CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COMMERCE

BCOM 315: TAX LAW & PRACTICE

STREAMS: BCOM (Y3S1) (ODEL) **TIME: 2 HOURS**

DAY/DATE: WEDNESDAY 07/08/2024 **8.30 A.M. – 10.30 A.M.**

INSTRUCTIONS:

- **Answer question ONE and any other TWO questions.**
- **Do not write anything on the question paper**

QUESTION ONE

a) Discuss factors affecting taxable capacity currently. (12 marks)

b) The Capital structure of 4 companies are as follows.

	Useless Ltd	Mabati Ltd	Bamburi Ltd	Shah Bros
	Kshs.	Kshs.	Kshs.	Kshs.
Ordinary share capital	900,000	800,000	600,000	300,000
6% Preference share capital	-	50,000	250,000	300,000
10% Debentures	-	50,000	50,000	300,000
	900,000	900,000	900,000	900,000

Each Company made the following profits but did not pay tax in the year of Income.

Year 1 Kshs. 180,000

Year 2 Kshs. 340,000

Year 3 Kshs. 100,000

Corporation tax rate applicable to each year is 50%.

i. Calculate the tax liability for each company in year 1 to 3 assuming there are no penalties. (8 marks)

ii. Make a deductive comment on the results in (i) above (4 marks)

c) Evaluate the COMESA DTA in relation to East Africa Community DTA (8 marks)

QUESTION TWO

a) Pride inn Tourists Hotel Ltd. Is a five-star hotel located in Mombasa. The following information relate to the year ended 30 September 2022.

1. As at 1 October 2021 the written down values of assets brought forward for income Tax purposes are as follows:

Hotel building	Class I	Class II	Class III	Class IV
Kshs.	Kshs.	Kshs.	Kshs.	
10,000,000	875,000	2,500,000	1,750,000	

2. Disposal during the year

	Class I	Class II	Class III	Class IV
Cost	750,000	250,000	250,000	300,000
Net book value	325,000	75,000	90,000	100,000
Sales proceeds	920,000	145,000	195,000	100,000

Class Ill disposal is a private vehicle which was purchased in 2020.

3. Additions during the year:

	Kshs.
Computers	370,000
Fax machine	50,000
Photocopier	170,000
Beds	600,000
Mercedes Benz car	1,350,000
Hotel building	5,000,000

4. A Saloon car which cost Sh 250,000 in 2020 was traded in for a new car costing Sh. 400,000. The old car was valued at Sh. 200,000 and the company paid a balance of Sh. 200,000. The net book value of the old car was Sh. 90,000

   The old hotel building was constructed in 2017 and put into use in the same year.

Required:

i Calculate the capital allowances due to the company for 2022 (10 marks)

ii Show the written down values of all the assets as at 30 September 2022.Comment on class I balances (4 marks)

b) For the year ended 31 December 2023, Owillo Enterprises had the following transactions:

	Sh "000"
Wages and salaries	20,000
Salaries at zero rate	15,000
Exempt sales	9,000
Plant sold in Kenya	2,000
Purchases at zero rate	10,000
Sales at standards rate (16%)	24,000
Plant exported	8,000

Purchases at standard rate (16%) 16,000

Owillo enterprises VAT Number is XY0122. **Required**:

i Calculate the amount of output tax which Owillo Enterprises will be required to account for in 2023. (4 marks)

ii How much input tax can be deducted there from for the year ended 31 December 2023?

(2 marks)

QUESTION THREE

a) Jalango Enterprises commenced business on 1 January 2023. The profit and loss account for the year ended 31 December 1996 is as follows:

	Ksh		Ksh
Clearing land and planting roses	16,240,000	Sales	24,850,000
Bad debts	200,000	Gain on motor vehicle	90,000
Rent and rates	30,0000	Dividends/gross	30,000
Loss on sales of investment	15,000		
Staff salaries and benefits	157,015		
Medical expenses for director	8,759		
Insurance	27,081		
Legal and profession fees	139,650		
Depreciation	200,000		
Interest on overdraft	67,075		
Stationery and postage	21,670		
Irrigation systems	427,000		
Farm house	274,950		
Net profit	7,108,000		
	24,990,000		24,990,000

Notes:

1 The company's activity is growing and exporting flowers.

2 The dividend income was received from a commercial bank

3 Staff salaries and benefits include Sh. 10,000 pension contribution for the year. The pension scheme is registered and non- contributory.

4 Analysis of repair and renewable is as follows:

	Sh.
Office partitions	40,000
Repair of copier	8,500
Repair of green house	3,500
	52,000

5 The farm house is occupied by the farm manager.

6 Analysis of legal and professional fees.

	Sh.
Renewal of 10 year farm lease	5,000
Feasibility study	87,500
Audit fees	20,000
Recovery of bad debts	27,150
	139,650

7 Depreciation relates to furniture and fittings. Wear and tear allowances has been agreed on as Sh 135,000.

8 Bad debts are made up as follows:

	Sh
Specific provision	75,000
General provision	175,000
Bad debts recoveries	(50,000)
	200,000

Required

Compute chargeable income for Jalango Enterprises Ltd. Show all your workings

(20 marks)

QUESTION FOUR

Mr. Mwendwa is a Company secretary with Metal Limited, a local company and was resident in Kenya for the whole of 2023. The following extracts relate to information about his income and related benefits for 2023.

i Basic salary from Metal Limited was at the rate of Sh. 70,000 per month up to 30 June 2023.

It was raised to Sh. 76,000 with effect from I July 2023.

ii The Company made the following payments to him per month:

- Home to office car allowance- Sh 3,500
- House allowance of Sh. 10,000 (up to 30 June)
- Sh. 3,000 for making sales check trips

iii On I July he moved to a Company house and paid a nominal rent of 5% basis pay. The company, as from the date, provided him with a gardener, a watchman and a maid. In addition, his house was linked to Securex Kenya Ltd's 24-hour security alarm system.

The Company incurred the following expenditure in respect of these benefits in 2023.

	Actual Amount
Salaries per annum	Sh
Gardener	42,000
Watchman	43,20
Maid	25,000
Securex Kenya Ltd.	47,0000

iv He rented his house to a tenant from I July for Sh. 21 ,000 per month. The house was fully furnished when he rented it to the tenant. Furniture worth Sh 20,000 was acquired for this purpose. Other expenditure on the house included repairs of Sh.

10,000 and mortgage interest. He had a mortgage of Sh 1,000,000 with H.F.C.K.

Mortgage repayments were Sh. 21 ,000 per month and interest rate was 20% p.a. Due to some cash flow problem he had only paid 9 installments in the year.

v Dividend income (net) was Sh 9,000 and Metal Limited. He holds 4 % of the share capital.

vi Mr. Mwendwa is a lawyer by profession and during their spare time they practice law with his wife, Mrs. Jane Mwendwa, also a lawyer. Due to unforeseen circumstances, they made a taxable loss of Sh. 210,000. In 1993.

Mrs. Jane Chuma works for Metal Limited as personnel manager. Her basic salary was Sh. 30,000 per month. She also received Sh 4,500 net divided from Dress Making Limited.

Mr. Mwendwa was in the Company's life insurance scheme into which the company paid Sh. 5,000 p.a. Mrs. Mwendwa life cover was of her own and she paid Sh. 6,000 p.a.

Required

Mr. and Mrs. Mwendwa's taxable income and tax liability for 2013. (20 marks)

…………………………………………………………………………………………….