



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**THIRD YEAR FIRST SEMESTER EXAMINATION FOR THE
DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION
WITH INFORMATION TECHNOLOGY**

CITY CAMPUS – EVENING

ABA 301: PRINCIPLES OF TAXATION

Date: 8th June, 2017

Time: 5.30 - 8.30pm

INSTRUCTIONS:

- Answer Question ONE and any other THREE Questions.
- Show all your workings clearly



VALUE OF TAXABLE BENEFITS PRESCRIBED BY CIT
Taxable Employment Benefits - Year 2016/2017

RATES OF TAX (Including wife's employment, self employment and professional income rates of tax).
 Year of income 2016.

Monthly taxable pay (shillings)		Annual taxable pay (shillings)		Rates of tax % in each shilling	
1	- 10,164	1	- 121,968		10%
10,165	- 19,740	121,969	- 236,880		15%
19,741	- 29,316	236,881	- 351,792		20%
29,317	- 38,892	351,793	- 466,704		25%
Excess over	- 38,892	Excess over	- 466,704		30%

Personal relief Shs. 1,162 per month (Shs. 13,944 per annum)

Prescribed benefit rates of motor vehicles provided by employer

		Monthly rates (Sh.)	Annual rates (Sh.)
Capital allowances:	(i) Saloon, Hatch Backs and Estates		
Wear and tear allowances	Upto - 1200 cc	3,600	43,200
Class I 37.5%	1201 - 1500 cc	4,200	50,400
Class II 30%	1501 - 1750 cc	5,800	69,600
Class III 25%	1751 - 2000 cc	7,200	86,400
Class IV 12.5%	2001 - 3000 cc	8,600	103,200
	Over - 3000 cc	14,400	172,800
	(ii) Pick-ups, Panel Van (Unconverted)		
	Upto 1750 cc	3,600	43,200
	Over 1750 cc	4,200	50,400
	(iii) Land Rovers/Cruisers	7,200	86,400
	OR 2% of the initial capital cost of the vehicle for each month, whichever is higher.		

QUESTION ONE

The profit and loss account of Mr .Otieno, a trader at Kondele, Kisumu, show the following for the year ended 31.12.2016

	Shs	Shs
Sales		100,000
Opening stock	25,000	
Add: Purchase	<u>50,000</u>	
	75,000	

Less: closing stock	<u>35,000</u>	
Cost of goods sold		<u>40,000</u>
GROSS PROFIT		60,000
Other Income:		
Post Office Savings Bank interest	15,000	
Tax Reserve Certificate interest	3,000	
Barclays bank interest—gross	2,000	
Sweepstake winning	<u>5,000</u>	<u>25,000</u>
		85,000
Less: Sundry expenses		<u>50,000</u>
NET PROFIT		<u>35,000</u>

The following information is given:

- i) An amount of Shs 8,000 received from Kenya National Assurance Company as compensation for trading stock destroyed by fire has been included in drawings.
- ii) Owing to new found friendship, a creditor Mrs. Matata wrote-off amounts payable to her by Mr .Otieno of Shs 4,000. The amount is included in drawings.
- iii) The sundry expenses in the Profit and Loss Account include:
 - a. cost of a bicycle used in the shop bought in May 2016 for Shs 3,500.
 - b. alimony paid to a former wife he divorced Shs 2,400.
 - c. subscription of Shs 1,000 to Matumbo Welfare Association of which he is a member.
 - d. Depreciation of assets Shs 2,200
- iv) He paid with amounts drawn and included in his drawings accounts:
 - a. insurance premium of Shs 2,500 against fire in respect of trading stock.
 - b. painting of business premises Shs 800.
 - c. stationery Shs 500.
- v) Wear and tear deduction of Shs 1,500 has been agreed with the Income Tax Department .

Required

Compute the taxable income for the year ended 31.12.2016 (15 marks)

- (b) Mr. Koech is a manufacturer in Kisumu who acquired raw materials for Kshs.100,000 on which VAT is levied at 16%. He sold the products to a

wholesaler who later on sold the goods to a retailer. The retailer finally sold the goods to his customers. It was realized that at each stage of the chain, 25% conversion costs were incurred and a 30% mark up was made.

Required:

Compute the total VAT paid to the Kenya Revenue Authority for the period ended 30th June 2016.

(10 Marks)

QUESTION TWO

(a) Mr. Brian Obrien provided the following information for the year ended 31st December 2016:

- a) He was employed as a director of Cecypo Limited at a salary of Shs.80,000 per month (PAYE) – Shs.31,200 per month was deducted).
- b) Free goods worth Shs.30,000 were received from the company in the year for personal use.
- c) He owns 6% of the share capital of Cecypo Limited.
- d) He enjoyed free medical treatment under a medical scheme operated by the company which was assessed at Shs.200,000.
- e) Cecypo Limited provided him with free housing from 1st August 2016 prior to which he lived in his own house.
- f) His wife works as a nurse in a private hospital and earned Shs.20,000 per month, (PAYE Shs.4,000) with fringe benefits of Shs.4,500.
- g) Rent from property owned was Shs.30,000 per month from August 2016. Repair and painting cost was Shs.11,500 before letting. The house had a mortgage of Shs.2,000,000. He paid Shs.600,000 of which Shs. 330,000 was capital.

