

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

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

BCOM 412: TAX MANAGEMENT

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) Explain five cannons of taxation. [10 marks]
- (b) In a tax seminar, one of the facilities noted that, “there is corporate drift to export processing zones (EPZ) where corporation are deriving immense benefits format he trend”.

**Required:**

- (i) Explain the meaning of export processing zone? [2 marks]
- (ii) Argue four cases in favour of export processing zone (EPZ) [8 marks]
- (c) The following is the trading, profit and loss account of XYZ ltd for the year of income 2014. The company is engaged in furniture making both for the local market and the foreign market.

	Sh “000”		Sh “000”
Stock (1) January 2014	450,000	Sales	3,490,000
Purchases	1,400,000	Stock (31 Dec. 2014)	423,000
Bank charges	30,200	Interest from post bank	4,800
Wages to casual worker	588,000	Insurance recovery – van	88,000
Insurances	78,000	Profit on sale of shares	5,400
Salaries to permanent staff	144,000	Dividend (net)	32,000

**BCOM 418**

NSSF contributions	13,000	Income from sales of saw dust	250,000
NHIF contributions	14,000		
Legal expenses	20,400		
Bad debts	50,600		
Commissions	30,200		
Repairs and maintenance	120,200		
General expenses	53,800		
Listing expenses - NSF	147,600		
Delivery van scrapped	22,400		
Depreciation	193,400		
Donation	8,800		
Rent and rates	83,000		
Electricity and water	28,100		
Travelling expenses	560,000		
Pension paid to retired staff	48,700		
Entertainment	17,100		
Purchase of office calculator	3,600		
Telephone expenses	11,900		
Net profit	224,000		
	<b>4,341,800</b>		<b>4,341,800</b>

**Additional information:**

1. Sales of saw dust require a payment of 20% commission on the income to the hawkers who pick up the items from the company premises and deliver them to the market. Such commission has not yet been included in the company books.
2. Legal expenses analysis:

	Sh. "000"
Preparing a leases for 50 years	1,200
Collection of business debts	2,200
Purchase of director house	<u>17,000</u>
	<u>20,400</u>

## BCOM 418

3. Entertainment expenses relate to customers and staff.
4. The company was listed at the Natio securities exchange (NSE) at the beginning of the year, a process that led to 42% of the company's shares being offered to the public.
5. The capital allowances were agreed at sh. 2, 000, 000 for the year

**Required:**

- (i) Current adjusted taxable income for the year ended 31 Dec 2014
- (ii) Tax advisory to extremeltd to minimize tax burden [7 marks]

### QUESTION TWO

- (a) Capital allowances uptake in Kenya is still low. Explain various reasons. [5 marks]
- (b) Explain general measure that a corporate in Kenya can take to minimize tax liability. [15 marks]

### QUESTION THREE

- (a) Explain how companies can use VAT law to reduce tax liability. [5 marks]
- (b) Foreign liability is taking a toll on corporate tax liability. Advise a multinational on practical steps in international tax management. [15 marks]

### QUESTION FOUR

Many workers do not understand their own initiative to tax planning. You have been invited by a local bank to advise their employees on individual tax planning to minimize liabilities. Elucidate the points you would venture on in relation to Kenyan law. [20 marks]

---