



# **MURANG'A UNIVERSITY OF TECHNOLOGY**

## **SCHOOL OF BUSINESS AND ECONOMICS**

### **DEPARTMENT OF COMMERCE**

#### **UNIVERSITY ORDINARY EXAMINATION**

**2017/2018 ACADEMIC YEAR**

**THIRD YEAR FIRST SEMESTER EXAMINATION FOR THE BACHELOR OF COMMERCE.**

**BCA 300 – PRINCIPLES OF TAXATION**

**DURATION: 2 HOURS**

**DATE: 13<sup>TH</sup> DECEMBER, 2017**

**TIME: 2.00- 4.00 P.M.**

#### **Instructions to Candidates:**

1. Answer **Question 1** and **Any Other Two** questions.
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.

## SECTION ONE - COMPULSORY

### QUESTION ONE

(a) During a tax seminar, a facilitator noted that “one the current challenges facing the revenue authority is failure to collect the targeted revenue set out in the mentioned budget”.

Summarize four measures undertaken by the revenue authority to enhance revenue collection in Kenya. (8 marks)

(b) Outline four circumstances under which Value Added tax could be refunded (8 marks)

(c) In the year 2016, Makatasi Ltd. started manufacturing paper products. The company had incurred the following capital expenditure prior to the commencement of the manufacturing business.

	<b>Shs</b>
Cost of Land	4,200,000
Factory building	6,200,000
Processing Machinery	2,250,000
Computers installed in Machines	240,000
Weighing Scale	160,000
Forklift	390,000
Elevators installed in factory building	1,200,000
Furniture	123,400
Plastic Tank	63,000
Fax machine	204,000
Printer	340,000
Mobile phones	100,000
Saloon car	2,360,000
Reconditioned boiler	300,000
Trailer	180,000
Tractor	492,250
Staff Canteen	390,000
Computer software	50,000

**Additional Information:**

- 1) Factory building includes cost of the following:
- |                |         |
|----------------|---------|
| Warehouse      | 280,000 |
| Rental shop    | 120,000 |
| Dwelling house | 154,000 |
| Office block   | 300,000 |
- 2) Borehole was sunk at a cost of Shs. 320,000 and a water pump was installed at a cost of Shs. 142,000
- 3) A power house was constructed at a cost of Shs 213,000 and a generator costing Shs. 230,000 installed.
- 4) An old structure within the compound constructed in 2010 at a cost of Shs. 900,000 and used as a store, was refurbished at a cost of Shs. 450,000 and installed there in with cooling machines for Shs 380,000 and a conveyor belt for Shs 200,000. The premises was in use as from October 1, 2016.

**Required.**

Capital allowances due to the company for the year ended December 31<sup>st</sup> 2016. (14 marks)

**SECTION TWO – ANSWER ANY TWO QUESTIONS**

**QUESTION TWO**

- (a) State four goods that are subject to the excise duty. (4 marks)
- (b) Highlight four circumstances under which the commissioner of domestic taxed may accept a late notice of objection. (4 marks)
- (c) Delight Ltd. provided the following draft income statement for the year ended December 31<sup>st</sup> 2016.

	<u>Shs.</u>	<u>Shs.</u>
Sales		5,800,000
Discount received		120,000
Profit from 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 and 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 political parties	140,000	
Professional fee	54,800	
Directors fees and expenses	15,000	
Interest on overdue tax	<u>5,000</u>	<u>(5,667,800)</u>
		<u><u>488,200</u></u>

**Additional information:**

- 1) Legal fees include:

	<b>Shs.</b>
Stamp duty	72,000
Defending director against corrupt charges	28,000
Audit fees	60,000
Income- tax appeal to a local committee	75,000
- 2) Professional fees include Shs. 20,800 paid to a tax consultant.
- 3) Subscription includes Shs 18,400 paid to a research organization. One of the Directors of Delight Ltd. also serves on the board of the research organization.
- 4) Stock as at December 31 2016 was stated at Shs.575,000 which included an overvaluation of 15%
- 5) Rent and rates comprises:

	<b>Shs.</b>
City council rates	48,200
Conveyance fees for a piece of land	140,000
Insurance of motor vehicle	52,000

Accrued rent for year 2015	<u>108,000</u>
	<u>348,200</u>

- 6) Included under the cost of sale is the input tax of Shs. 142,800 and cost of computer software of Shs 60,000.

**Required.**

- (i) A statement of adjusted taxable profit or loss for Delight Ltd. for the year ended December 2016. (10 marks)
- (ii) Tax payable (if any) by Delight Ltd for the year ended December 31, 2016. (2 marks)

**QUESTION THREE.**

- (a) Explain four costs that do not qualify for industrial building deductions. (4 marks)
- (b) Outline three conditions that must be fulfilled for a double taxation relief to be issued. (3 marks)
- (c) Mention four items that are liable to forfeiture under the customs duty. (4 marks)
- (d) Mr. Oluoch is a Kenyan resident who works in United Kingdom (UK). In the year 2016 his income in Kenya was Shs. 2,650,000 p.a. His net income in UK was Shs. 500,000 (\$25,000). The tax deductible in UK was Kshs. 250,000 (\$12,500). Kenya has a double taxation relief treaty with UK government.

**Required**

- i. The double taxation relief in Kenya. (4 marks)
- ii. The tax payable by Oluoch in Kenya. (5 marks)

**QUESTION FOUR**

- (a) Discuss the Farm-works capital deductions that are treated as revenue deductions. (4 marks)
- (b) Explain five civil works or structures on the premises of an industrial building considered as part of the building for tax purposes. (5marks)
- (c) Mrs. Nzimbo who is a sole proprietor of NZO enterprises who has not been keeping records of accounts, has prepared his capital statements for the years 2011 upto 2016 both years being inclusive.

<b>Assets</b>	<b>2011 Sh.</b>	<b>2012 Sh.</b>	<b>2013 Sh.</b>	<b>2014 Sh.</b>	<b>2015 Sh.</b>	<b>2016 Sh.</b>
Freehold building	-	-	16M	16M	16M	16M
Personal Deposit Acc.	132,000	286,000	440,000	330,000	350,000	220,000
Business Current A/c	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 & Fittings	485,000	485,000	485,000	485,000	485,000	485,000
Stock- in-Trade	-	210,500	213,500	220,000	226,000	230,000
Investment	310,000	320,000	320,000	320,000	-	-
Debtors	-	-	406,000	410,000	409,150	406,000
Liabilities House Mortgage	-	-	7.28M	7.20M	7.11M	7.098M
Bank overdraft	-	-	568,000	-	-	-
Sundry creditors	610,000	640,000	660,000	680,000	640,000	620,000
Other Details Gain on sale 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
Expenses (Drawing)	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. (7 marks)
- ii. State any further information you would require to satisfy yourself and the income tax department that the chargeable income you calculated reflects a true and correct income of the taxpayer for each year. (4 marks)