

14/00



*(University of Choice)*

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

**MAIN / BUNGOMA / WEBUYE / MUMIAS / KAPSABET / NAIROBI  
CAMPUS**

**UNIVERSITY EXAMINATIONS  
2021 / 2022 ACADEMIC YEAR**

**FOURTH YEAR SEMESTER TWO EXAMINATIONS**

**FOR THE DEGREE  
OF  
BACHELOR OF COMMERCE**

**COURSE CODE: BCA 422**

**COURSE TITLE: TAXATION THEORY AND PRACTICE**

**DATE: Thursday 28<sup>TH</sup> APRIL 2022**

**TIME: 12 - 2 PM**

**INSTRUCTIONS TO CANDIDATES**

**ANSWER QUESTION ONE AND ANY OTHER TWO (2) QUESTIONS**

**TIME: 2 Hours**

**MMUST observes ZERO tolerance to examination cheating**

**1**

RATE OF TAX (including wife's employment, self employment and professional income rates of tax)

	Annual	Monthly	Rates
On the first	Ksh.288,000	Ksh. 24,000	@ 10%
On the next	Ksh. 100,000	Ksh. 8,333	@ 25%
On all income over	Ksh. 388,000	Ksh. 32,333	@ 30%

Personal relief Sh. 2,400 per month (Sh. 28,800 per annum)

**Prescribed benefit rates of motor vehicles provided by the employer**

		Monthly rate(sh.)	Annual rate(sh)
i) Saloons, hatch backs and estates			
Up to 1200cc	3600		43200
1201 - 1500cc	4200		50400
1501 - 1750cc	5800		69600
1751 - 2000cc	7200		86400
2001 - 3000cc	8600		103200
Over 3000cc			
ii) Pickups, panel vans			
Up to 1750cc	3600		43200
Over 1750cc	4200		50400
iii) Land cruiser/Rover	7200		86400

**Commissioners prescribed rates for services**

Electricity	1500	18000
Water (communal or from a borehole)	500	6000
Provision of furniture (1%p.m of cost to employer)		
Telephone (landline and mobile phones)	30% of bills	

For Agricultural employees:

i) Water	200	2400
ii) Electricity	900	10800

**QUESTION ONE (30 MARKS)**

- a. Ms. Rehema provided the following information for the year ended December 2021:
- i. She was employed as a full time director of Amani Ltd at a basic salary of Sh 80 000 per month ( Sh 31 200 per month was deducted)
  - ii. Free goods worth Sh 30 000 were received from the company in the year for personal use
  - iii. She enjoyed free medical treatment under a medical scheme operated by the company which was assessed at Sh 50 000 in the year. The medical scheme is not accessible by some members of staff
  - iv. Amani Ltd provided her with free housing from 1 August 2021 prior to which she lived in her own house. The employer pays the landlord Sh 20 000 per month. At the same time she was also provided with furniture valued at Sh 150 000. As at end of the year the electricity and water costs were Sh 5 000 and Sh 8 000 respectively.
  - v. The company provided a watchman at a cost of Sh 15 000
  - vi. Ms. Rehema contributes 2% of her basic salary per month and the company an equal amount to a retirement benefit scheme, which has been registered by the Commissioner
  - vii. Company car with rating 1800 cc purchased at Sh 1000 000 used for both official and private purposes
  - viii. Ms Rehema and her Husband operate a company fully owned by them whose taxable income has been agreed at Sh 200 000 after charging husband's salary of Sh 120 000 ( PAYE Sh 22 000)  
Required: Total taxable income of Ms. Rehema for the year 2021  
(10 Marks)  
( 8 Marks)
- b. Distinguish between the following
- i. Specific duty rate and ad valorem duty rate
  - ii. Tax evasion and tax avoidance
  - iii. Tax impact and tax incidence
  - iv. Progressive and proportional taxes
- c. Mr. Kamau a married resident had in 2021 an income of Sh 4 000 000 and net tax income from U.K. Shs 900 000 (£7500). The tax deducted in U.K was Shs 300 000 (£3750). Kenya has double taxation relief treaty with U.K.  
Required:
- i. The double taxation relief in Kenya ( 3 Marks)
  - ii. The tax payable by Kamau in Kenya ( 3 Marks)
- d. A firm purchases goods worth Shs 50 000 and pays VAT at the rate of 16%. After processing, these goods are sold for Shs 100 000 and VAT 16% is charged from the customer.  
Required: show the entries in the respective ledger accounts (6 Marks)

**QUESTION TWO (20 MARKS)**

- a) Name and briefly explain items which may be included in the qualifying expenditure for the purposes of investment deductions. ( 6 marks)
- b) The following information is given to you from the books of Kilimo Holdings Ltd., a farming and manufacturing company as at 31 December 2020:

