

**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: FRIDAY**

**TIME: 11.00-1.00 P.M.**

**DATE: 19/12/2008**

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**INSTRUCTIONS:**

**Attempt Question ONE and any other TWO questions.**

**PLEASE TURN OVER**

### QUESTION ONE

- a) State the key provisions of section 19 of the Income Tax Act relating to the taxation of Savings and Credit Co-operative societies (SACCOs) (5 Marks)
- b) Nyeri Teachers SACCO Ltd. Reported the following incomes and expenditure for the year ended 31<sup>st</sup> December 2007.

<b>Income</b>	<b>KSH</b>
Interest of loan to members	1,500,000
Interest on savings accounts	30,000
Interest on fixed deposit accounts	100,000
Other investment income	12,000
Rental income	600,000
Total income	<b>2,242,000</b>
<b>Expenditure</b>	
Administration expenses	300,000
Surplus	<b>1,942,000</b>

#### Required

The taxable profit of Nyeri Teachers SACCO Ltd for the year ended 31<sup>st</sup> December 2007.

(5 Marks)

- c) Section 24(1) of the Income Tax Act requires companies to adequately distribute their profits as dividend within twelve months after the end of the accounting period. Outline the circumstances under which a company may apply for exemption from the shortfall distribution requirements. (6 Marks)
- d) The following information relates to Vumilia Ltd. For the year ended 31<sup>st</sup> December 2007:

- i. The company operating profit before tax amounted to Ksh. 2,000,000 excluding Ksh. 400,000 from investment activities.
- ii. The company intends to distribute Ksh. 200,000 as dividend for the year ended 31<sup>st</sup> December 2007
- iii. The corporation tax rate is 30%

**Required**

Compute the shortfall tax payable by Vumilia ltd. For the year ended 31<sup>st</sup> December 2007. **(6 Marks)**

- e) A bond is commitment to honour certain terms and conditions and to fulfill obligations relating to an agreement. Explain four types of bond under the Customs and Excise Regulations. **(8 Marks)**

**QUESTION TWO**

- a) With reference VAT Act, write short notes on the following concepts:
  - i. Exempt supplies
  - ii. Zero rated supplies
  - iii. VAT Registration

(6marks)
- b) The management of Hekima Ltd has presented the following information relating to the company’s sales and purchases for the half year ended 30 June 2007:

Month	purchases Shs	sales Shs
January	1,800,000	1,600,000
February	840,000	1,860,000
March	Nil	470,000
April	680,000	Nil
May	1,000,000	1,200,000
June	1,500,000	2,400,000

Additional information

- 1. Under declared VAT as at 1 January 2007 amounted to Shs 25,000.
- 2. The company issued debit notes amounting to 50,000 in the month of February 2007, and received credit notes amounting to Shs 76,000 in the month of May 2007. These debit and credit notes related to vatable supplies at the standard rate.

3. One of the customers who had purchased supplies worth Shs 120,000 in May 2007 at the standard rate was declared bankrupt on 15 June 2007.
4. The above transactions are exclusive of VAT.

Required:

Prepare a VAT account for the six months period ended 30 June 2007 showing the net VAT payable or refundable. (Use a standard VAT rate of 16%). (14 marks)

### QUESTION THREE

- a) State and briefly explain five types tax returns as per the income Tax Act (cap 470) (10 marks)
- b) Discuss five ant-dumping measures imposed by the government (10 marks).

### QUESTION FOUR

- a) Kenya Yetu Ltd. Paid and received the following taxes and dividends in the year 2007.
  - January 2007: paid additional tax for the year 2005 of Ksh.900, 000
  - February 2007: Received dividends of Ksh.3, 000,000 in respect to the year 2005 from the subsidiary.
  - March 2007: Received the tax refund of Ksh.2.5 M for the year 2001.
  - April 2007: Paid the first installment tax of Ksh.2.2 M and the final tax for the year 2006 of Ksh.800, 000.
  - May 2007: Paid out dividend for the year of income 2006 of Ksh.10, 000,000 and also received a tax refund of Ksh.3.2 M in respect of the years 2004 and 2005.
  - June 2007: Paid out the second installment tax of Ksh.2.2 M and received dividend of Ksh.2.8 M for the year 2005 and also paid additional tax of 1.6 M in respect of the year 2004.
  - December 2007: Paid third and fourth installment tax of 4.4 m. He also paid out dividend of Ksh.1.3 M.

**Required:**

Prepare a dividend tax account and show any compensating tax payable (10 mks)

(B) Explain the circumstances under which import duty may be refunded. (10 marks).

## QUESTION FIVE

- a) Viatu Ltd commenced operations on 2<sup>nd</sup> January 2003 as a manufacturer of leather shoes, the company acquired and constructed the following assets before commencing operations:

<b>Asset</b>	<b>Cost (Shs)</b>
Land	2,000,000
Construction of factory building	5,800,000
Processing machinery	1,940,000
2 Lorries (4 tonnes each)	2,400,000
Computers	600,000
Motor vehicle (station wagon)	1,750,000
Conveyor belts	120,000
Loose tools	30,000
Tractor	900,000

### Additional information

1. The cost of constructing the factory building includes Shs 600,000 spent on the construction of administration offices.
2. The following assets were purchased and utilised by the company with effect from 1 July 2003:

<b>Assets</b>	<b>Cost</b>
Fax machines	90,000
Trailer for the tractor	200,000
Pickup van	1,200,000

3. On 1 July, 2004, the company constructed a factory extension at a cost of Shs 2,000,000. Processing machinery costing Shs 640,000 was purchased and installed in the factory extension on the same date.
4. The motor vehicle purchased on 2<sup>nd</sup> January 2003 was involved in an accident on 1 September 2004. The company received Shs 600,000 as insurance compensation for the vehicle.
5. the following costs incurred on 1 September 2004:

	<b>Shs</b>
Sinking of a borehole	600,000
Construction of a parking bay	560,000
Construction of a sewerage system	700,000

Required:

Compute the capital allowances due to Viatu Ltd. for each of the two years ended 31 December 2003 and 2004.

**(Total: 20marks)**