



MUEO

**MOI UNIVERSITY**

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

**UNIVERSITY EXAMINATIONS  
2014/2015 ACADEMIC YEAR**

***THIRD YEAR END OF SEMESTER EXAMINATIONS***

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

**EXAM CODE:-      BBM 303**

**COURSE TITLE:-   TAXATION I**

**DATE:- 14<sup>TH</sup> APRIL, 2015**

**TIME:- 9.00A.M. – 12.00NOON.**

---

**INSTRUCTION TO CANDIDATES**

➤ **SEE INSIDE.**

**THIS PAPER CONSISTS OF (3) PRINTED PAGES**

**PLEASE TURN OVER**

# BBM 303 TAXATION I

Answer Question *ONE* and any Other *THREE*

## QUESTION ONE

- a) With reference to sec 46 and 47 of the income tax Act(Cap470) explain how the incomes of the following persons are assessed
- Incapacitated persons (2marks)
  - Non resident persons (2marks)
- b) Mrs. Kariuki works with Cutty Ltd as a Management Accountant. During the year ended 31<sup>st</sup> Dec 2014, she earned the following emoluments from employment
- Basic salary of ss 2,200,000 per annum (PAYE being shs 680,000).
  - She was paid an end of year bonus amounting to shs 200,000.
  - The company operates a pension scheme which is registered and during the year, Mrs. Kariuki contributed shs 22,500 per month. The employer contributed a similar amount for her.
  - Mrs. Kamau enjoys unlimited use of company car of 2,000cc which was acquired in 2010 at a cost of shs 1,200,000
  - She is provided with a night watchman and a gardener whom the employer pays a salary of shs 15,000 and shs 12,000 per month respectively.
  - Mrs. Kamau lives in a house provided by the employer where the employer pays rent of shs 30,000 per month. During the year, the employer deducted shs 2,000 per month as contribution towards this house.
  - The employer paid school fees for Mrs. Kariuki's children amounting to shs 400,000. Cutty Ltd did not write off this an expense in the books.
  - The employer paid for her an insurance premium amounting to shs 150,000 for the year

### Required:

- Mrs. Kariuki's total taxable income for the year of income 2014. [12 Marks]
- Tax payable by Mrs. Kariuki for the year of income 2014 [3Marks]
- Comment on any information not used [1Mark]

## QUESTION TWO

- a) The commissioner of VAT allows for VAT refund under the sixth schedule of the VAT Act. Under what circumstances can VAT be refunded? [3marks]
- b) Mr. Mazumbuko is a practicing Management consultant working under the name Mazumbuko and Associates. His firm is registered for Value Added Tax. During the month of September 2014, he undertook and completed the following assignments:

**Sep 2:** Consultancy work for Kquality Ltd. His fees were shs 240,000 inclusive of VAT

**Sep 4:** Consultancy for Rweke, a company based in Uganda. His fees amounted to shs 840,000 exclusive of VAT

**Sep 10:** Management consultancy services for Kerol ltd. He billed them for shs 360,000 inclusive of VAT.

- Sep 15:** His firm was appointed by Toleo Ltd to undertake a review of the staff training needs of the company. His fees were shs 1,200,000 exclusive of VAT.
- Sep 17:** The firm conducted another consultancy service for Kerol ltd and charges were shs 480,000 inclusive of VAT.
- Sep 18:** The firm was approached by Water and Sewerage Company to conduct a survey on water consumption at a fee of shs 2,400,000 exclusive of VAT.
- Sep 19:** His firm provided consultancy to a children's home and estimated that their fee would be shs 720,000 exclusive of VAT.
- Sep 21:** The firm billed Kerol Ltd shs 136,000 inclusive of VAT for a survey on possibility of outsourcing cleaning services.
- Sep 22:** The firm undertook a systems consultancy assignment for One World, a company based in South Africa. The fees were shs 420,000 exclusive of VAT.
- Sep 24:** Consulted for Sharp Ltd at a fee of shs 180,000 inclusive of VAT.
- Sep 26:** Provided consultancy services to Wonder Children's home on a volunteer basis. The estimated value of the services was shs 90,000 inclusive of VAT.
- Sep 30:** Performed consultancy for Utawala Ltd and the fees earned were shs 860,000 exclusive of VAT.

