



# **MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATION  
2018/2019 ACADEMIC YEAR  
THIRD YEAR SEMISTER TWO**

**SCHOOL OF BUSINESS AND  
ECONOMICS  
DEGREE IN BUSINESS MANAGEMENT**

**COURSE CODE: BCM 3206  
COURSE TITLE: TAXATION**

**DATE: 25<sup>TH</sup> APRIL 2019  
- 1630HRS**

**TIME: 1430**

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**INSTRUCTIONS TO CANDIDATES**

1. Answer question **ONE** and any other **THREE** questions
2. Do not forget to write your registration number

*This paper consists of 6 printed pages. Please turn over.*

### **QUESTION ONE**

- a) According to income tax act 470 section 15 explain how interest on mortgage and contribution to Home ownership savings plan are treated for tax purpose **(4marks)**
- b) Discuss the significance of residence to an individual tax payer **(4marks)**
- c) Mr Barasa is employed as a sales manager in Turbo ltd. The following details relates to his employment income for the year ending 31<sup>st</sup> Dec 2018:
  1. Basic salary sh60,000 per month (PAYE sh9,000)
  2. He received the following benefits from the employer:
    - ✓ A fully furnished house(cost of the furniture sh300,000)
    - ✓ Free lunch valued at sh3800per month
    - ✓ A company car 1500cc whose cost is sh800,000 as at January 2017
    - ✓ The school fees for his son was paid by the employer amounting to sh65000 per term in the year 2018.
    - ✓ A watchman and gardener were both paid by the employer sh10,000 each as from June 2018 respectively.
    - ✓ Daily entertainment allowance of sh5000 during a four days seminar at Nakuru County.
    - ✓ Annual leave allowance which was calculated at 8% of his basic pay.
  3. He contribute sh20,000 per month to a registered pension scheme with employer contributing the same amount.
  4. His wife operates a shop which is registered in their joint names. She reported a profit of sh1200,000 for the year ending 31<sup>st</sup> Dec 2018 after deducting her annual salary 600,000 and rent of sh800,000.

**Required:**

- i. Determine the taxable income of Mr Barasa for the year ending 31<sup>st</sup> Dec 2018 **(12 marks)**
- ii. Tax payable if any on the above income **(5marks)**

## QUESTION TWO

- a) Discuss four ways which a company could avoid tax **(4marks)**
- b) Fanikiwa limited presented the following income statement as at 31<sup>st</sup> Dec 2018

Sales		64,000,000
Opening stock		6,000,000
Purchases		20,000,000
Less Closing stock		13,000,000
<b>Gross profit</b>		<b>52,000,000</b>
General expenses	6,000,000	
Raw materials consumed	18,000,000	
Salaries and wages	4,000,000	
Office expenses	7,600,000	
Directors fee	2,000,000	
Auditors fees	400,000	
Tax consultancy fee	80,000	
Depreciation	1,500,000	
Selling price	3,000,000	

Interest on borrowed loan	250,000	
Provision for taxation	1,600,000	
Preliminary expenses	540,000	
Proposed final dividends	1,300,000	
Legal fee	800,000	
Transfer to reserve account	2,200,000	<b>50,170,000</b>
<b>Net profit</b>		<b>1,830,000</b>

### Additional information

1. Preliminary expenses were incurred on 1<sup>st</sup> January 2016 and relate to company formation
2. Legal expenses include

Settling a dispute with a customer	120,000
Protection of the company's title deed	60,000
Cost for a breach of law	42,000
Cost of a income tax appeal	18,000
Registration of a trade mark	12,000
Cost of raising a loan	10,000

Interest charged on hire purchase agreement 24,000

### Required

- i. Adjusted taxable profit of loss for Fanikiwa limited for the year 31<sup>st</sup> Dec 2018  
**(10marks)**
- ii. Tax payable if any for the ending 31<sup>st</sup> Dec 2018 **(1mark)**

### QUESTION THREE

- a) Discuss five reasons why a tax payers evade taxes **(5 marks)**
- b) Biashara limited commenced operation on 1<sup>st</sup> January 2017 after incurring the following on assets.

