KABARAK UNIVERSITY

EXAMINATIONS

2008/2009 ACADEMIC YEAR

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: **ACCT 324**

COURSE TITLE: **TAXATION II**

STREAM: **Y3S2**

DAY: **THURSDAY**

TIME: **9.00 – 11.00 A.M.**

DATE: **26/03/2009**

INSTRUCTIONS:

- Attempt **ALL** questions

PLEASE TURN OVER

QUESTION ONE

a) Highlight circumstances under which duty paid on imports can be refunded. (4mks)

b) Explain four incentives that can be given by the government to encourage the growth of capital markets in Kenya. (6mks)

c) Enumerate seven category of goods subject to customs control under section 12 of customs and excise act. (7mks)

d) List the three requirements of application for bad debt refund of VAT. (3mks)

QUESTION TWO

a) Mhasibu SACCO had the following income for the year 2008.

Incomes:	
Interest on savings A/C	29,200
Interest on fixed Deposit A/C	38,800
Interest from loan to members	970,000
Rental income	400,000
Other investment income	16,000
	1,544,000
Less: Expenditure as per A/C	(214,000)
Surplus	1,330,000

Required:

a) Calculate the total taxable income and tax payable by the society for the year 2008. (7mks)

b) Comment on any information not used in the computation of the taxable income above. (3mks)

c) The following details relates to ABC Co. Ltd for the year 2007.

i) Operating income before tax was Shs. 2,000,000.

ii) Investment income was shs 400,000

iii) Dividend declared was shs. 200,000

iv) Corporate tax rate is 30%

Required:

Shortfall dividend and shortfall tax payable by the company. (5mks)

QUESTION THREE

a) Limo Ltd. Prepares its accounts to 31st December each year. The P & L A/C for the year 2007 was as follows:

Gross Profit		856,000
Expenses:		
General expenses	78,000	
Interest expenses	122,000	
Donations	16,500	
Repairs (A/C revenue)	86,500	
Directors fees	145,500	
Dividends	90,000	
Transferred to reserve	107,500	
Depreciation	210,000	

On 1st January 2007, Limo purchased it's current factory from KIP Ltd, a registered contractor for Ksh. 25,000,000. KIP Ltd provided details to Limo Ltd as regards the construction A/C as follows:

Acquisition of Land	300,000
Old building demolished to Put up the new factory	900,000
Labour quarters built in site	3,000,000
Factory building	9,300,000
Stone wall around the building	1,500,000
Interest during construction	1,200,000
	16,200,000

The factory building housed executive offices worth Shs. 2,400,000 and paid materials stores and finished goods store worth Shs. 900,000. Limo Ltd installed new machinery worth 16,500,000 by end January 2007 and started manufacturing detergents.

Required:

a) Capital allowances available to Limo Ltd (3mks)

b) Compute these capital allowances (12mks)

b) Mediner Ltd deals in a variety of goods. In the month of September 2008, the company recorded the following transactions (Exclusive of VAT)

	Ksh '000'
Wages and salaries	4,200
Audit fees paid	700
Provision for doubtful debts	400
Telephone and electricity bills	500
Export of goods	10,000
Sales at standard rate	45,000
Exempt sales	20,000
Purchases at standard rate	25,000
Purchases at zero rate	10,000
Sale of a motor vehicle	1,200

20% of the standard rate purchases were sold as standard rate sales.

Required:

Compute the input VAT deductible against output using the allocative method. (8mks)

QUESTION FOUR

a) Explain how section 19 (i) of the VAT Act, on recovery of tax due and payable from a person who owes money to the tax payer may be enforced by the commissioner. (6mks)

b) Meka Ltd import goods vatable at standard rate and transports them to it's factory in Mazeras where they are converted into finished goods for sale in the local market. The cost of conversion is 25% of the total cost incurred in bringing the goods to Mazeras. The company then charges a profit margin of 40%. During the month of March 2008, the firm imported goods worth Ksh 2,000,000 and paid import duty at 20%. It then incurred a further 10% as transport cost to Mazeras. The goods were all converted and sold in May 2008. The above costs are exclusive of VAT.

Required:

Compute the VAT payable by Meka Ltd. (6mks)