



(University of Choice)

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

MAIN/BUNGOMA/WEBUYE CAMPUS
**UNIVERSITY EXAMINATIONS
2022/2023 ACADEMIC YEAR**

**THIRD YEAR FIRST SEMESTER EXAMINATIONS
FOR THE DEGREE
OF**

BACHELOR OF SCIENCE ACCOUNTING

COURSE CODE: BCA 321

COURSE TITLE: PERSONAL AND CORPORATE TAXES

DATE: Thursday 15th December 2022 TIME: 8.00-10.00pm

INSTRUCTIONS TO CANDIDATES

Answer **QUESTION ONE** and **ANY OTHER TWO** questions.

TIME: 2 HOURS

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 6 Printed Pages. Please Turn Over.

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

| | Annual | Monthly | Rates |
|--------------------|---------------|-------------|-------|
| On the first | Ksh.147,580 | Ksh. 12,298 | @ 10% |
| On the next | Ksh. 139,043 | Ksh. 11,587 | @ 15% |
| On the next | Ksh. 139,043 | Ksh. 11,587 | @ 20% |
| On the next | Ksh. 139,043 | Ksh. 11,587 | @ 25% |
| On all income over | Ksh. 564, 709 | Ksh. 47,059 | @ 30% |

Personal relief Sh. 1,408 per month (Sh. 16,896 per annum)

Prescribed benefits rates of motor vehicles provided by employer

| | | | | Monthly rates (Sh.) | Annual rates (Sh.) |
|--|-------|---|----------------------------------|----------------------|---------------------|
| Capital Allowances: | (i) | Saloons, Hatch backs and estates | | | |
| Wear and tear allowance: | | | | | |
| Class I | 37.5% | Up to | 1200 cc | 3,600 | 43,200 |
| Class II | 30% | 1201 | 1500 cc | 4,200 | 50,400 |
| Class III | 25% | 1501 | 1750 cc | 5,800 | 69,600 |
| Class IV | 12.5% | 1751 | 2000 cc | 7,200 | 86,400 |
| Industrial Building Allowance: | | 2001 | 3000 cc | 8,600 | 103,200 |
| Up to 2009 | 2.5% | Over | 3000 cc | 14,400 | 172,800 |
| From January 2010 | 10% | | | | |
| Hostels | 10.0% | | | | |
| Hostels/Education Buildings | 50.0% | | | | |
| Farm allowance: | 100% | | | | |
| Investment deduction | 100% | | | | |
| | | | Pick-up, panel van (Unconverted) | | |
| | | | Up to 1750 cc | 3,600 | 43,200 |
| | | | Over 1750 cc | 4,200 | 50,400 |
| | | | Land Rovers/Cruisers | 7,200 | 86,400 |
| Shipping investment deduction | 100% | | | | |
| | % | | | | |
| Extraction expenditure | | | | | |
| Written over 5 years (20%) | | | | | |
| Commissioner's prescribed benefit rates | | | | Monthly rates | Annual rates |
| Services | | | | Sh. | Sh. |
| (i) Electricity (Communal or from generator) | | | | 1,500 | 18,000 |
| (ii) Water (Communal or from borehole) | | | | 500 | 6,000 |
| Agricultural employees: Reduced rates of benefits | | | | | |
| (i) Water | | | | 200 | 2,400 |
| (ii) Electricity | | | | 900 | 10,800 |

INSTRUCTIONS ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS

QUESTION ONE COMPULSORY (30 MARKS)

- a) Explain Tax matters relating to Export Processing Zones. (4 marks)
- b) Mbale Ltd. has not paid tax for a number of years. As a tax consultant, advise the Finance Manager of Mbale Ltd. on four actions that the revenue authority could take against the company for recovery of overdue tax.(8 marks)
- c) Mr. S. Kibesa, a single man has recently received a Preliminary Enquiry Form from the Income Tax Department. He is required to show income chargeable to tax for the years of income 2017 to 2021 inclusive. Your discussion with him yields the following information:

Using savings from employment and a winning from Kenya Charity Sweepstake he built a shop in 2014 at a cost of sh.800,000. Furniture and stock-in-trade were purchased the following year when he started as a general merchant. He has not kept proper books of account for his business and has not paid any income tax since he became a general merchant. From his explanations and the scanty records available, you have been able to reconstruct the following:

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Sh. | Sh. | Sh. | Sh. | Sh. | Sh. | Sh. | Sh. |
| <u>Assets</u> | <u>'000'</u> | <u>'000'</u> | <u>'000'</u> | <u>'000'</u> | <u>'000'</u> | <u>'000'</u> | <u>'000'</u> | <u>'000'</u> |
| Building | 800 | 800 | 800 | 800 | 800 | 800 | 800 | 800 |
| Furniture | - | 100 | 100 | 150 | 150 | 200 | 200 | 200 |
| Freehold land | - | - | - | - | - | 300 | 300 | 300 |
| Commercial motor vehicle | - | - | - | - | - | 250 | 250 | 250 |
| Stock-in-trade | - | 100 | 100 | 120 | 120 | 150 | 200 | 200 |
| Debtors | - | - | - | - | - | 50 | 60 | 80 |
| Cash in bank | 150 | 50 | 20 | 8 | 8 | 20 | 10 | 10 |
| Total Assets | 950 | 1050 | 1020 | 1150 | 1078 | 1770 | 1820 | 1840 |
| <u>Liabilities</u> | | | | | | | | |
| Trade creditors | - | 25 | 10 | 5 | 5 | 80 | 85 | 90 |
| Loan from a friend | - | - | - | - | - | 200 | 200 | 80 |
| Total liabilities | - | 25 | 10 | 5 | 5 | 280 | 285 | 170 |
| Living expenses (estimates) | - | 100 | 125 | 150 | 150 | 200 | 200 | 200 |

