

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: 23/03/2011

INSTRUCTIONS:

1. Answer all questions in **section A** and one question in **Section B.**
2. Answers should be very precise and concise
3. Marks are shown at the end of the question.

PLEASE TURNOVER

SECTION A

QUESTION ONE

Miller Ltd is a manufacturing company located in Nairobi industrial area. The following profit and loss account was prepared from its books for year 31st December 2009.

	Notes	Sh.
Gross profit		1,864,000
Investment income	[1]	284,636
Profit on sale of shares		<u>216,324</u>
		<u>2,364,960</u>
Directors remuneration	[2]	1,020,000
Interest	[3]	273,600
Audit fees and expenses	[4]	216,000
Bad debts	[5]	158,400
Depreciation		344,760
Miscellaneous expenses	[6]	133,600
Net profit		<u>218,600</u>
		<u>2,364,960</u>

Notes:

1. Investment income:	sh.
Dividends from Kenya Commercial Bank [Net]	72,000
Interest on fixed deposit account –NBK [Net]	58,760
Interest on treasury bills	93,876
Dividends from subsidiary company	<u>60,000</u>
	<u>284,636</u>
2. Directors remuneration	sh
Directors fees	240,000
Travelling expenses –directors	400,000
Payment to pension scheme	160,000
Ex- director’s compensation for wrongful Termination of contract	<u>220,000</u>
	<u>1,020,000</u>
3. Interest expenses:	sh
Interest on bank overdraft	151,200
Interest on loan from a foreign bank	50,400
Interest on loan to purchase investment shares	<u>72,000</u>
	<u>273,600</u>

4. Audit fees and expenses:	sh
Audit fees	68,000
Tax appeal against assessment	32,000
Book –keeping fees	48,000
Audit expense paid in relation to a discontinued Business line	<u>68,000</u>
	<u>216,000</u>
5. Bad depts:	sh
Embezzlement by accountant	21,600
Received from insurance	(12,000)
Bad depts written off	28,800
General provision	<u>120,000</u>
	<u>158,400</u>
6. Miscellaneous expenses:	sh
Acquisition of 100 years lease on business premises	28,000
Directors Christmas party	24,000
Kenya National Chambers of Commerce Subscription	30,000
ASK show contributions	10,000
Thomas Barnado’s Home contributions	<u>41,600</u>
	<u>133,600</u>

Required:

The profit chargeable to tax for year of income 2009, the tax payable thereon and the dates the tax is due. **(Total: 25 marks)**

QUESTION TWO

Ambala and Basanyo have been trading in partnership sharing profits and losses in the proportion of three fifths and two-fifths. They have prepared the accounts for the year of income 2009 as follows:

	Sh
Interest on Capital Ambala	20,000
Interest on Capital Basanyo	10,000
Goodwill written off	4,000
Bad debts	20,000
Audit, insurance & legal expenses	20,000
Motor vehicle expenses	30,000
Depreciation	60,000
Special expenses	8,000
Withholding tax on dividends	3,000
Partnership salaries (Basanyo)	60,000
Loss on sale of investments	10,000
Repairs and renewals	6,000
Salaries and wages	100,000
Light, Water and Electricity	20,000
Net profit	<u>32,000</u>
	<u>403,000</u>
Gross profit from trading	380,000
Dividend received (net)	17,000
Sub-letting rent income	<u>6,000</u>
	<u>403,000</u>

NOTES:

(i) Bad Debts:

The bad debts account is as follows:	Shs	Shs
Bad debts written off		10,000
Provisions carried down:		
General	80,000	
Specific	22,000	<u>102,000</u>
		<u>112,000</u>
Balances b/d	Sh	Sh
General	60,000	
Specific	<u>30,000</u>	90,000
P&L Account		20,000
Debts recovered		<u>2,000</u>
		<u>112,000</u>

(ii) Audit, insurance and legal:

	Sh.
Audit expenses	10,000
Partner's insurance	2,000
Legal fees- Debt Collection	500
Legal fees for making partnership deed	<u>7,500</u>
	<u>20,000</u>

(iii) Special Expenses:

	Sh.
Penalty for breach of sales tax regulations	4,000
Redundancy pay to employee	3,000
Christmas gifts to partner's wives	<u>1,000</u>
	<u>8,000</u>

(iv) Withholding tax on dividend:

Dividends were received net of tax.

(v) Loss on Sale of Investments:

The shares in a quoted company were disposed of by sale during the year. They had cost Shs. 60,000 and were disposed of for Sh. 50,000. There were no other incidental expenses.

(vi) Repairs and renewals:	Sh.
Office partitions	2,000
Office carpet	1,500
Replacement of adding machine	1,000
General repairs	<u>1,500</u>
	<u>6,000</u>

(vii) Wear and tear schedule:	Class III	Class IV
	Sh.	Sh
Written down value	90,000	56,000

One-third of the motor vehicle expenses is used on private motoring by partners.

Required:

Calculate the adjusted profit for tax purposes and show taxable income for each partner

(Total: 25 marks)

SECTION B

QUESTION THREE

- (a) Explain the reasons for giving capital allowances to investors **(5 marks)**
- (b) Discuss any five capital allowances available to investors in Kenya and indicate the circumstances in which they may be denied **(15 marks)**

(Total: 20 marks)

QUESTION FOUR

- (a) Explain the importance of double taxation agreements **(6 marks)**
- (b) Discuss the rights and obligations of taxpayers under value added tax (VAT) regulations

(14 marks)

(Total: 20 marks)