



MURANGA UNIVERSITY COLLEGE

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

MAIN CAMPUS

MAIN EXAMINATION UNIVERSITY EXAMINATIONS

2015/2016 ACADEMIC YEAR

FIRST YEAR SEMESTER ONE EXAMINATIONS

FOR THE DIPLOMA IN CO-OPERATIVE MANAGEMENT

COURSE CODE: BS1111

COURSE TITLE: TAXATION

DATE: 11TH DECEMBER, 2015

TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

- 1) Question **one** is compulsory
- 2) Attempt any other **two** questions

SECTION A:

QUESTION ONE:

- a) ABC Ltd had a closing balance of the dividend tax account for the year 2008 of Sh. 500,000. During the year 2009, the company paid tax of Sh. 200,000. It distributed dividend of Sh. 5,000,000 and received dividends of Sh. 2,000,000.

Required:

Compute the compensating tax payable (if any) for the year 2009. (6 marks)

- b) Miss Bosibori deposited **Sh. 4 million** with **Barclays Bank** for a period from 1st April 2004 to 31st March 2005 at an interest rate of 25% p.a.

Required:

Compute Interest taxable for years 2004 and 2005 (7marks)

- c) Discuss the issue of allowable rent-expenses exhaustively? (10 marks)
- d) How do benefits after employment result, give the scenario and explain? (7marks)

SECTION B:

QUESTION TWO:

With reference to the Income Tax Act (Cap 470), explain the tax treatment of the following incomes received by a company:

- (i) Dividend (4 marks)
- (ii) Interest (2 marks)
- (iii) Rent (2 marks)

- b) The management of Mali Limited has presented the following income statement for the year ended 31 December 2007:

Mali Limited

Income Statement for the Year ended 31 December 2007

Gross profit 5,292,000

Other incomes:

Dividend from a subsidiary company 200,000

Interest from foreign bank accounts 4,000

Discount received 28,000

Refund of VAT 12,000

Gain on sale of motor vehicle 14,000 258,000

5,550,000

Expenditure:

Salaries and wages 800,000

NHIF contribution 30,000

Subscription to a trade association 50,000

Hire purchase interest 15,000

Bad debts written off 60,000

General expenses 80,000

Depreciation 25,000

Legal expenses 40,000

Insurance premiums 124,000

Rent 66,000

Electricity 34,000

Purchase of furniture 26,000 (1,350,000)

4,200,000

Additional information:

1. Capital allowances were agreed with the Revenue Authority at Sh.75,000
2. Included in bad debts is a loan of Sh.15,000 due from a former employee of the company who was dismissed in October 2007.
3. Legal expenses include Sh.20,000 incurred in defending a manager against a traffic offence.
4. Insurance premiums include Sh.24,000 paid to the National Hospital Insurance Fund (NHIF) as a penalty for late submission of contribution.
5. The company paid stamp duty of Sh.6,000 relating to a piece of land purchased in August 2007. This payment is included in the rent expense for the year ended 31 December 2007.

Required:

- (i) Compute the adjusted taxable profit or loss of Mali Limited for the year ended 31st December 2007. (10 marks)

QUESTION THREE:

Mr Jackson Tele manufactures animal feeds at Thika with effect from 1.1.2005. He constructed the factory building at a cost of Sh 800,000 and installed machinery costing Sh 500,000. He prepares accounts to 31 December each year.

Required

- a) Calculate the investment deduction for 2005 (10 Marks)
- b) MrMetameta who prepares his accounts to 31 December every year constructed a soap factory and related buildings in Industrial area Thika and used them with effect from 1.1.2005 at a cost of Sh 1 million (factory, including land Sh 400,000), canteen for workers Sh 80,000, showroom Sh 20,000, office Sh 44,800, stone wall round the factory Sh 100,000, and gate Sh 30,000. He installed factory plant and machinery costing Sh 800,000.

Mr Metameta constructed a store at a cost of Sh 120,000 and labour quarters at a cost of Sh 100,000 and used them with effect from 1.7.2005.

Required

Calculate the capital deductions in each case. (10 marks)

QUESTION FOUR:

- a) What is the role of KRA in the Kenyan economy? (10 marks)
- b) Mr. Mosota was involved in the business of fish trading. His turnover in 2008 year of income was Sh.600, 000. He has come to you for advice regarding:
- (a) Whether he should register for TOT.
- (b) The amount of TOT payable./