



**MASINDE MULIRO UNIVERSITY OF  
SCIENCE AND TECHNOLOGY  
(MMUST)**

**MAIN / BUNGOMA / WEBUYE / NAIROBI CAMPUS**

**UNIVERSITY SPECIAL / SUPPLEMENTARY EXAMINATIONS**

**2021 / 2022 ACADEMIC YEAR**

**SECOND YEAR SEMESTER ONE EXAMINATIONS**

**FOR THE DEGREE**

**OF**

**BACHELOR OF SCIENCE ACCOUNTING**

**COURSE CODE: BCA 321**

**COURSE TITLE: CORPORATE AND PERSONAL TAXES**

**DATE: WEDNESDAY 27<sup>TH</sup> JULY 2022 TIME 2-4PM**

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**INSTRUCTIONS TO CANDIDATES**

Attempt QUESTION ONE and any other two questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating ➡

This Paper Consists of 5 Printed Pages. Please Turn Over.

### QUESTION ONE (30 MARKS)

- a) Define the term 'tax planning'
- b) Indicate whether the following individuals who have no permanent home in the country are considered as resident or non-resident for the year ended 31 December 2018 for income tax purposes. Show your working where applicable. ( 12 marks )

	<b>Name</b>	<b>Year</b>	<b>No. of days present</b>
( i )	Mrs. Omondi	2018	72 days
		2017	115 days
		2016	177 days
(ii)	Mr. Wafula	2018	105 days
		2017	145 days
		2016	146 days
(ii)	Mr. Mbithi	2018	189 days
		2017	48 days
		2016	Nil
(iv)	Ms. Halima	2018	Nil
		2017	224 days
		2016	188 days

- c) Briefly explain two instances in which a business may apply the concept of tax planning (4 marks)
- d) Discuss three types of tax assessment that might originate from the commissioner for domestic taxes (9 marks)

### QUESTION TWO (20 MARKS)

The management of Shamrock Bank Ltd. has sought your professional guidance in determining the Bank's tax liability for the year ended 31 December 2018. The income statement of Shamrock Bank Ltd. for the year ended 31 December 2018 is given below:

<b>Income</b>	<b>Sh. 000</b>	<b>Sh. 000</b>
Interest on loans and advances to customers		540,800
Interest on government securities		120,600
Interest on placements with other banks and institutions		40,650
Fees and commissions income		39,360
Rental income		2,190
Income from foreign exchange dealings		31,980
Gain on disposal of property and equipment		12,300
Other operating income		<u>42,950</u>
<b>Total income</b>		<b><u>830,830</u></b>
Expenses:		
Salaries and employee benefits		360,400
Occupancy expenses		20,350
Deposit protection fund contributions		12,360
Depreciation expense		43,700
Interest on customers' deposits		202,450
Interest on deposits from other Banks and institutions		80,200
Director's emoluments:		
Fees	11,200	
Other	<u>3,600</u>	14,800
Auditors' remuneration:		
Current year		

Under provision for the previous year (2017)	2,100	
Operating lease rental	<u>300</u>	2,400
Loss on disposal of equipment		16,300
Other administrative expenses		7,250
Provision for bad and doubtful debts		20,620
Provision for interest suspense		80,500
Total expenses		<u>20,950</u>
Loss for the year		<u>882,280</u>
		<u>(51,450)</u>

**Additional information:**

1. Salaries and employee benefits comprise:

	<b>Sh.</b>
	<b>000</b>
Leave benefits	720
Pension contributions	1,460
Termination costs	2,860
Provision for staff leave accruals	4,920
	<u>9,960</u>

2. Included in the Directors' "other" emoluments are:

	<b>Sh.</b>
	<b>'000'</b>
School fees for the Chairman's children	1,200
Entertainment allowance (used on clients)	1,800
Travelling costs for a newly recruited expatriate director	600

3. The movement in provisions for bad and doubtful debts during the year was as follows:

	<b>Specific provisions Sh. '000'</b>	<b>General provisions Sh. '000'</b>	<b>Total Sh. '000'</b>
At 1 January 2018	630,500	630	631,130
Charge for the year	83,800	15,300	99,100
Released during the year	<u>(18,600)</u>	=	<u>(18,600)</u>
At 31 December 2018	<u>695,700</u>	<u>15,930</u>	<u>711,630</u>

4. Provision for interest suspense represents non-performing loans and advances on which interest has been suspended. The management has confirmed that the loans and advances are fully secured.
5. Capital allowances for the year ended 31 December 2018 amounted to Sh. 18,900,000.
6. Lease rental charges relate to office equipment leased from AB office solutions for use in the entire bank network.

