

**HBC 2302 ADVANCED TAXATION**



**MURANG'A UNIVERSITY COLLEGE**

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

**MAINCAMPUS**

**SPECIAL/SUPPLEMENTARY UNIVERSITY EXAMINATIONS**

**2015/2016 ACADEMIC YEAR**

**THIRD YEAR FIRST SEMESTER EXAMINATIONS**

**FOR THE DEGREE**

**OF**

**BACHELOR OF COMMERCE**

**COURSE CODE: HBA 2302**

**COURSE TITLE: ADVANCED TAXATION**

**DATE : 30<sup>TH</sup> JUNE, 2016**

**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



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### COMPULSORY QUESTION (30 MARKS)

#### Question One

( a)(i) State **three** reasons why for a particular year of income, the accounting income may be different from the taxable income. (3mks)

[ii] Highlight **four** anti-dumping measures applied by your county on import of goods (4mks)

[iii] Outline **four** circumstances under which a person may apply for deregistration from V.A.T regulation in your county. (4mks)

(b) Describe any **five** capital deductions that are available to a Kenyan business person. (5mks)

(c) Saidia ltd provided the following draft income statement for the year ended 31 December 2013

	Sh	Sh
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
Less:		
Cost of sales	3,840,000	
Rent & rates	348,200	
Preliminary expenses	10,000	
Subscriptions	26,800	
Deprecation	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	<u>5,000</u>	
		<u>5,667,800</u>
		<b><u>488,200</u></b>

#### Additional information:

- |                               |        |
|-------------------------------|--------|
| 1. <b>Legal fees include;</b> | Sh.    |
| Stamp duty                    | 72,000 |

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Defending director against A corrupt charge	28,000
Audit fees	60,000
Income tax –appeal to a local committee	75,000

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 Saidia ltd also serves on the board of the research organization
4. Stock as at 31 December 2013 was stated at sh. 575,000 which included an over valuation of 15%
5. 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 2012	<u>108,000</u>
	<b><u>348,200</u></b>
6. 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 Saidia ltd, for the year ended 31 December 2013 (10marks)
  - ii. Tax payable (if any) by Saidia ltd for the year ended 31 December 2013 (4mks)
- (Total; 30mks)**

### Question Two

- a) State the costs that do **NOT** qualify for Industrial Building Deductions (IBD) (4 marks)
- b) Best manufacturers ltd commenced a manufacturing business on January 2013, after incurring the following capital expenditures

	Sh.
Industrial building	12,000,000
Security wall	1,500,000
Forklifts	8,000,000
Pick-ups(2tons)	3,200,000
Land	15,000,000
Computers	800,000
Boilers	950,000
Staff quarters	1,200,000
Furniture & Fittings	350,000
Milling machines	3,600,000

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Warehouse	1,800,000
Scanners	620,000

Additional information:

1. On July 1,2013 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
Graders	1,200,000

2. On Sept 1, 2013 a factory extension was constructed at a cost of sh. 4,000,000 which included administration offices costing sh. 1000,000, a warehouse costing sh. 1,050,000 and a staff social hall costing sh. 900,000
3. During the year, the following assets were disposed off

<b>Assets</b>	<b>Disposal proceeds (sh.)</b>
Computers	180,000
Fax machine	150000
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)**

### **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. Mugendi is a Kenyan resident who works in united Kingdom (UK) In the year 2013 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

### **Required:**

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- i). The double taxation relief in Kenya (4mks)  
ii). The tax payable by Mr.Mugendi in Kenya (6mks)  
**(Total:20marks)**

### Question Four

- (a) "The tax policy in a developing country must be different from those of a developed country." Citing **four** reasons elucidate this statement.(4 Marks)
- (b) The following is an extract from a recent working paper published by the International Monetary Fund (IMF) titled "Tax Policy for emerging markets".  
"Setting up an efficient and fair tax system is far from simple, particularly for developing countries that want to be integrated in the international economy .The ideal tax system in the countries should raise essential revenue without excessive government borrowing and should do so without discouraging economic activity and without deviating too much from the tax systems in other countries."

In the light of the above extract,

### Discuss;

- (i) The principles to be considered when introducing a new tax Policy for emerging markets. (5 Marks)
- (ii) The importance of harmonizing taxes in an integrated international economy. (2 Marks)
- (iii) **Four** challenges faced by developing countries in introducing and establishing efficient tax systems(4 Marks)

**(Total: 20 marks)**

### Question Four

- a) Explain any **Four**Offences that are recognized under the VAT (4 Marks)
- b) Mention **four** goods that are subject to the excise duty. (4 marks)
- c)Mention**Four** items that are liable to forfeiture under the customs duty (4 marks)

(d)Ushuru Ltd is registered for VAT. The company's accounts for the monthof April 2014 showed the following transactions.

Month	Purchases Sh.	Sales Sh.
January	4,470,000	5,960,500
February	5,091,200	6,320,250
March	3,490,600	2,950,000

