



KABARAK

UNIVERSITY

**UNIVERSITY EXAMINATIONS
2010/2011 ACADEMIC YEAR**

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: ACCT 322

COURSE TITLE: TAXATION 11

STREAM: Y3S2

DAY: WEDNESDAY

TIME: 2.00 – 4.00 P.M

DATE: 15/12/2010

INSTRUCTIONS:

- Answer question 1 and 2 and either 3 or 4
- Show all your workings.
- Use the taxation rates provided in this examination.
- Give precise and concise answers.

PLEASE TURNOVER

QUESTION ONE

Mr. Unga, Mr. Safi and Mr. Ngano are partners trading under the name Nganosafe Enterprises. They share profits and losses in the ration of 4.3.3. Given below is the profit and loss Account of the partnership as at 31st December 2008.

Salaries and wages	280,000		Gross profit	2,300,000
Rent and rates	150,000		Miscellaneous receipts	150,000
Office expenses	204,000		Discounts	80,000
Printing and stationery	64,000		Rent from property	132,000
Installment Tax paid	45,000		Profit on sale of shares	100,000
Advertising	73,000		Interest on deposits	120,000
Interest on capital:				
Unga	60,000			
Safi	70,000			
Gano	80,000			
Legal charges	82,000			
Commission to partners:				
Unga	45,000			
Ngano	35,000			
Depreciation	92,000			
Bad debts	68,000			
General expenses	99,000			
Donation to famine relief	100,000			
General reserve	120,000			
Local on property	12,000			
Electricity	46,000			
Showroom expenses	117,000			
Net profit	<u>1,040,000</u>			
	<u>2,882,000</u>			<u>2,882,000</u>

The partners have provided the following information in support of the accounts:

1. It has been the practice to value the stock at the cost price, however, the closing stock (at 31:12:2008 –sh. 180,000) has been valued at market price which is less by 10% of its cost price.
2. Salaries and wages include ‘salaries’ amounting to sh. 40,000 paid to safi.
3. Advertising includes sh. 10,000 spent on advertising campaign to introduce a new product in the market.
4. legal charges include a sum of sh. 12,000 paid as a fine and penalty
5. Capital allowances have been agreed with the commissioner of income Tax at sh. 90,000
6. Mr. Unga’s other income includes sh. 120,000 from rent. He has brought forward business loss of Sh. 135,000 from the assessment of the year of income 2007 of the partnership.
7. Mr. Safi has got no other income
8. Mr. Ngano has income of sh. 200,000 from bet winnings. He has brought forward business loss of sh. 135,000 from assessment of the year of income for 2007 partnership.

Required:

- a) Compute the total taxable income from the partnership business (16 marks)
- b) Allocate the profit amongst partners (3 marks)
- c) Calculate the taxable income of each partner for the year of income 2008. (6 marks)

(Total: 25 marks)

QUESTION TWO

The following information relates to MU limited for the year ended 30 June 2009.

	Shs
Net profit before taxation	50,000

The following items were included in the profit and loss account.

Income	Sh
Dividends received from L ltd a public quoted company	225,000

Dividends received from M ltd, a private company where MU Limited holds 30% of the equity	100,000
Bank Interest received	225,000
Interest on tax reserve certificate	60,000
Rent	180,000
Expenditure :	Sh
Depreciation	108,000
Interest on loan to purchases shares in ltd	360,000
Structural alterations to let property	90,000
Annual subscription to trade association	4,000
Advertising	16,000
Interest on mortgage on let property	160,000
Provision for bad debts	128,000

Notes:

- i) Structural alterations were necessary to maintain the existing rent.
- ii) The trade association to which the annual subscriptions were paid has not made an election under section 21 (2) of the income Tax Act.
- iii) Advertising was in respect of a new product introduced into the market.
- iv) The provision for doubtful debts represents the cost of increasing the total provision to 20% on total debtors after having written off and debts amounting to Ksh. 64,000 during the year
- v) Capital deductions for the year amounted to Shs. 80,000

Required;

- a) Calculate the adjusted profit and show total amount chargeable to tax for the year of income 2009 and the tax payable thereon. (18 marks)
- b) State the date(s) tax would be payable. (2 marks)
- c) Explain the tax benefits of an incorporated business (5 marks)

(Total: 25 marks)

QUESTION THREE

- (a) Explain the accounting procedures for Value Added Tax (VAT) especially in-put and out-put tax an appropriate example. **(8 marks)**
- (b) Discuss the benefits and shortcomings of Value Added Tax system in Kenya **(12 marks)**

(Total: 20 marks)

QUESTION FOUR

Discuss the various capital allowances given to investors to investors in Kenya and show the reasons government allows these allowances. **(20 marks)**