



MERU UNIVERSITY COLLEGE OF SCIENCE & TECHNOLOGY

P.O. Box 972-60200 Meru - Kenya. Tel: 020-2092048, 020 2069349
Fax: 020-8027449

University Examinations 2011/2012

THIRD YEAR, FIRST SEMESTER EXAMINATIONS FOR THE DEGREE OF
BACHELOR OF COMMERCE

HBC 2216: ADVANCED TAXATION

DATE: APRIL 2012

TIME: 2 HOURS

INSTRUCTIONS: Answer questions *one* and any other *two* questions

QUESTION ONE (30 MARKS)

- a. Discuss the term back duty as used in the income tax Act (3 Marks)
- b. Explain tax arrears and how they arise (4 Marks)
- c. Tax is imposed on the gains or profits from any employment or service rendered. D.S TRIVED V^S C.I.T. In the light of the above statement, explain the tax benefits arising out of the following, referring to possible cases to support your argument
 - i. Gifts by employer to employee (4 Marks)
 - ii. Tips from the customers derived (2 Marks)
 - iii. Awards from employer for best personal performance/ achievement (4 Marks)
- d. Discuss the concept of mutuality in general law (3 Marks)
- e. Kamongo is savings and credit society and has the following income statement for the year 2010.

Kamongo income statement 2010

	<u>Sh.(000)</u>
Interest from loan to members	500,000
Rental income	250,000
Investment dividends	10,000
Interest savings	20,000
Fixed deposit	<u>30,000</u>

	870,000
Less expenses	<u>200,000</u>
	<u>610,000</u>

Compute total taxable income for 2010 citing the provisions for such incomes (10 Marks)

QUESTION TWO (20 MARKS)

- a. The income tax act imposes stiff penalties in order to discourage tax evasion. However the rate of compliance is still very low. What alternative measures has the government taken to improve compliance? (10 Marks)
- b. Explain income tax provisions on taxation of petroleum companies (6 Marks)
- c. Discuss the terms:
 - i. Petroleum company (2 Marks)
 - ii. Petroleum operation (2 Marks)

QUESTION THREE (20 MARKS)

- a. The profit and loss account of Ratari a trader, shows the following for the year ended 31.2.2008

	Sh.	Sh.
Sales		200,000
<u>Less cost of sales:</u>		
Opening stock	30,000	
Add purchases	<u>60,000</u>	
	90,000	
Less closing stock	<u>40,000</u>	<u>50,000</u>
Gross profit		150,000
<u>Other incomes:</u>		
Post office savings bank		
Interest	20,000	
Tax reserve certificate interest	4,000	
Barclays bank interest	2,000	
Sweepstake winning	6,000	<u>20,000</u>
		180,000
Less expenses sundry expenses:		<u>90,000</u>
Net profit		<u>90,000</u>

The following information is also available:

1. The sundry expenses in the profit and loss output includes:
 - i. Cost of bicycle used in the shop bought in may for sh. 4,000
 - ii. Subscription of sh. 2,000 to Matumbo welfare association of which he is a member
 - iii. Depreciation of assets sh.3,200

2. Tear and wear deducted of sh. 2,000 has been agreed with domestic tax department

Required:

Compute the taxable income for the year ended 31.12/2009

- b. What are the attributes of any tax planning (20 Marks)

QUESTION FOUR (20 MARKS)

Rai ,Sai and Tai former school mates who are doing business together. The business is not registered but they regard themselves as equals in it. They keep proper books of account and have been able to provide the following profit and loss account for the year ended 31 December 2005.

<u>Profit and loss account</u>			
	<u>Sh.</u>		<u>Sh.</u>
Establishment expenses	800,000	gross profit	1,908,000
Rent of business premises		sundry receipts	80,000
Owned by all of them jointly	180,000	interests income	72,000
Interest expenses	80,000	profit on sale f shares	200,000
Stationery and printing	120,000	gross income from farming	
	340,000		
Lighting and heating	40,000	lottery winnings	800,000
General farm expenses	294,000	dividend (gross)	120,000
Repair of premises	40,000		
Depreciation	300,000		
Interest on partner's capital			
Rai	80,000		
Tai	120,000		
Salary to Sai	160,000		
Commission to partners:			
Rai	96,000		
Sai	96,000		

Tai	96,000	
Bad debt	240,000	
Gift, present and charity	40,000	
Donation to child welfare	200,000	
Interest on loan taken to pay		
Income tax	20,000	
Legal charges	120,000	
Net profit	<u>398,000</u>	_____
	<u>3,520,000</u>	<u>3,520,000</u>

Additional information:

1. Capital allowances have been agreed as follows: wear and tear allowance sh. 80,000
farm works deduction sh. 120,000
2. The partners had borrowed sh. 400,000 with a hope of investing it on fixed securities to earn more income. Interest rates nevertheless declined. Interest expense of sh.72,000 relate to this loan.
3. Legal charges include sh. 40,000 paid to finish a case in the customs department.
4. In 2005, the partners brought forward losses amounting to sh.800,00 from this business.

Required:

- a. Computed taxable income derived from the partnership (12 Marks)
- b. Show allocation among partners (8 Marks)

Prescribed rates

Annual rates sh.(000)

a. Saloon, Hatchbacks and estates.	43,200
1201 – 1500cc	50,400
1501 -1750cc	69,600
1751 – 2000cc	86,400
2001 – 3000cc	103,200
Over – 3000cc	172,800

On 2% of the cost incurred to acquire the car.

- b. Capital allowances
 - Wear and tear
 - Class I 37.5%
 - Class II 30%
 - Class III 25%
 - Class IV 12.5%
- c. Industrial buildings 2.5%

Rate: 2008/2009

Annual income (ksh)	tax rate
On the first 121,968	10%
On the next 114,912	15%
On the next 114, 912	20%
On the next 114, 912	25%
An all income over 466,704	30%

