

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

END OF SEMESTER EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF AGRIBUSINESS MANAGEMENT AND AGRICULTURAL ECONOMICS.

AGBM 415: BUSINESS TAXATION

STREAMS: AGBM Y4S2

TIME: 2 HOURS

DAY/DATE: MONDAY 11/07/2016

2.30 P.M. – 4.30 P.M.

INSTRUCTIONS:

ANSWER QUESTION ONE AND ANY OTHER TWO.

- Q1. (a) Critically evaluate the theories of taxation. (9 marks)
- (b) Chuka merchants is a sole proprietorship that deals with household agricultural goods. The following details were extracted from the books of the firm for the year ended 31st December 2015.

Receipts and payments account

Balance b/d	121,000	Payment to trade creditors	1,105,000
Cash sales	2,500,000	Water expenses	54,500
Debtors	195,000	Postage	18,000
		Rent	100,000
		Promotion expenses	71,500
		Insurance expenses	47,000
		Motor vehicle expenses	106,000
		Fixtures and fittings	127,500
		Drawings by owner	800,000
		Balance c/d	386,000
	<u>2,816,000</u>		<u>2,816,000</u>
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Additional information:

1. The following balances were also obtained from business records.

	<u>1 January 2015</u>	<u>31st December 2015</u>
Trade creditors	79,500	122,000
Trade debtors	130,000	200,000
Shop fixtures	210,000	250,000
Office equipment	160,000	110,000

2. Water expenses include Ksh. 20,000 paid in relation to water bills of private residence of proprietor.
3. Drawings by owner include Ksh 150,000 representing specific provision for baddests.
4. Rent expense includes Ksh. 25,000 spend on replacing a wooden door in the shop but a metal grilled door.
5. Closing stock as at 31st December 2015 amounted to 48,000/=
6. Capital stocks areas allowed are at Ksh 100,000

REQUIRED

A statement showing the taxable profit or loss for the year ended 31st December 2015. (15 marks)

- (c) Explain the purpose of taxation. (6 marks)

Q2. (a) Mr. Kwaka Ngumbe is landlord who built two storey building at Ndagani and Chuka town from where she earns rental income. The house in Ndagani has four units with a monthly rent of Ksh.18000 per unit. The house in Chuka town has eight units with monthly rent of Ksh 35,000 per month per unit. During the year ended 31st December 2015 which is also his accounting year the following expenses were incurred.

	Ksh
Land Rent and rates	35,000
Property insurance	30,000
Agent fee	20,000
Security guards	120,000
Repairs and maintenance	200,000
School fees	200,000
Loan interest	83,000
Electricity	70,000

Additional information.

1. The principle amount of loan paid during the year was Ksh. 300,000
2. Mr. Kwaka has no other earnings.
3. Mr. Kwaka had paid Ksh. 720,000 as instalment tax.

REQUIRED

- (a)
 - (i) Mr. Kwaka Ngumbe Tax Payable as an individual resident.
 - (ii) Mr. Kwaka Ngumbe Tax payable as a resident limited company. (15 marks)
- (b) Distinguish between tax evasion and tax avoidance. (5 marks)

Q3. Njagi Ltd was registered in the year 2007 as manufacturer of industrial sugar. The company started operation on 1st January 2007 prior to commencement of operations the company incurred the following expenditures on purchase or construction of fixed assets.

	Ksh
Drainage system	250,000
Office block	2,500,000
Factory building	4,500,000
Generator	300,000
Processing machinery	3,500,000
Delivery Lorries	5,000,000
Waste recycling machinery	900,000
Packing yard for goods	500,000

A further analysis of the above capital expenses revealed the following.

- (i) A staff canteen constructed at a cost of Ksh 400,000 form part of the building.
- (ii) Processing machinery comprised of locally purchased new machinery (Ksh. 1,400,000) and imported second hand machinery.
- (iii) The factory building included a warehouse constructed at a cost of Ksh. 500,000
- (iv) The company dung a borehole at a cost of Ksh. 300,000 which was utilizeded from 1st October 2008. A water pump costing Ksh. 50,000 was purchased and utilized on the same day.
- (v) On 15th November 2008, the company purchased a fleet of ten scooters at a cost of Ksh. 80,000 each.

REQUIRED:

Capital allowances due to Njagi Ltd. (20 marks)

Q4. (a) Explain the concept of tax shifting (6 marks)

(b) Kamuti and Nzeru have been trading in partnership as Kanze Ltd for the past five years. The following information relates to the business for the year ended 31st December 2006.

	Ksh.	Ksh.
Sales		1,800,000
Rental Income		90,000
Divinded Income		14,000
Profit on sale KDC shares		3,750
		1,907,750
		1,907,750

Less Expenses

Registration of website	3,750	
Design of website	2,400	
Computer software	750	
Acquisition of computer hardware	3,000	
Audit and Inspection	425	
Cost of goods sold	21,000	
Interest on capital –Kamuti	2,100	
-Nzeru	1,500	
Salaries to partners-Kamuti	1,200	
-Nzeru	900	
Purchase of Neon sign	1,500	
Cost of transfer to new premises	3,500	
Redundcy payment to retired employees	6,500	
Donation to apolitical party	9,500	
Bank charges	1,675	
Stamp duty on transfer of business	4,500	
Drawing of goods	4,300	
Employee loan written off	1,000	69,500
		1,838,250
		1,838,250

Additional

- (i) The partners share profit and losses equally
- (ii) Bank charges include Ksh 350,000 for accrued interest on outstanding loan.
- (iii) Drawings of goods include a profit margin of Ksh, 315,000

REQUIRED:

- (a) Adjusted taxable profit or loss for partnership business
 - (b) Taxable profit for each partner. (15 marks)
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