

**W1-2-60-1-6**

**JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY**

# **UNIVERSITY EXAMINATIONS 2014/2015**

**SECOND YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE**

**HBC 2123 : INTRODUCTION TO TAXATION**

**DATE: AUGUST 2014 TIME: 2 HOURS**

**INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS**

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**QUESTION ONE [30 MARKS]**

1. Briefly explain the difference between the following concepts as used in taxation. [6 marks]
2. Forward and backward shifting
3. Incidence of tax and impact of tax
4. Tax avoidance and impact of tax
5. Outline demerits of indirect taxes in an economy. [5 marks]
6. Mr. Adan voluntarily retired from the civil service in Kenya on 6th June 2013. He was given golden handshake of 4 million. He was faced with six possible investments as follows:
7. Open a savings account with Kenya Post Office Savings Bank Ltd.
8. Subscribe for debentures in Machav Commercial Bank of Southern Sudan.
9. Buy government bonds
10. Purchase ordinary shares of Kangaro Ltd a quoted company in Nairobi Stock Exchange .
11. Purchases ordinary shares in Techno Ltd of China.
12. Open fixed deposit account with Kenya Commercial Bank Ltd.

Required: For each of the investment alternatives, advice Mr. Adan on the income tax implications. [6 marks]

(d)

1. Discuss the meaning and areas of application of withholding tax. [4 marks]
2. Define the concept of insurance relief and explain reasons why it is applicable to tax payers in Kenya. [3 marks]
3. Bad debts is one of the allowable deductions in arriving at profit generated by businesses. Outline circumstances under which it would be deducted and circumstance it may not be deducted. [6 marks]

**QUESTION TWO**

1. Discuss principles that guide the formulation of an optimal tax system. [8 marks]
2. The following represent purchases and sales made by majimaji Ltd during the month of December 2013; The prices were inclusive of VAT and at the standard rate of 16%.

1st bought 4000 units @ shs. 5 600

6th sold 400 units @SHS. 7 200

10th Sold 800 units @ 7 200

15th sold 2000 units @shs. 7 200

21st bought 3000 units @ 6 400

26th Sold 800 @ 7 200

30th sold 2000 units @ 8 000

There were no inventory at the beginning of the month but there were 1000 units at the end of the month.

Required:

Prepare a VAT account for the month of December 2013. [8 marks]

**QUESTION THREE**

The partner of Ranguma brothers reported a loss of shs. 250 000 for the year ended August 2013 after deducting the following expenses.

Salaries and wages 450 000

Partners’ drawings 360 000

Loss on sale of investment 15 000

Professional fee 120 000

Travelling expenses 650 000

Purchases 5 250 000

Repairs ad maintenance 320 000

Depreciation 650 000

Rent and rates 240 000

Telephone 60 000

Postage and stationery 175 000

Bank charges and interests 24 000

Salaries to partners

S. Ranguma 50 000

M. Ranguma 50 000

N. Ranguma 100 000

Donations 20 000

Purchase of computer 200 000

Bad debts written off 65 000

Interest on capital

S. Ranguma 20 000

M. Ranguma 20 000

Additional notes:

1. Agreed written down values as at 31st August 2013 were as follows:

Class 1 1 250 000

Class 2 250 000

Class 3 375 000

1. The partners share profits and losses equally
2. The wife of S. Rangumu is a full time employee of the business and was paid a salary of 120 000 during the year.
3. The partners have no other source of income other than from the partnership.

Required:

1. Taxable profit or loss for the partnership for the year ended 31-08. 2013. [10 marks]
2. Each partners taxable income [6 marks]
3. State the tax position of S. Ranguma and wife, it the wife runs a part-time grocery business where she earns shs. 40 000 per month and incurs an expenditure of shs. 10 000 in the same month. [4 marks]

**QUESTION FOUR**

1. Loo Ltd is a dealer in electronics and its books of accounts reflected the following for the year ended 31.12.2013.

Shs. ‘000’ shs. ‘000’

Sales 18 000

Less purchases 12 000 \_\_\_\_

Gross profits 6 000

Add incomes: discounts 400

Insurance recovery 180

Profit on sale of assets 240

Provision for bad debts \_\_\_80\_\_

18 900

Less Expenses

Salaries and wages 2 000

Rent and rates 125

Distribution and office expenses 480

Travelling and subsistence 336

Subscription 50

Liceanse and permits 200

Legal fees 436

Depreciation 670

Audit fees 130

Loss on sale of assets 240

Bank charges interests 96

Bad debts 415

Discounts 336

Repairs and maintenance 705 (18,219)

681

**Additional notes:**

1. Distribution and office expenses included:

Subscription to Nairobi Sports Club for employees 180 000

Directors personal expenses 96 000

Donations to charity 50 000

1. 15% of rent and rates relate to payments in connection with the director’s private residence.
2. Insurance recovery is in connection with electronics stolen while on transit t a client.
3. Bad debts provision represent a reduction in the general provision for bad debts
4. Legal fees include:

Shs. ‘000’

Debt collection 80

Employment contract 60

Acquisition of trade mark 120

Renewal of lease - 40 years 60

Legal suit in relation to counterfeit electrics

Found in the company’s warehouse 116

436

1. Subscriptions are for electronics dealers association
2. License and permit represent shs. 150 000 paid for the manufactures association of Kenya and shs. 50 000 relate to single business permit.
3. Capital allowances have been agreed at shs. 860 000
4. Travelling expenses include shs. 240 000 incurred by the sales manager when he travelled to India to attend electronic trade fair.
5. Repairs and maintenance include an extension t the warehouse at a cost of shs. 450 000

Required:

1. Determine the Loo Ltd taxable profit or loss for the year ended 31 -12 – 2013. [14marks]
2. Tax liability for the company. [2 marks]
3. Write brief notes on values used in the computation of taxable profit or loss.

[4 marks]