



MUEO

MOI UNIVERSITY

**OFFICE OF THE DEPUTY VICE CHANCELLOR, ACADEMIC
AFFAIRS, RESEARCH & EXTENSION**

**UNIVERSITY EXAMINATIONS
2014/2015 ACADEMIC YEAR**

THIRD YEAR END OF SEMESTER 1/II EXAMINATIONS

**FOR THE DEGREE OF
BACHELOR OF BUSINESS MANAGEMENT**

EXAM CODE:- BBM 303

COURSE TITLE:- TAXATION I

DATE:- 8TH SEPTEMBER, 2014

TIME:- 2.00P.M. - 5.00 P.M.

INSTRUCTION TO CANDIDATES

➤ SEE INSIDE.

THIS PAPER CONSISTS OF (4) PRINTED PAGES.

PLEASE TURN OVER

EXAMINATION FOR FIRST SEMESTER 2014/2015 ACADEMIC YEAR

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER THREE QUESTIONS

Instructions to candidates: Answer questions ONE and any other THREE questions. Marks allocated to each question are shown at end of the question. Show ALL your workings. Any assumptions made must be clearly and concisely stated.

RATES OF TAX: (Year of Income 2013)

Annual taxable pay	Rates of tax
Kshs.	
1 - 121,968	10%
121969 - 236,880	15%
236881 - 351,792	20%
351793 - 466,704	25%
In excess of 466,704	30%
Personal relief sh. 13,944 p.a or sh. 1,162 per month	

Capital allowances	Prescribed benefit rates of motor vehicle provided by employer																												
<ul style="list-style-type: none"> • Wear and tear allowance <ul style="list-style-type: none"> Class I 37.5% Class II 30% Class III 25% Class IV 12.5% • Industrial Building Deduction <ul style="list-style-type: none"> Industrial buildings: up to 2009 2.5% From 2010 10% Hotels: up to 2006 4.0% From 2007 10% • Farm works allowance 100% • Investment Deduction <ul style="list-style-type: none"> 2003 70% 2004 onwards 100% Outside setlight towns 150% from 2010 <ul style="list-style-type: none"> • Shipping investment deduction 40% • Software allowance 20% • Mining allowance <ul style="list-style-type: none"> Year 1 40% Year 2 – 7 10% 	<table border="1"> <thead> <tr> <th></th> <th>Annual Rates</th> </tr> <tr> <th></th> <th>Sh</th> </tr> </thead> <tbody> <tr> <td>i) Saloon, Hatch backs and estates</td> <td></td> </tr> <tr> <td>Upto 1200cc</td> <td>43,200</td> </tr> <tr> <td>1201 – 1500cc</td> <td>50,400</td> </tr> <tr> <td>1501 – 1750cc</td> <td>69,600</td> </tr> <tr> <td>1751 – 2000cc</td> <td>86,400</td> </tr> <tr> <td>2001 – 3000cc</td> <td>103,200</td> </tr> <tr> <td>Over 3000cc</td> <td>172,800</td> </tr> <tr> <td>ii) Pick ups, Panel (unconverted)</td> <td></td> </tr> <tr> <td>upto 1750cc</td> <td>43,200</td> </tr> <tr> <td>Over 1750</td> <td>50,400</td> </tr> <tr> <td>iii) Land rovers / cruisers</td> <td>86,400</td> </tr> <tr> <td colspan="2">OR 2% of the initial cost for each month whichever is higher.</td> </tr> </tbody> </table>		Annual Rates		Sh	i) Saloon, Hatch backs and estates		Upto 1200cc	43,200	1201 – 1500cc	50,400	1501 – 1750cc	69,600	1751 – 2000cc	86,400	2001 – 3000cc	103,200	Over 3000cc	172,800	ii) Pick ups, Panel (unconverted)		upto 1750cc	43,200	Over 1750	50,400	iii) Land rovers / cruisers	86,400	OR 2% of the initial cost for each month whichever is higher.	
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Commissioners prescribed benefit rates

Services	Annual rates
	Sh
i) Electricity (communal / from generator)	18,000
ii) Water (communal / from borehole)	6,000
iii) Provision of furniture (1% of cost to employer)	
If hired, hire cost should be charged	
iv) Telephone	30% of bills

Agriculture employees

i) Water	2,400
ii) Electricity	10,800

Other benefits, taxable at the higher of fair market value and actual cost to employer.

