



MUEO

**MOI UNIVERSITY**

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

**UNIVERSITY EXAMINATIONS  
2016/2017 ACADEMIC YEAR**

**END OF SEMESTER EXAMINATIONS**

**FOR THE DEGREE  
IN BACHELOR OF BUSINESS AND ECONOMICS**

**EXAM CODE:-       BBM 303**

**COURSE TITLE:-   TAXATION I**

**DATE:-5<sup>TH</sup> JUNE, 2017**

**TIME:- 2.00P.M. – 5.00P.M.**

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INSTRUCTION TO CANDIDATES

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**BBM 303: TAXATION I  
MAIN EXAMINATION**

*Instructions: Answer Question ONE and any other THREE*

**Taxable Employment Benefits - Year 2017**

Monthly taxable pay (shillings)		Annual taxable pay (shillings)		Rates of tax % in each shilling
1	- 11,180	1	- 134,164	10%
11,181	- 21,714	134,165	- 260,567	15%
21,715	- 32,248	260,568	- 386,970	20%
32,248	- 42,782	386,971	- 513,373	25%
Excess over	- 42,782	Excess over	- 513,373	30%

**Personal relief Shs. 1,280 per month (Shs. 15,360 per annum)**

Capital allowances:	Prescribed benefit rates of motor vehicles provided by employer		
		Monthly	Annual
<b>Wear and tear allowances</b>	(i) Saloon, Hatch Backs and Estates		
Class I 37.5%	Upto - 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
Software 20%	2001 - 3000 cc	8,600	103,200
<b>Industrial building allowance:</b>	Over - 3000 cc	14,400	172,800
Industrial buildings 10%	(ii) Pick-ups, Panel Van (Unconverted)		
Hotels 10%	Upto 1750 cc	3,600	43,200
<b>Farm works allowance</b>	100%		
<b>Investment deduction allowance:</b>	Over 1750 cc	4,200	50,400
2005 to date - 100%	(iii) Land Rovers/Cruisers	7,200	86,400
	OR 2% of the initial capital cost of the vehicle for each month, whichever is higher.		

**Shipping investment deduction  
40%**

**Mining allowance:**

Year 1	40%
Year 2 - 7	10%

**Commissioner's prescribed benefit rates**

Services	Monthly rates Sh.	Annual rates Sh.
(i) Electricity (Communal or from a generator)	1,500	18,000
(ii) Water (Communal or from a borehole)	500	6,000
(iii) Provision of furniture (1% of cost to employer) If hired, the cost of hire should be brought to charge		
(iv) Telephone (Landline and mobile phones)	30% of bills	

**Agricultural employees: Reduced rates of benefits**

(i) Water	200	2,400
(ii) Electricity	900	10,800

**The current VAT rate is 16%**

## QUESTION ONE

- a) Many farmers in the rural areas are unaware of the benefits accorded to them in form of capital allowances under the Income Tax Act. Write a brief summary on capital allowances which may be available to the farmer. **[5 marks]**
- b) Distinguish between direct and indirect tax giving examples **[3 marks]**
- c) Mr. Matata is married to Karai. Mr. Matata is a registered engineer and he is the proprietor of Mabati Engineering Services a firm of consulting engineers. He is nevertheless fully occupied as an employee of Ditman Construction Limited. His company is therefore managed by his wife who is paid a salary of Sh. 75, 000 per month as salary. PAYE of Sh.20, 000 p.m. is deducted and remitted to the Commissioner. Ditman Construction Ltd. provided the following emoluments to Mr. Matata for the year ended 31<sup>st</sup> December 2016:

- Basic salary of Sh.180, 000 p.m. (PAYE Sh.60, 000 p.m.).
- Free housing is provided, with water and electricity. Water consumed was for Sh.10, 800 and electricity consumed was for Sh.27, 000 during the year. He pays a nominal rent of sh.10, 000 per month. The market rental value of a similar house goes for sh. 30, 000 p.m. The house provided was well furnished at a cost of sh. 360, 000.
- 1,000 ordinary shares for past years of service. Last valuation of shares was at sh.40 each. The issued share capital is now 25,000 shares. The company paid a dividend of Sh.10 per share on 31<sup>st</sup> December 2016.
- Company car of 2000 cc. the car was purchased at a cost of ksh. 2, 400, 000.
- Leave pay equal to one month's salary.
- Life insurance premium per each household member of Sh.10, 000 per annum. This covers himself, wife and son.
- Pension at 10% per month. He contributes 5% towards the same scheme. The scheme is registered.
- Mabati Engineering Services made an assessed loss of Sh.400, 000 for the year of income 2016.
- Mr. Matata owns property which he bought many years ago. Rent income account for the year 2016 is as follows:

	Sh.	Sh.
Gross rent		800, 000
<b>Less: Expenses</b>		
Loan repayment	250, 000	
Mortgage interest	225, 000	
Insurance, rates and rent	125, 000	
Concrete fencing	130, 000	
Caretaker's wages	155, 000	
Replacement of broken windows	185, 000	
		<u>1, 070, 000</u>
	<b>Net loss for the year</b>	<b><u>(270, 000)</u></b>

### Required

- i. Taxable income of Mr. Matata for the year of income 2016. **[12 marks]**
  - ii. Tax payable by Mr. Matata for the year of income 2016. **[5 marks]**
- [Total: 25 marks]**

## QUESTION TWO

With reference to Income Tax, write short notes on the following:

- i. Self-assessment [5 marks]
- ii. Notice of Objection [5 marks]
- iii. A taxpayer has a right to appeal to the local committee against some decisions made by the commissioner of domestic taxes. Explain situations that a taxpayer can appeal to the local committee. [5 marks]

[Total 15 marks]

## QUESTION THREE

- a) Absolom, Steve and Timon are former school mates who were doing business together. The business is not registered but they registered themselves as equals in partners. They keep proper books of account and have been able to provide the following profit and loss account for the year ended 31<sup>st</sup> March 2017.