Processing machinery	1,800,000
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Factory building	4,800,000
Trailer for tractor	400,000
Parking bay	800,000
Saloon car	2,400,000
Computer	900,000
Tractor	1,500,000
Furniture	460,000

During the year ending 31<sup>st</sup> Dec 2018 the following transaction took place

- The saloon car was disposed at sh 2000,000
- All assets in class II were disposed at sh900,000
- Laptops were purchased and carpet at sh300,000 and sh120,000 respectively
- Factory extension was constructed at cost of 1,500,000 and put on use on 1<sup>st</sup> oct 2018.

### Required

Capital allowance due to Biashara ltd for the years ending 31<sup>st</sup> December 2017 and 2018

**(10marks)**

### QUESTION FOUR

- Name interest incomes which are not taxable in Kenya **(5marks)**
- List five circumstance under which a tax payer might receive an additional assessment from revenue authority **(5marks)**
- Maridadi Traders ltd deals in variety of taxable and non- taxable supplies. During the month of December 2018,The company recorded the following transactions:

December 2: Purchased goods on credit from BB Ltd for ksh 150,000 at standard rate.

December 8: Received credit note from BB Ltd for ksh 30,000

December 10: Sold computer spare parts to the ministry of finance for ksh 200,000

December 18: Exported goods to for 80,000 to Malawi

December 21: Supplied standard rated goods for ksh 1380,000 to webu ltd on credit

December 22: Exempted supplies amounted to ksh 60,000

December 24: Paid electricity ksh 48,000

December 24: Paid water ksh 10,000

December 28: Paid ksh 80,000 for auditing services offered by Bepo certified public accountants.

December 30: Purchased goods at a standard rate for ksh 400,000

The above transactions were reported as exclusive of vat at the rate of 16% where applicable.

#### **Required:**

The vat account to show tax payable or refundable for the month of December 2018

**(5marks)**

### QUESTION FIVE

a) Name and explain the principles of good tax system as advocated by Adam Smith.

**(4marks)**

b) Kaka, Mambo and Korir are in partnership operating a hardware shop as Kamako Enterprises and share profits or losses equally. The following is the income statement of the partnership business for the year ending 31 December 2017.

#### Income

Gross profit	8,000,000	
Farming income	400,000	
Rental income	200,000	
Foreign exchange gain	123,000	
Discount received	36,000	<b>8,759,000</b>

#### Expenditures

Lorry 4 tonnes	2,800,000	
General exepese	2,000,000	
Legal fee	480,000	
Interest on loan	460,000	
Loss on sale of motor car	74,000	
Stamp duty	10,000	
Bad debts written off	56,000	
Mortgage interest	230,000	
Drawings by partners	640,000	
Photocopier purchased	42,000	
Salaries and wages	3,000,000	
Debt collection fee	7,200	
Vat paid	48,000	<b><u>(9,847,200)</u></b>
<b>Net loss reported</b>		<b><u>(1,088,200)</u></b>

#### Additional information

##### 1. General Expenses includes

Depreciation	240,000
Cash embezzled by cashier	560,000
Staff Christmas party	300,000
Pension for retired staffs	600,000
School fees partners children	240,000

##### 2. Interest on loan includes

Interest on partners' capital (equally paid)	300,000
Interest on a bank loan	60,000

##### 3. Drawing by partners were as follows

Kaka	200,000
Mambo	300,000
Korir	140,000

**4. Legal fee**

Parking fee	14,000
Drafting of tender document	86,000
Signing lease agreement 99years	40,000
Defending partner dispute	80,000
Defending partner of tax dispute	30,000

5. Mortgage interest relate to a partner residential home

6. Salaries and wages include partners as follows

Kaka	360,000
Mambo	240,000
Korir	500,000

7. Interest on drawings is to be calculated at the rate of 10% and distributed to partners equally.

**Required**

i. Adjusted taxable profit or loss of the partnership for the year ending 31<sup>st</sup> Dec 2017

**(8Marks)**

ii. A schedule showing the taxable income for each partner as at 31<sup>st</sup> Dec 2017 **(3Marks)**

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