No interest has been charged on the loan from the friend, also there has been no sales of fixed assets, there has been no other investment.

Required:

- i. Calculate the income chargeable to income tax for each year of income. (15 marks)
- ii. State briefly what further information the Income Tax Department may require to satisfy itself that the chargeable income you have calculated reflects the true and correct income of the tax payer for each year of income. (3 marks)

QUESTION TWO (20 MARKS)

- a) State the key provisions of section 19 of the Income Tax Act (Cap.470) relating to the taxation of savings and credit cooperative societies (SACCOS). (4 marks)
- b) ABC Ltd reported taxable income of sh. 2 million before tax for the year ending 31st December 2021. The profit was from the core business activity , the management distributed sh. 160,000 as dividend to shareholders determine the short fall tax payable and interest payable if any if all issues are completed by February 2022.(4 marks)
- c) Makazi Savings and Credit Cooperative Society (Sacco) Ltd. reported the following incomes and expenditure for the year ended 31 December 2021:

| Income: | Sh. |
|------------------------------------|------------------|
| Interest on loans to members | 1,500,000 |
| Interest on savings accounts | 30,000 |
| Interest on fixed deposit accounts | 400,000 |
| Other investment income | 12,000 |
| Rental income | <u>600,000</u> |
| Total income | <u>2,242,000</u> |

| Expenditure | |
|-------------------------|------------------|
| Administration expenses | <u>300,000</u> |
| Surplus | <u>1,942,000</u> |

Required:

The taxable profit of Makazi Sacco Ltd. for the year ended 31 December 2021. (12 Marks)

QUESTION THREE (20MARKS)

The following is the income statement for XYZ ltd a manufacturing company for the year ended 31st December 2021.

| Item | Sh. | Sh. |
|--|-----------|------------------|
| Gross profit | | 5,760,000 |
| Foreign exchange gain | | 72,000 |
| Dividends from ukulima cooperative (net) | | 34,000 |
| Dividends from subsidiary company | | 122,000 |
| | | <u>5,990,000</u> |
| Less expenses | | |
| Directors emoluments | 3,240,000 | |
| Provision for depreciation | 125,000 | |
| Office furniture | 180,000 | |
| Computer software | 45,000 | |
| Donations | 12,750 | |
| Legal expenses | 324,000 | |
| Dividend paid | 60,000 | |
| Corporation tax | 187,500 | |
| Salaries and wages | 337,000 | 4,511,250 |
| Net profit | | <u>1,478,750</u> |

Additional information

- The company operates in a factory building whose construction cost at the time of first operation on 1st January 2017 was 2,400,000. The cost of construction of building is included in the directors emoluments

2. On 1 July 2021 the company acquired portable packaging machinery at a cost of sh. 210,000 computers sh. 120,000, and weighing scale machine sh.48,000
3. On 1st October 2021 the company put into use a staff canteen constructed at a cost of 390,000 and godown at a cost of 300,000
4. Legal expenses include
 - Costs of disposal of banned packaging material sh 13,500
 - Negotiating loan agreement sh.18,000
 - Processing legal documents for new factory plant sh, 9,900
 - Defending a law suit for defending a director of the company for his private business sh. 47,000
 - Preparing patent documents for registration sh,26,400
5. Gross profit was overstated by 20% and directors allowance include management fees of sh.247,500 from a director of one of the subsidiaries.
6. Interest on loan of sh. 48,000 from head office was included in directors emoluments. The interest was received from a thinly capitalised company

Required

- a) Statement of adjusted profit or loss for the year ended 31st December 2021.(12 marks)
- b) Tax liability if any for the year ended 31st December 2021 (2 marks)
- c) Comment on the payment of tax for the year ended 31st December 2021 assuming that tax had been paid in the year 2021 based on previous tax sh,1,200,000 (4 marks)
- d) Explain the meaning of thinly capitalised company (2 marks)

QUESTION FOUR (20 MARKS)

- a) Explain Tax matters relating to special economic zone.(5 marks)
- b) Wananchi General Insurance Limited provided the following details with respect to the activities for the year ended 31 December 2021:

| | Sh. |
|---|------------|
| Claims paid | 4,800,000 |
| Claims outstanding on 1 January 2021 | 400,000 |
| Claims intimated and accepted, but not paid on 31 December 2021 | 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 2021 | 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 2021 | 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 2021. (12 marks)
- (ii) Comment on any losses, gains or specified sources of income which you have ascertained in (i) above. (3 marks)