		<b>Profit and Loss Account</b>	
	Sh.		Sh.
Establishment expenses	800,000	Gross profit	1,908,000
Rent of business premises owned by all of them jointly	180,000	Sundry receipts	80,000
Interest expense	80,000	Interest Income	72,000
Stationery and printing	120,000	Profit on sale of shares	200,000
Light and heating	40,000	Gross income from farming	340,000
General farm expenses	294,000	Lottery winnings	800,000
Repair of premises	40,000	Dividend (Gross)	120,000
Depreciation	300,000		
Interest on partner's capital:			
Absolom	80,000		
Timon	120,000		
Salary to Steve	160,000		
Commission to partners:			
Absolom	96,000		
Steve	96,000		
Timon	96,000		
Bad debts	240,000		
Gifts, present and charity	40,000		
Donation to child welfare	200,000		
Interest on loan taken to pay			
Income tax	20,000		
Legal charges	120,000		
<b>Net profit</b>	<b><u>398,000</u></b>		
	<u>3,520,000</u>		<u>3,520,000</u>

### Additional information:

- i. Capital allowances have been agreed as follows: Wear and Tear allowances sh.180, 000; Farm works deductions sh.120, 000.

- ii. The partners had borrowed Sh.400, 000 with a hope of investing it on fixed securities to earn more income interest rates nevertheless declined. Interest expense of Sh.80, 000 and interest income of Sh.72, 000 relate to the loan.
- iii. Legal charges include Sh.40, 000 paid to finish a case in the customs department.
- iv. In 2017, the partners brought forward losses amounting to Sh.800, 000 from this business.

**Required:**

- i. Compute taxable income derived from the partnership [12 marks]
- ii. Show allocation among partners. [3 marks]

**[Total: 15 marks]**

**QUESTION FOUR**

The Delmonte Beverage Processing Industries Ltd. commenced business on 1<sup>st</sup> January 2015 and the following are the fixed assets of the company which it acquired prior to the commencement of the business:

	<b>Sh.</b>
Conveyer and sorter (installed in the buildings)	3,120,000
Packaging machine	2,625,000
Milling machine	2,580,000
Crashing machine	2,760,000
Fork lifts	1,290,000
Farm tractors	5,850,000
Lorry	1,800,000
Delivery van	1,350,000
Furniture, fittings and partitions	408,000
Land at cost	15,000,000

**Additional information:**

- i. The building in use was constructed at a cost of Sh. 10,200,000 but its value after construction was estimated at Sh.12, 600, 000 by a professional valuer.
- ii. In the year 2015 a saloon car was purchased at sh. 3, 600, 000.
- iii. In year 2016, the company purchased the following assets:

	<b>Sh.</b>
Tractor	2,655,000
Lorry	3,900,000
Toyota-Land-Cruiser	2,025,000
Furniture	210,000
Partitions	408,000
Land	4,680,000
3 computers	450,000

iv. The following assets were disposed in the year 2016:

Forklift	360, 000
Saloon car	900, 000
Delivery van	500, 000

**Required:**

- i. Compute the capital allowances for the company for the years 2015 and 2016.

[Total: 15 marks]

**QUESTION FIVE**

- a) List any four grounds of appeal to a VAT tribunal. [4 marks]  
b) Identify any four details to be found in a tax invoice. [4 marks]  
c) The following are the sales and purchases of Jasho Limited, a supplier of vatable goods for the six-month period ended 31<sup>st</sup> December 2016.

	Standard Sh.	Sales Zero-rate Sh.	Exempt Sh.
July	1,200,000	300,000	160,000
August	1,000,000	250,000	100,000
September	800,000	160,000	90,000
October	1,400,000	400,000	135,000
November	600,000	100,000	80,000
December	<u>1,600,000</u>	<u>380,000</u>	<u>170,000</u>
	<u>6,600,000</u>	<u>1,590,000</u>	<u>735,000</u>

Purchases (Standard)  
Sh.

July	900,000
August	750,000
September	350,000
October	1,100,000
November	400,000
December	<u>1,200,000</u>
	<u>4,700,000</u>

All the purchases and sales above are VAT exclusive.

**Required:**

- i. Determine the total input tax deductible for the six-month period ended 31<sup>st</sup> December 2016. [6 marks]  
ii. Determine the total VAT payable or refundable for the period to 31<sup>st</sup> December 2016. [1 marks]

[Total: 15 marks]

**QUESTION SIX**

Explain the following terms and show how they are treated in taxation

- a) Trading receipt [3 marks]  
b) Balancing deduction [3 marks]  
c) Balancing charge [3 marks]  
d) Trading loss [3 marks]  
e) List ways in which a government can reduce its budget deficit. [3 marks]

[Total: 15 marks]

\*\*\*END\*\*\*