**Required:**

- (i) Taxable income of Shamrock Bank Ltd. for the year ended 31 December 2018. (17 marks)
- (ii) Tax payable (if any), on the taxable income computed in (i) above. (3 marks)

**QUESTION THREE (20 MARKS)**

Wananchi General Insurance Limited provided the following details with respect to the activities for the year ended 31 December 2018:

	<b>Sh.</b>
Claims paid	4,800,000
Claims outstanding on 1 January 2018	400,000
Claims intimated and accepted, but not paid on 31 December 2018	700,000

Premiums received	12,000,000
Re-insurance premium paid	1,200,000
Commission paid	2,000,000
Commission on re-insurance ceded	80,000
Commission on re-insurance accepted	40,000
Repair of rented premises	150,000
Fees paid to investment managers	600,000
Expenses of management	3,020,000
Provision for unexpired risk on 1 January 2018	4,000,000
Bonus utilized in reduction of premium	120,000
Re-insurance recoveries of claims	80,000
Medical expenses regarding claims	50,000
Loss on sale of motor car	35,000
Bad debts – specific	25,000
Tax credit for double taxation	45,000
Interest received (Gross)	2,600,000
Dividend received (Gross)	4,500,000
Provision for unexpired risk – 31 December 2018	4,677,200
Legal expenses regarding claims	400,000
Profit on sale of investments	2,350,000
Rent income on property	750,000
Depreciation	1,200,000

Wear and tear allowances have been agreed at Sh.800,000.

**Required:**

- (i) With specific reference to the provisions of the Income Tax Act, compute the taxable income of Wananchi General Insurance Limited for 2018. (16 marks)
- (ii) Comment on any losses, gains or specified sources of income which you have ascertained in (i) above. (4 marks)

**QUESTION FOUR (20MARKS)**

Mr. Juma Jundo has not been keeping proper books of account since the inception of the business in 2014. The following balances relate to Jundo's business for the period 2014 to 2019.

	2014	2015	2016	2017	2018	2019
	Sh.	Sh.	Sh.	Sh.	Sh.	Sh.
Leasehold Land	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000
Lorries (cost)	5,000,000	7,000,000	4,000,000	3,000,000	6,000,000	6,000,000
Saloon cars (cost)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Swimming pool	800,000	800,000	800,000	800,000	800,000	800,000
Stocks	1,200,000	2,300,000	2,000,000	1,800,000	1,800,000	1,400,000
Computers	500,000	500,000	500,000	400,000	400,000	400,000
Bank account	400,000	300,000	20,000	20,000	20,000	20,000
Business deposit account	2,200,000	2,200,000	2,200,000	2,200,000	2,200,000	2,200,000
Treasury bills	3,000,000	3,000,000	3,000,000	4,500,000	4,000,000	3,000,000
Investment	200,000	150,000	250,000	300,000	280,000	520,000
Debtors	-	-	-	7,000,000	7,000,000	7,000,000
House mortgage	340,000	-	-	400,000	-	-
Creditors	20,000	60,000	80,000	120,000	160,000	200,000
Bank overdraft						

	10,000	5,000	8,000	7,000	6,000	3,000
Interest on bank deposit	150,000	120,000	-	-	200,000	160,000
Loss on sale of investments	50,000	60,000	40,000	30,000	20,000	10,000
Gain on foreign exchange						

**Required:**

- i. Estimate the taxable income for each of the FOUR years 2016, to 2019. (10 marks)
- ii. Itemise and briefly explain other information which may be required in assessing the tax liability of a taxpayer. (10 marks)