QUESTION ONE

- a) Explain six factors that determines taxable capacity of individual tax payers (6 marks)
- b) Mr. Charles Kivuna worked for Maua Limited, a company in the horticultural sector, as the General Manager on a five year contract commencing 1 January 2002. His contractual salary per annum was Sh.800,000. The contract provided for compensation in case of contract termination before its expiry of Sh.3,000,000. The contract was terminated on 1 January 2005 and he received the compensation on that date. On 3 January 2005, he secured employment with Charter Bank Limited. The following information is relevant for his year of income ended 31 December 2005:

1. His basic salary was Sh.90,000 per month (PAYE Sh.12,000).
2. He was entitled to reimbursement of medical expenses incurred on self and family subject to a maximum of 10% of basic pay. He spent Sh.135,000 on medical costs for the year. The medical scheme covers senior managers only.
3. He obtained a mortgage for Maendeleo Finance Ltd. on 1 July 2005 for Sh.3,500,000 at an interest rate of 10% per annum to purchase a residential house. The house was furnished by his employer at a cost of Sh.60,000. An alarm system was also installed in the house by the employer at a cost of Sh.10,000.
4. He was sponsored for a seminar on banking by the employer at Sh.120,000. 5% of this cost was for private entertainment.
5. He received 1,000 ordinary shares of Charter Bank Ltd. as a performance bonus on 31 December 2005. Each of these shares had a par value of Sh.10 but at the time of their issue to Mr. Kivuna, their market price was Sh.8 each.
6. On 1 September 2005, he obtained a sh.600,000 loan from his employer. The interest payable on this loan was at the rate of 2% per annum.
7. He contributes 5% of his basic pay to a registered pension scheme while the employer contributes an equal amount for him.
8. He employed a night watchman on 1 August 2005 at a salary of Sh.3,000 per month. Charter Bank Ltd. pay half the salary.
9. He received a gross dividend of Sh.8,000 from Akiba Ltd. on 31 October 2005.
10. During the year, he paid a total of Sh.35,000 as fees for his children studying in public schools.
11. He won a defamation case against a local newspaper and was awarded Sh.300,000. The amount was paid on 15 November 2005.
12. His other incomes (or losses) for the year ended 31 December 2005 included:
Net income from rent Sh.1,000,000
Profit from retail business Sh.320,000
Loss from farming business Sh.600,000

Required

- (i) Compute the fringe benefit tax payable. Assume a prescribed interest rate of 12% per annum. (3 marks)
 - (ii) Compute the total taxable income for Mr. Kivuna for the year ended 31 December 2005. (13 marks).
 - (iii) Compute the tax payable on the taxable income in (ii) above. (3 marks)
- (Total: 25 marks)**

QUESTION TWO

A. Kimilu Limited imported goods worth ksh. 6,000,000 and paid import duty at 25%. The company incurred an additional 5% as transport costs for the goods to its factory in Nairobi. The goods were processed at a cost of 20% of the total costs incurred in delivering the goods to the factory. The company charges a profit markup of 30% of the total costs.

Required:

Compute the VAT Payable by Kimilu Limited using VAT rate of 16%

(5 marks)

B. Star Supermarket Limited registered VAT on 15 December 2013. On that date, it had goods in stock for sale valued at Sh.96,000 and for which input tax had been paid. These goods were subsequently sold in March 2014.

Month	Purchases Sh.	sales Sh.
January	2,450,000	3,200,000
February	2,870,000	3,460,000
March	3,250,000	2,940,000
April	3,120,000	3,500,000

The purchases and sales are inclusive of VAT, at the standard rate of 16%, where applicable.

Additional information

- 10% of the monthly purchases and sales to exempt goods
- 20% of the monthly sales represent goods exported to Uganda
- Credit notes amounting to Sh. 25,000 were issued to customers in March 2014
- VAT on monthly electricity consumption was Sh. 2,000

Required:

The VAT account for the four month period ended 30 April 2014

(10 Marks)

(Total Marks 20)

QUESTION THREE

Agola, Barasa and Chege are partners operating under the name of ABC and Associates. They share the profits and losses equally. The following is their income statement for the year ended 31 December 2013.

