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**CHUKA**



**UNIVERSITY**

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**UNIVERSITY EXAMINATIONS  
RESIT/SPECIAL EXAMINATIONS**

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF EDUCATION**

**BUST 422: BUSINESS TAXATION**

**STREAMS:**

**TIME: 2 HOURS**

**DAY/DATE: MONDAY 23/07/2018**

**8.30 A.M – 10.30 A.M**

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**INSTRUCTION:**

- **Answer question one and any other two**

1. (a) List and explain any three deductions that may be available against or profits from employment. [6marks]
- (b) HTM has recently opened an income tax consultancy office in Nairobi. He has been approached by his clients on the following matters.
  - (i) H,T,M are three partners operating HTM enterprises. In 2015, they made profits of ksh 180,000. They share profits in the ratio 3:3:4. M had overdrawn on his account and was charged ksh 30,000 interest. H and T received interest of ksh 25,000 each from the partnership. The interest account is included in the above profits. M wishes to know how much tax he would pay. He has no other source of income. [6marks]
  - (ii) Neno foundation is a non governmental organization formed for the purposes of addressing people's spiritual needs. It will derive its income from donations of all kinds, charitable walks and sale of religious literature. They wish to know if they will be required to pay any tax. [4marks]
  - (iii) Mrs. Ken is a happily married housewife residing in kilimani estate, Nairobi. Since her compound is big she engages in back yard gardening during her spare time and she derives a lot of satisfaction from it. She also maintains very accurate records of the records of the performance of her garden. Details for her three years ending 31 December 2015 are as follows:

Year ended 31 December 2013 profit ksh 20,000

Year ended 31 December 2014 loss ksh 40,000

Year ended 31 December 2015 profit 50,000

Garden produce consumed by Mrs. Ken family during the year of income 2015 was ksh 60,000 (not included in the above results).

She wishes to know how much tax she should pay from this activity in 2015.

[4marks]

(iv) Kenpoly plastic limited, manufacturers of plastic products wishes to sponsor research into plants that may produce plastics related materials. They have set aside ksh 15,000,000 which will be awarded to the department of biochemistry, ubora science University. They wish to know if there is any tax benefit which may arise. [4marks]

Required:

As Mr. Hesabu's tax manager, write a memorandum on each of the points for his consideration. [18marks]

(c) Corporation tax may not meet several cannons of taxation. Discuss three. [6marks]

2. (a) You are provided with the following details:

(i) Installing a system of ventilation in the factory.

(ii) Legal expenses incurred when acquiring a new building.

(iii) Giving the factory a fresh cost of plant

(iv) Replacing 200 tiles on a roof damaged by wind

(v) Expenditure incurred in demolishing part of a wall to make room for a recently purchased machine.

**Required :**

(a) From an income tax perspective indicate for each of the above items whether it is capital or revenue expenditure. Explain.

(b) Mr Jared Masai a human resource manager is currently out of employment . However he has received an offer of employment. One of the job offers is from Mapato ltd the company owns a large scale farm in kitale on which it grows maize and rears dairy cows. The other offer to compute his tax liability.

Job offer from Mapato ltd.

Terms of employment.

- (i) A basic salary of ksh 140,000 per month
- (ii) Free housing for his family within the firm.
- (iii) Free supply of farm produce to a maximum value of ksh 600,000.
- (iv) Reimbursement of medical expense incurred on self and family subject to a maximum of ksh 1,500,00 per annum. The reimbursement policy applies to senior managers.
- (v) Payment of his children school fees amounting to ksh 180,000 per annum by employer. The employer would bear tax on this benefit.
- (vi) His annual membership fee to the local gold club amounting to ksh 50,000 would be paid by the employer.

**Required :**

- (a) The annual taxable income. [10marks]
- (b) Tax liability [5marks]

3. (a) Differentiate input VAT and output VAT. [6marks]

(b) Kaizen ltd deals in a wide variety of goods. The VAT rate has been 16% purchases are VAT inclusive while sales are VAT exclusive. In the month of October 2005 the following transactions took place:

March 1 sold goods for cash of ksh 117,000

March 2 purchased goods on credit from river road limited of ksh 180,000

March 2 Paid for transport for goods from river road limited ksh 6,000.

March 7 Purchased office equipment for use in the business on credit from steel and company for ksh 27,770.

March 9 Sold goods to Uganda's Jinja limited for ksh 39,6000.

March 11 Paid Yusuf transporters ksh 8,000 to take goods purchases by Jinja limited to Uganda.

March 12 paid river road limited in full.

March 12 Purchased goods for ksh 3,240 cash.

March 12 Returned defective office equipment which cost ksh 5,400 to steel and company.

March 16 Sold goods to Tanga limited a firm in Tanzania for ksh 61,000 payable by Bank transfer.

March 17 granted ksh 1,000 allowance to Tanga limited for a minor defect on an item.

March 23 Agreed to cancel the account receivable from Jinja limited in exchange of services rendered by them to the company in Kampala.

**Required:**

The value added Tax accounts of East African general stores limited. [14marks]

4. (a) Jericho is a distributor of mobile phones and accessories. The statement of financial performance for the year ended 31 December 2013 is as follows.

Purchases	6,000,000	Sales	9,000,000
Salaries and wages	1,000,000	Discount received	200,000
Rent and rates	62,500	Insurance recovered	200,000
Distribution expense	240,000	Profit on sale of assets	90,000
Travelling and substance	168,000	Profit on bad debts	40,000
Subscriptions	100,000		
licenses	218,000		
Legal expenses	335,000		
Depreciation	65,000		
Audit and professional fees	120,000		
Loss on sale of assets	48,000		
Bank charges and interest	207,000		
Bad debts	168,000		
Discounts allowed	353,000		
Repairs and maintenance	340,000		
Profit for the period	9,450,000		9,450,000
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**Additional information**

- Distribution and office expenses include the following:  
 Subscription to member sports clubs for employees benefits 90,000  
 Directors personal expenses 48,000  
 Donation to charities 25,000
- 15% of rent and rates relates to payments in connection with directors private office

3. Insurance recovered is in connection with mobile phones stolen while on transit to a client.
4. Bad and doubtful debts provision represents a reduction in general provision for bad debts.
5. Legal fees include ;  
Legal suit in relation to counterfeit handset found in company warehouse 58,000  
Debt collection                      40,000  
Employment contracts              30,000  
Renewable of lease 50 years      30,000  
Acquisition of trade mark        60,000
6. Subscription are to the mobile dealers association (MDA)
7. Licenses and permits represents ksh 75,000 paid to the communication commission of Kenya (CCK) and ksh 25,000 relates to the single business permit paid to Mombasa city council.
8. Repairs and maintenance include and extension to the warehouse at a cost of ksh 225,000.
9. Travelling and expense include ksh 120,000 incurred by the sales manager when he travelled to south Africa to attend a mobile phone and accessory and trade affairs.
10. Capital allowances have been agreed with the commissioner of income tax at ksh 430,000

**Required :**

Complete Jericho ltd taxable profit for the year ended December 2013. [16marks]

Compute the tax payable thereon. [4marks]

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