Written down values as at 31 December 2020

	Sh.
Motor vehicles	655,000
Tractors	2,755,000
Plant and machinery	530,000
Furniture and fittings	225,000
Combine harvester	1,012,500
Spares for tractors	510,000
Land rovers	1,135,000
Office curtains	22,000
Computers	77,000
Fax machine	40,000
Telephones	80,000
Farm works (original cost Sh.21,000)	7,000
Industrial building (original cost net of investment deduction Sh.1,000,000)	950,000

Additions in 2021:

	Sh.	Sh.
Library books	25,000	Saloon car
Loose tools	10,000	Pick-up
Engine head for trailer	500,000	Farmhouse
New building	750,000	
Old machinery installed in new building	350,000	

Disposals in 2021:

	Sh.
Saloon car (cost in 2018 – Sh.150,000)	250,000
Furniture	25,000
Computers	80,000
Tractor	75,000

**Required:** Compute total capital allowances for the year 2021. State why you have not used any information and why you think it is not relevant.

(14 marks)

**QUESTION THREE (20 MARKS)**

- a) Explain four actions that the revenue authority in your country could take against tax payers for recovery of due tax **(4 Marks)**
- b) Bakahari and Kamanda trade as Bakar associates providing accounting and taxation services. They share profits and losses equally after charging an interest of 10% on capital contributions. The capital contributions were sh 3M and sh 2.5M for Bakahari and Kamanda respectively. The firm's income statement for the year ended 31<sup>st</sup> December 2021 was as follows:

<b>Income:</b>	Sh.	Sh.
Accounting and advisory fees		2,400,000
Rental property income		380,000
Tax consultancy fees		1,800,000
Profit on sale of old computers		<u>260,000</u>
		4,840,000

**Expenses:**

Administrative expenses	420,000
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Partner private insurance policies	960,000
Depreciation	140,000
Salaries and wages	850,000
Bad debts written off	260,000
Legal and audit fees	120,000
Computer software	60,000
Rental expenses	90,000
VAT paid	360,000
Office stationery	150,000
General expenses	280,000
Office partitions	<u>82,000</u>
Net Profit	<u>(3,772,000)</u>
	<u>1,068,000</u>

**Additional Information:**

(i) Rental expenses relate to the Partnership's rental houses in the city suburb from which the firm earns income.

(ii) Legal and audit fees include sh 40,000 as fines paid to the county government for negligence of duty.

(iii) Salaries and wages include partners salaries as follows:

Bakahari- sh 220,000  
Kamanda- sh 130,000

(iv) Bad debts written off comprised;

General provision 82,000  
Specific bad debts written off 60,000  
Trade bad debts written off 118,000  
260,000

(v) General expenses comprise;

Drafting tender documents 50,000  
Purchase of computers 140,000  
Stamp duty on lease agreements 18,000  
Staff catering costs 72,000  
280,000

**Required:**

- Adjusted taxable profit/loss for the partnership for the year ended 31<sup>st</sup> December 2021
- A schedule showing the distribution of the partners profit/loss computed in (i) above
- Tax liability (if any) of each partner

**(16 Marks)**

**QUESTION FOUR (20 MARKS)**

- The directors of Kwetu Ltd presented the following profit and loss account for the year ended 31 December 2021

	Shs
Revenues:	
Sales	30 780 000

Interest on government securities (Gross)	50 000
	<u>30 830 000</u>
Expenses:	
Purchases	24 000 000
Wages	2 320 000
Carriage inwards	370 000
Rent	300 000
Insurance	190 000
Trade expenses	100 000
Repairs:	
- Building	300 000
- Machinery	56 000
Advertising	254 000
Legal charges	100 000
Audit fees	80 000
Depreciation	3 017 000
Provision for doubtful debts	104 000
Debiture interest	600 000
Interim dividend	400 000
Proposed dividend	<u>731 000</u>
Net loss	<u>2 062 300</u>

The following additional information is provided

- Purchases returns and sales returns were Sh 500 000 and Sh 700 000 respectively. These were left out while preparing trial balance
- Wages include Sh 25 000 per month paid to a “consultant” who helps the company whenever there is a problem with the VAT department. VAT of Sh 560 000 remains unpaid and the “consultant” promises to find a way of getting it written off. Full PAYE is deducted from his salary
- Trade expenses include amount of Sh 60 000 travel expenses to Korea for the Director as part of the National Chamber of Commerce and Industry promotion tour
- Repairs to machinery include small loose tools written off by Shs 100 000
- Bad debts which are specifically bad are Sh 74 000
- Capital allowances have been agreed at Sh 2 000 000

**Required:** Taxable profits for the year of income 2021 and tax payable if any (14 Marks)

- Ms. Nyakio’s contract of employment for five years was terminated on 31 December 2017 after it had run for three years. Compensation for Sh 300 000 was paid. Her salary at the date of termination was Sh 90 000 per year.

Required:

- What income is assessable on Ms. Nyakio and in which years? (3 Marks)
- Assume that Nyakio’s contract was not specific, what income is assessable and which years? (3 Marks)

### **QUESTION FIVE (20 MARKS)**

- Mr. Ombati is a registered VAT consultant. He made the following transactions in the month of October 2017.