Required

- i) Total taxable income of Mr. And Mrs. Brian Obrien for 2016. (10 marks)
- ii) Tax payable/repayable on the income computed above. (5 marks)

QUESTION THREE

- a) Explain the role of taxation in achieving national budgetary objectives. (10mks)
- b) Discuss any five factors that influence tax shifting. (5mks)

QUESTION FOUR

Mr. Udoka, Mr. Simwa and Mr. Ngala are partners trading under the name Kaudo enterprises. They share profits and losses in the ratio of 4:3:3. Given below is the income statement of the partnership as at 31/12/2016.

Kaudo income statement for the year ended 31/12/2016.

	Shs.		Shs.
Salaries and wages	280,000	Gross profit	2,300,000
Rent, rates and taxes	150,000	Misc. receipts	150,000
Office expenses	204,000	Discounts	80,000
Printing and stationery	64,000	Rent from property	132,000
Installment tax paid	45,000	Profit on sale of shares	100,000
Advertising	73,000	Interest on deposits	120,000
Interest on capital			
Udoka	60,000		
Ngala	70,000		
Simwa	80,000		
Legal charges	82,000		
Commission to partners			
Udoka	45,000		
Ngala	35,000		
Depreciation	92,000		
Bad debts	68,000		
General expenses	99,000		

Donation to famine relief	100,000		
General reserve	120,000		
Local taxes on property	12,000		
Electricity	46,000		
Show room expenses	117,000		
Net profit	1,040,000		
	2,882,000		2,882,000

The partners have provided the following information in support of the accounts:

1. It has been the practice to value the stocks at the cost price, however the closing stock (as at 31/12/2016 is Shs. 180,000) valued at market price which is less by 10% of its cost price.
2. Salaries and wage include 'salaries' amounting to Shs. 40,000 paid to Simwa.
3. Advertising includes Shs. 10,000 spent on advertising campaign to introduce a new product on the market.
4. Legal charges include a sum of Shs. 12,000 paid as a fine and penalty.
5. Capital allowances have been agreed with the commissioner of income tax at Shs. 90,000.
6. Mr. Udoka's other income includes Shs. 120,000 from rent. He has brought forward business loss of Shs. 135,000 from the assessment of income of 2015 of the partnership .
7. Mr. Simwa has got no other income.
8. Mr. Ngala has income of Shs. 200,000 from bet winnings. He has brought forward business loss of Shs. 135,000 from assessment of the year of income of 2015 partnership.

Required

- a) Compute the taxable income from the partnership.
 - b) Allocate the profit amongst the partners.
 - c) Calculate the taxable income of each partner for the year of income 2016.
- (15 marks)

QUESTION FIVE

Masinga Ltd was incorporated on 1st July 2015 to manufacture cutleries in Kiambu County. The factory was commissioned for production with effect from 1st December, 2015. The following details related to the acquisition of fixed assets:

Land and Building (analysis):	Shs.
Land	25,000,000
Factory Buildings	12,000,000
Sewers and Drainage	1,000,000
Factory Canteen	1,000,000
Offices	1,000,000
Showroom	500,000
Workers' Quarters	2,000,000
Stone fencing round Factory	600,000
Tarmacing of Driveway	160,000
Plant and Machinery:	
Processing Machinery (all new and fixed to building)	280,000,000
Furniture, Fitting and Equipment	1,600,000
Motor Car	1,000,000
Lorry and Tractor	2,400,000

The tractor which had cost Shs. 1,000,000 (included in Shs. 2,400,000) was disposed of at a profit of Shs. 400,000.

Required:

Calculate the capital deductions due to the company for the year 2016

(15 marks)

QUESTION SIX

The management of Sondu Limited has presented the following income statement for the year ended 31st December 2016:

Sondu Limited

Income Statement for the Year ended 31st December 2016

	Sh.	Sh.
Gross profit		5,292,00
Other incomes:		
Dividend from a subsidiary	200,00	
Interest from foreign bank	4,000	
Discount received	28,000	
Refund of VAT	12,000	
Gain on sale of motor vehicle	<u>14,000</u>	<u>258,00</u>
		5,550,00
Expenditure:		
Salaries and wages	800,00	
NHIF contribution	30,000	
Subscription to a trade	50,000	
Hire purchase interest	15,000	
Bad debts written off	60,000	
General expenses	80,000	
Depreciation	25,000	
Legal expenses	40,000	
Insurance premiums	124,000	
Rent	66,000	
Electricity	34,000	
Purchase of furniture	<u>26,000</u>	<u>(1,350,00</u>
		<u>4,200,00</u>

Additional information:

1. Capital allowances were agreed with the Revenue Authority at Sh.75,000
2. Included in bad debts is a loan of Sh.15,000 due

from a former employee of the company who was dismissed in October 2016.

3. Legal expenses include Sh.20,000 incurred in defending a manager against a traffic offence.
4. Insurance premiums include Sh.24,000 paid to the National Hospital Insurance Fund (NHIF) as a penalty for late submission of contribution.
5. The company paid stamp duty of Sh.6,000 relating to a piece of land purchased in August 2016. This payment is included in the rent expense for the year ended 31st December, 2016.

Required:

- a) Compute the adjusted taxable profit or loss of Sondu Limited for the year ended 31 December 2016.
- b) Calculate the taxable income for the firm.

(15 marks)