

**HBC 2302 ADVANCED TAXATION**



**MURANG'A UNIVERSITY COLLEGE**

(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

**MAINCAMPUS**

**ORDINARY UNIVERSITY EXAMINATIONS**

**2015/2016 ACADEMIC YEAR**

**THIRD YEAR FIRST SEMESTER EXAMINATIONS**

**FOR THE DEGREE**

**OF**

**BACHELOR OF COMMERCE (ACCOUNTING)**

**COURSE CODE: HBA 2302**

**COURSE TITLE: ADVANCED TAXATION**

**DATE : 15<sup>TH</sup> DECEMBER, 2015**

**TIME: 2 HOURS**

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**INSTRUCTIONS TO CANDIDATES**

Question ONE (1) is compulsory  
Answer TWO (2) questions

MRUC observes ZERO tolerance to examination irregularities



## HBC 2302 ADVANCED TAXATION

### COMPULSORY QUESTION (30 MARKS)

#### QUESTION ONE

- (a) Discuss the emerging issues related to taxation in Kenya. (4 Marks)
- (b) State the costs that do **NOT** qualify for Industrial Building Deductions(IBD) (4 marks)
- (c) Discuss the farm-works capital Deductions that are treated as revenue Deductions in Kenya. (5mks)
- (d) Lishe Bora food processors ltd commenced a food processing business on January 2014, after incurring the following capital expenditures

<b>ASSET</b>	<b>Sh.</b>
Land	50,000,000
Industrial building	12,000,000
Security wall	1,500,000
Forklifts	8,000,000
Pick-ups(2tons)	3,200,000
Lorry	15,000,000
Computers	800,000
Boilers	950,000
Staff quarters	1,200,000
Furniture & Fittings	350,000
Milling machines	3,600,000
Warehouse	1,800,000
Scanners	620,000
Saloon Car	2,500,000

Additional information:

1. On July 1,2014 the company purchased the following additional assets:

<b>Assets</b>	<b>Cost Sh.</b>
Generator	680,000
Weighing machines	850,000
Computer desk	180,000
Sound silencers fitted to the Milling machines	780,000
Fax machines	250,000
Grading tractor	1,200,000

2. On Sept 1, 2014 a factory extension was constructed at a cost of sh. 4,000,000 which included administration offices costing sh. 1,000,000, a godown costing sh. 1,050,000 and a staff social hall costing sh. 900,000
3. During the year, the following assets were disposed off

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Assets	Disposal proceeds (sh.)
Computers	180,000
Fax machine	150,000
Furniture and fittings	200,000

4. A Pick –up which has cost khs.350,000 was traded in for a new one costing Kshs.1,800,000. The old pick-up was valued at 720,000 and the balance was paid in cash.

### Required

Capital allowances one to best manufacturers ltd for the years ended 31December 2013

(16 marks)

**(Total: 20marks)**

**(Total; 30mks)**

### QUESTION TWO

- a) Mention **four** goods that are subject to the excise duty. (4 marks)
- b) Discuss the tax benefits to an employee for being in a registered pension scheme. (4 marks)
- c) Mr. Osman who is a sole proprietor , has not been keeping proper records of accounts has prepared his capital statements for the years from 2009 up to 2014 both years being inclusive

Assets	2009 Sh	2010 Sh	2011 Sh	2012 Sh	2013 Sh	2014 Sh
Freehold Building	-	-	16m	16m	16m	16m
Personal Deposit Acc.	132,000	286,000	440,000	330,000	350,000	220,000
Business Current Acc.	332,000	338,000	200,000	270,000	450,000	168,000
Motor Vehicle	-	795,000	1.2m	1.2m	1.2m	1.2m
Furniture and Fittings	485,000	485,000	485,000	485,000	485,000	485,000
Stock -in – trade	-	210,500	213,000	220,000	226,000	230,000
Investment	310,000	320,000	320,000	320,000	-	-
Debtors	-	-	406,000	410,000	409,150	406,000