During the month of September 2014, the firm paid for the following services (where applicable, the payments were VAT inclusive)

	shs
Water	2,400
Electricity	42,500
Rent	120,000
Garbage collection	36,000
Stationery	960,000
Computer repairs and maintenance	240,000
Telephone	330,400

**Required:**

- Prepare a VAT account for Mazumbuko and Associates for the month of September 2014 [14 Marks]
- When is the above VAT payable if any? [3marks]

**QUESTION THREE**

- Clearly explain the cost of an asset which qualifies for Wear and tear in case of additions to a class of Wear and tear.
  - Trade in or part exchange [2 marks]
  - Hire purchase [2 marks]
  - Assets brought into the business without being purchased [2 marks]
- On January 2014, Mamboleo Ltd purchased its current factory from Two Stars Ltd a registered contractor for shs 120 million. Two stars Ltd availed the following details concerning the cost of construction of the factory

	shs
Acquisition of land	6,440,000

Demolition and clearing of old factory from the site	4,320,000
Labor quarters built on site	14,400,000
Factory building	44,640,000
Stone wall around the factory	7,200,000
Bank interest during period of construction	<u>5,760,000</u>
	<u>82,760,000</u>

The factory building houses administrative offices worth shs 11,520,000 and a raw materials and finished goods store worth shs 4,320,000. Mamboleo Ltd installed machinery worth shs 60,000,000 on 3 January 2014 and started business on that day.

The following assets were acquired during the year:

Date	Asset	cost (shs)
10 Jan 2014	New computers	560,000
11 Jan 2014	Furniture	180,000
11 Jan 2014	Photocopier	120,000
11 Jan 2014	Scanner	40,000
11 Jan 2014	Television set	10,000
15 Jan 2014	2 saloon cars (shs 2.1million each)	4,200,000
17 Jan 2014	2 Lorries (shs2 million each)	4,000,000

The following assets were disposed off during the year:

Date	Asset	Proceeds (shs)
05 Feb 2014	Machinery	320,000
06 Mar 2014	Saloon car (Original cost shs1.6million)	400,000
07 Mar 2014	Furniture	360,000

The balances brought forward for capital allowances purposes as at 1 Jan 2014 were as follows:

	Shs
Class I	2,890,000
Class II	670,000
Class III	1,325,000
Class IV	1,825,000

Required:

Capital allowances available to Mamboleo Ltd in the year of income 2014. [14 marks]

#### QUESTION FOUR

The management of Maji Mazuri Ltd presented the following income statement for the year ended 31 December 2014

	Shs
Gross profit	11,100,000
Other incomes	
Gain on sale of equipment	120,000
Interest on savings account	40,000
Refund of import duty	80,000
Gain on foreign exchange transactions	<u>100,000</u>
	<u>340,000</u>

11,440,000

Expenses:		
Legal expenses	420,000	
Salaries	2,000,000	
Bad debts	500,000	
NSSF contributions	60,000	
General expenses	600,000	
Advertising	300,000	
Staff meals	190,000	
Travelling expenses	180,000	
Donations to a trade association	40,000	
Property rates	45,000	
Depreciation	150,000	
Interest on long term loan	300,000	
Interest on bank overdraft	80,000	
Insurance	124,000	
Cost of stolen stock	20,000	
Branch closure costs	<u>100,000</u>	<u>(5,109,000)</u>
Net profit		<u>6,331,000</u>

Additional information:

1. Legal expenses related to:

	Shs
Preparation of the Memorandum of Association	150,000
Conveyance fees on purchase of land	60,000
Acquisition of leasehold property	90,000
Settling customer disputes	100,000
Acquisition of bank loan	<u>20,000</u>
	<u>420,000</u>

2. Salaries expense includes:

	Shs
Directors allowances	720,000
Christmas gifts to staff	600,000
Golden hands shake to a retiring director	400,000

3. Bad debts include:

Loan to a director	200,000
Estimated defaults by trade debtors (specific)	120,000

4. Advertising expense includes shs 100,000 for a neon sign

5. 20% of the travelling expenses relate to the private usage of company motor vehicles

6. Capital allowances for the year of income were agreed with the commissioner of Income tax at shs 350,000

Required:

- a) Adjusted taxable profit or loss for Maji Mazuri Ltd for the year of income 2014 [14 marks]
- b) The tax payable by Maji Mazuri Ltd (if any) for the year of income 2014 [2 marks]
- c) Comment on any information not used [4 marks]

### QUESTION FIVE

- i. Giving appropriate examples, distinguish between forward and backward tax shifting [4 marks]
- ii. Briefly explain five factors that influence tax shifting [10 marks]
- iii. Briefly explain three reasons for taxation in Kenya [6 marks]

### QUESTION SIX

- i. Briefly explain three occasions when an individual could be considered a resident for income tax purposes [3 marks]
- ii. Outline three limitations of withholding tax [3 marks]
- iii. Summarize two factors that could influence tax evasion [2 marks]
- iv. Discuss four hindrances to the automation of tax collection and reporting systems in your country. [7 marks]