnership deed	42
Negotiating a bank loan	30
Defending the business against breach of contract	38
2. Salaries to partners and interest on partners capital is to be shared according to the profit and loss sharing ratio.
3. Salaries and wages includesalaries to employees of sh. 160,000 while the balance was paid to partners.

Required:

- (i) Adjusted taxable profit and loss for the partnership for the year ended 31 December 2016. [12 marks]
- (ii) A schedule showing distribution of partner’s taxable income for the year ended 31 December 2016. [6 marks]

QUESTION THREE

- (a) Excel enterprises, a registered trader incurred input tax of sh. 5,000 on purchase of his stock. Out of this stock, he sold as follows: goods taxable at 16% worth sh. 20,000, zero rate goods worth sh. 20,000 and exempt good worth sh. 20,000

Required:

- Input tax claimable. [6 marks]
- (b) The management of Mali Limited has presented the following income statement for the year ended 31 December 2016.

Mali limited

Income statement for the year ended 31 December 2016

Gross profit	5,292,000
Other incomes:	
Dividend from a subsidiary company	200,000
Interest from foreign bank accounts	4,000
Discount received	28,000
Refund of VAT	12,000
Gain on sale of motor vehicle	<u>14,000</u>
	<u>258,000</u>
	5,550,000
Expenditure:	
Salaries and wages	800,000

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NHIF contribution	30,000	
Subscription to a trade association	50,000	
Hire purchase interest	15,000	
Bad debts written off	60,000	
General expenses	80,000	
Depreciation	25,000	
Legal expenses	40,000	
Insurance premiums	124,000	
Rent	66,000	
Electricity	34,000	
Purchase of furniture	<u>26,000</u>	<u>1,350,000</u>
		<u>4,200,000</u>

Additional information:

1. Capital allowances were agreed with the revenue authority at sh. 75,000
2. Included in bad debts is a loan of sh. 15,000 due from a former employee of the company who was dismissed in October 2016.
3. Legal expenses include sh. 20,000 incurred in defending a manager against a traffic offence.
4. Insurance premiums include sh. 24,000 paid to the National Hospital Insurance Fund (NHIF) as a penalty for late submission of contribution.
5. The company paid stamp duty of sh. 6,000 relating to a piece of land purchased in august 2016. This payment is included in the rent expense for the year ended 31 December 2016.

Required:

- (i) Compute the adjusted taxable profit or loss of Mali limited for the year ended December 2016. [12 marks]
- (ii) Calculate the tax liability (if any) of the company for the year ended 31 December 2016. [2 marks]

QUESTION FOUR

- (a) Kura ltd processes milk for sale in the local market. The company started operations on 1st January 2017 after constructing a factory building at a cost of sh. 18 million. Other assets acquired by the company on commencement of its operations included:

Assets	Cost Sh '000'
Land	2,000
Computer software	300
Photocopier machines	450
Processing machine	4,000
Saloon car	2,400
Office curtains	100
Packaging machine	800
Office furniture	240
Computers	400
Duplicating machines	300
2 lorries (each 5 tonnes)	2,000

Additional information:

1. Included in the building cost are cost of retail shop, showroom and dwelling house amounting to sh. 600,000, sh. 450,000 and sh. 800,000 respectively.
2. The company constructed labour quarters for sh. 720,000 which were occupied from 1 July 2017.
3. The following assets were disposed of during the year ended 31st December 2017.

Assets	Date of disposal	Disposal proceeds Sh. '000'
Computer s	5 – May 2017	120
Saloon car	10 – Aug – 2017	1,800
Photocopier	2 – Dec – 2017	80

Required:

The capital allowances due to Kura ltd for the year ended 31st December 2017. [10 marks]

- (b) Mata ltd is registered for VAT. During the four months ended 30 April 2017, the company had the following transactions:

Month	Purchases Sh.	Sales Sh.
January		
February	4, 470,000	5, 960, 500
March	5, 091,200	6, 320, 250
April	3, 490,6000	2, 950, 000
May	7, 143, 000	9, 280, 700

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The sales and purchases are inclusive of VAT where applicable.

Additional information:

1. 20% of the monthly sales and purchases relate to exempt goods respectively.
2. 5% of monthly sales represent goods exported to Somalia.
3. Credit notes amounting to sh. 68,000 were issued to customers in April 2017.
4. Debit notes amounting to sh. 45,000 were received from suppliers in March 2017.

Required:

The VAT account for the four months period ended 30 April 2017. [10 marks]
