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**KENYA METHODIST UNIVERSITY**

**END OF 2ND TRIMESTER 2018 (PT) EXAMINATION**

**SCHOOL : BUSINESS AND ECONOMICS**

**DEPARTMENT : ACCOUTING FINANCE AND INVESTMENT**

**UNIT CODE : ACCT 431**

**UNIT TITLE : TAXATION**

**TIME : 2 HOURS**

***INSTRUCTIONS: Answer Question ONE and any other TWO Questions***

**Question One**

1. Define the following terms:
2. Impact of a tax
3. Incidence of a tax. (4marks)
4. Name and briefly explain the principles of a good tax system. (10marks)
5. Mrs. Ongera works with Anga ltd and has provided you with the following information for the year ended 31st December 2007.

Pension from previous employment sh 20,000 per month salary sh 120,000 per month (P.A.Y.E sh. 42,000 per month).

Mrs. Ongera and her husband own a company whose taxable income was agreed at shs. 500,000 after charging husband`s slary of sh 250,000 per month (P.A.Y.E shs. 60,000 per month).

Anga ltd provided a company house to Mrs. Ongera in South B where rent of similar houses was shs. 20,000 per month.

Mrs. Ongera works over time and her over time income averages shs. 10,000 per month.

Mrs. Ongera enjoyed medical benefit of shs. 160,000 during the year. She is a senior manager and the company has medical cover for all ib employees. She obtained free consumables from the company as a Christmas gift worth sh. 30,000 during the year.

Mrs. Ongera owns rental property at Komarock estate and receives sh.50,000 as rental income per month.

During the year she incurred sh. 60,000 in renovation repairs and painting before letting the property. She had obtained a mortgage loan from housing finance company amounting to sh 3,000,000. She paid shs. 900,000 during the year of which shs. 500,000 was principal. Mrs. Ongera owns 20% of the shares of Anga ltd.

**Required:**

1. The taxable income for Mr & Mrs. Ongera for the year of income 2007.

 (10marks)

1. Tax payable on the income computed above. (4marks)
2. Mrs. Ongera did not fill her self-assessment form for 2007. State the penalties due if any. (2marks)

**Question Two**

1. Outline the importance of a tax invoice in the administration of VAT.

 (2marks)

1. Mr. P. Kamau is a registered VAT trader dealing in household electronics. On 5th August, 2007, he sold the following electronic goods to Mr. L. Omondi on credit terms.

Item Quantity sold Selling price per unit (before vat)

Radio 2 150,000

Television set 1 30,000

Fridge 1 40,000

 The goods were subject to VAT at the standard rate of 16%.

**Required:**

Prepare a tax invoice in the book of Mr. P. Kamau relating to the above transaction. (6marks)

1. The following information relates to Mrs. G. Mwajuma a registered VAT trader for the six month period ended 30th June 2007.
2. She was registered for VAT 2 January 2007.
3. She filed the first VAT return on 27 February 2007 and paid VAT of sh. 48,000.
4. The VAT for the period from 1st January 2007 to 30th April 2007 was as follows.

Month Input Tax Output Tax

January 150,000 48,000

February 219,480 nil

March 167,640 497,940

April 274,380 308,940

1. A VAT return for the month of May 2007 was not submitted since there was no VAT due.
2. A VAT return form the month of June 2007 was filled by the due date and VAT paid; input tax was however not claimed.

**Required:**

Assess the VAT compliance by Mrs. G. Mwajuma over the six month period ended 30th June 2007. (12marks)

**Question Three**

1. With reference to the income tax act (cap 470), explain the tax treatment of the following incomes received by a company the tax treatment of the following incomes received by a company.
2. Dividend (4marks)
3. Interest (2marks)
4. Rent (2marks)
5. The management of Mali limited has presented the following income statement for the year ended 31st December 2007.

Mali limited income statement for the year ended 31st Dec. 2007.

|  |  |  |
| --- | --- | --- |
|  | Shs. | Shs. |
| Gross profit |  | 5,292,000 |
| Other incomes |  |  |
| Dividend from subsidiary company | 200,000 |  |
| Interest from foreign bank accounts | 4,000 |  |
| Discount received | 28,000 |  |
| Refund of VAT | 12,000 |  |
| Gain on sale of motor vehicle | 14,000 | 258,000 |
|  |  | 5,550,000 |
| Expenditure: |  |  |
| Salaries and wages | 800,000 |  |
| NHIF contribution | 30,000 |  |
| Subscription to a trade association | 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 | 26,000 | (1,350,000) |
|  |  | 4,200,000 |

**Additional information:**

1. Capital allowances were agreed with the revenue authority of Ksh. 75,000
2. Included in bad debts in a loan of sh 15,000 due from a former employee of the company who was dismissed in October 2007.
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. 6000 relating to a piece of land purchased in August 2007. This payment is included in the rent expense for the year ended 31st Dec. 2007.

**Required:**

1. Compute the adjusted taxable profit or loss of Mali limited for the year ended 31st December 2007. (10marks)
2. Calculate the tax liability (if any) of the company for the year ended 31st Dec. 2007. (2marks)

**Question Four**

1. List FOUR types of buildings that quality for industrial buildings deduction (IBD) under the second schedule of the income tax act (cap 470). (4marks)
2. X ltd a manufacturing company constructed on industrial building at a cost of sh. 5,000,000 on 1st may 2007. The company sold the building before use of another manufacturing company, Y ltd for shs. 8,000,000. Y ltd was unable to use the building and sold it to Z ltd, which used the building from 1st October 2007 for manufacturing purposes.

**Required:**

1. Explain the basis of computing the capital allowances for the building above for the year ended 31st December 2007. (4marks)
2. Madini mining company ltd has been prospecting for golf in Kakamega district since 1995. In year 2005, the company discovered huge deposits of the mineral and commenced mining operation on 1st July 2005

The following expenditure was incurred on 1st July, 2005

 Shs.

Patent rights paid to the government 4,800,000

Payment of local council license fees 840,000

Constructions of labour quarter at site 1,200,000

Construction of go down in Kakamega town 2,680,000

Construction of go down at site 780,000

Purchase of specialized machinery for mining 1,960,000

Transportation of specialized machinery for mining to site 450,000

Purchase of a ten ton lorry 1,920,000

Purchase of tools and implements for mining 90,000

Purchase of computers 360,000

Purchase of furniture and fittings 1,400,000

Purchase of a Toyota Hilux pick-up 1,600,000

**Additional information:**

1. The company had incurred exploration expenses amounting to sh. 1,500,000 as pm 1st July 2005.
2. The administration expenses incurred prior to 1st July 2003 amounted to sh. 3,000,000.

**Required:**

 Compute the capital allowances due to Modini Mining company ltd. for

 the year ended 31st December 2005, 2006 and 2007. (12marks)

**Question Five**

1. Distinction between a single and multiple tax system. (4marks)
2. Explain the reasons why a county might prefer a multiple tax system over a single tax system. (4marks)
3. State SIX objectives of fiscal policies with specific reference to the needs of developing countries. (6marks)
4. What is the role of KRA in revenue collection? (6marks)