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<b>Liabilities</b>						
House Mortgage Bank	-	-	7.28 m	7.2m	7.11m	7.098m
Overdraft	-	-	568,000	-	-	-
Sundry creditors	610,000	640,000	660,000	680,000	640,000	620,000
<b>Other Details</b>						
Gain on Sale of a M.V			50,000			
Loss on sale of investment				64,000		
Interest on Bank Deposit	5,280	11,440	17,600	13,200	14,000	8,800
Living Expenses (Drawings)	180,000	211,000	233,000	248,000	269,000	304,500

**Required**

- (i) The income chargeable to tax for each year based on the above information (8 Marks)
- (ii) State any further information you would require to satisfy yourself and the income tax Department that the chargeable income you have calculated reflects a true and correct income of the taxpayer for each year (4 marks)

**(Total: 20 marks)**

**QUESTION THREE**

- a) State three conditions that must be fulfilled for a double taxation relief to be issued. (3mks)
- b) Define the term “Back duty” and indicate its importance. (3mks)
- c) Explain the tax advantages that are derived by an employee in a registered pension scheme. (4 marks)
- d) Mr. Korrir is a Kenyan resident who works in united Kingdom (UK) In the year 2014 his income in Kenya was shs.2,600,000 p.a his net income in UK was shs.500,000 (\$25,000). The tax deductible was Kshs.250,000 (\$12,500). Kenya has a double taxation relief treaty with UK

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**Required:**

- i). The double taxation relief in Kenya (4mks)
- ii). The tax payable by Mr.Korrir in Kenya (6mks)

**(Total:20marks)**

**QUESTION FOUR**

- (a) Describe the various capital deductions that are available to a Kenyan business person.(5mks)
  
- (b) HeshTegi ltd provided the following draft income statement for the year ended 31 December 2014

	<b>Sh</b>	<b>Sh</b>
Sales		5,800,000
Discount received		120,000
Profit sale of furniture		86,000
Provision for bad debts		14,000
Foreign exchange gain		126,000
Post office savings		<u>10,000</u>
		6,156,000
<b>Less:</b>		
Cost of sales	3,840,000	
Rent & rates	348,200	
Preliminary expenses	10,000	
Subscriptions	26,800	
Depreciation	184,000	
Legal fees	380,000	
Redundancy payments	484,000	
Purchase of computers	180,000	
Donations to a political party	140,000	
Professional fees	54,800	
Directors fees and expenses	15,000	
Interest on overdue legal fees	<u>5,000</u>	
		<u>5,667,800</u>
		<u><b>488,200</b></u>

**Additional information:**

**1. Legal fees include;**

<b>Legal expense</b>	<b>Sh.</b>
Stamp duty for a piece of land	72,000
Defending director against a corrupt charge	28,000
Audit fees	60,000
Income tax –appeal to a local committee	75,000

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2. Professional fees include sh.20,800 paid to a tax consultant
3. Subscription includes sh.18, 400 paid to a research organization. One of the directors of HeshTegi ltd also serves on the board of the research organization.
4. The Bad Debt received is for a debt that was written off as a result of a Trader being declared bankrupt.
5. Stock as at 31 December 2014 was stated at sh. 575,000 which included an over valuation of 15%
6. Rent and rates comprise:

City council rates	48,200
Conveyance fees for a piece of land	140,000
Insurance of motor vehicle	52,000
Accrued rent for year 2013	<u>108,000</u>
	<u><b>348,200</b></u>
7. Included under cost of sales is the input tax of sh. 142,800 and cost of computer software of sh.60,000.

### Required

- i. A statement of adjusted taxable profits or loss for HeshTegi ltd, for the year ended 31 December 2014 (11mks)
- ii. Tax payable (if any) by HeshTegi ltd for the year ended 31 December 2014 (4mks)

**(Total:20marks)**