	Sh.	Sh.
Sales		5,599,300
Discount received		50,000
Interest (gross)		60,000
Rental income		150,000
Profit on sale of machinery		120,000
Dividends (gross)		31,200
Sundry receipts		<u>65,000</u>
		6,075,500
Expenses:		
Purchases	3,200,000	
Salaries, bonuses and commissions	600,000	
Value added tax (VAT)	103,000	
Office expenses	100,000	
Legal charges	150,000	

Rent for premises paid to Barasa	120,000	
Sundry expenses	90,000	
Interest on capital:		
Agola	60,000	
Barasa	40,000	
Chege	40,000	
Subscriptions to a trade association	5,000	
Depreciation	100,000	
Bad debts reserve	120,000	
Donations to the National Youth Fund	50,000	
Installment tax paid	150,000	
Loss on sale of shares	60,000	
Advertisement expenses	143,000	
General expenses	172,500	
Municipal rates on rented property	12,000	
Insurance on rented property	5,000	
Repairs and maintenance	200,000	
Interest on bank loans	<u>80,000</u>	<u>(5,600,500)</u>
Net profit		<u><u>475,000</u></u>

Additional information

- Specific bad debts amounted to sh.90,000. This amount has been included in the bad debts reserve.
- Legal charges include sh.60,000 paid for conducting an income tax appeal with the revenue authority. It also includes sh.30,000 paid as a penalty for dealing with illegal goods and sh.6,000 for drafting the partnership deed
- Capital allowances for the year had been agreed at sh.75,000 with the revenue authority
- Repairs and maintenance include sh.142,000 used to renovate and improve the rented property to a habitable state. Tenants occupied the property immediately after renovations
- Advertisement expenses include sh.28,000 for installing a billboard on a super highway to the city
- Salaries, bonuses and commissions include those paid to the partners as follows;

	Agola	Barasa	Chege
	Sh.	Sh.	Sh.
Salaries	40,000	60,000	-
Bonus	30,000	-	50,000
Commission	25,000	15,000	30,000

Required:

- The taxable income for the partnership for the year ended 31 December 2012 (11 marks)
 - The allocation of the taxable income in (b) (i) above to the partners (4 marks)
- (Total Marks 15)**

QUESTION FOUR

Best Line Ltd is a manufacturing company which commenced its operations on 1 January 2011 after incurring expenditure on the following items:

	Sh.
Land	17,000,000
Factory building	30,000,000
Godown	1,800,000
Sports pavilion	900,000
Electric fence	360,000
Parking bay	800,000
Staff canteen	2,000,000

Other assets acquired on 1 January 2011 were as follows:

	Sh.
Computers	500,000
Diesel generator	800,000
Forklift	1,500,000
2 saloon cars	1,800,000
Water pump	180,000
Factory machinery	5,000,000
Furniture	300,000
Lorry (3 tonnes)	1,800,000
Photocopier	150,000
Workshop machinery	3,200,000
Sewerage treatment plant	600,000
Plastic water tank	60,000

Additional information:

1. The company constructed a borehole at a cost of sh.1,500,000 which was put in use on 1 September 2011
2. The factory building includes a showroom and an office block constructed at a cost of sh.800,000 and sh.600,000 respectively
3. A saloon car was involved in an accident on July 2012. The company received sh.900,000 as compensation for the loss.
4. The company constructed a factory extension at a cost of sh.6,400,000 and installed processing machinery costing sh.3,200,000 on 1 January 2012
5. The company disposed of the following assets in July 2013:

Assets	Disposal proceeds
	Sh.
Lorry	1,000,000
Computers	200,000
Furniture	120,000

Required:

Capital allowances due to Best Line Ltd for each of the three years ended 31 December 2011, 2012 and 2013

[15 marks]

QUESTION FIVE

- A. State any four reasons why the government charge taxes.
- B. Name any three types of capital allowances
- C. Name any four advantages of progressive tax
- D. Differentiates direct tax from indirect tax

(4 Marks)

(3 marks)

[4 marks]

[4 marks]

(Total Marks 15)

QUESTION SIX

- (a) Briefly explain the rationale behind the “benefit theory” of taxation.(2 marks)
- (b) What problems are experienced in attempting to achieve justice in taxation? Support your answer with the four main theories which explain why it is difficult to exercise justice in taxation.

(10 marks)
- (c) Giving appropriate examples, differentiate between customs duty and excise duty. (3marks)

(Total Marks 15)

***** **END** *****