**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**P.O. Box 972-60200 – Meru-Kenya.**

**Tel: 020-2069349, 061-2309217. 064-30320 Cell phone: +254 712524293, +254 789151411**

**Fax: 064-30321**

**Website:** [**www.must.ac.ke**](http://www.must.ac.ke) **Email:** **info@must.ac.ke**

**University Examinations 2014/2015**

THIRD YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**BFC 3276: ADVANCED TAXATION**

 **DATE: AUGUST 2015 TIME: 2HOURS**

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

**QUESTION ONE (30 MARKS)**

1. Discuss tax planning measures of an individual (5 Marks)
2. Explain the main provisions of customs and excise duty (5 Marks)
3. Explain the methods of checking tax evasion (5 Marks)
4. Mokomani Sacco has the data concerning the year of income 2010

MOKOMANI SACCO

2010 Profit & Loss Description

 shs.000 shs.000

Income from members loan 7000

Interest from bank (net) 350

Rental income 3500

Dividends form XYZ (gross) 400

Dividends form Wananchi

Coop Society(Net) 900

 12150

Expenses:

Salaries and wages 3450

Donations 400

Depreciation 700

Travel & Entertainement 80

AGM and training 35

Insurance 100

Rent 200

Interest 140

Repair and maintenance 120

General expenses 50

Bad debts w/o 25 (5300)

Surplus 6850

**Required:**

Compute the taxable surplus and tax liability (5 Marks)

1. Distinguish between a single tax system and multiple tax system (5 Marks)
2. Explain the reasons why a country might prefer a multiple tax system over a single tax system (5 Marks)

**QUESTION TWO (20 MARKS)**

1. Discuss the following terms as used in taxation Act -2nd Schedule
2. Investment deduction (ID) (21/2 Marks)
3. Industrial Building Allowance (IBA) (21/2 Marks)
4. Wear and tear allowance (W & TA) (21/2 Marks)
5. Farm works deductions (FWD) (21/2 Marks)
6. Dahabu Mining Company Ltd has been prospecting for gold in Kakamega County since 1990. In the year 2007, the company discovered huge deposits of the mineral and commenced mining operations on 1 July 2007. The following expenditure was incurred on 1 July 2007

shs.000

Patents right paid to the government 4,800

Payment of local council licence 840

Construction of godown in KK town 2,680

Construction of labour quarters 1,200

Purchase of specialized machinery 1,960

Construction of godown at site 780

Transportation of specialized machinery 450

Purchase of ten ton lorry 1920

Purchase of tools and implements 90

Purchase of computers 360

Purchase of furniture & fittings 900

Purchase of Toyota Hilux pick-up 1400

Additional information:

1. The company had incurred exploration expenses amounting to shs.1,500,000 as on 1 July 2007.
2. The administration expenses incurred prior to 1 July 2007 amounted to shs.3,000,000.

**Required:**

Compute the capital allowances due to Dahabu Mining Company Ltd for the year ended 30 June 2008 (10 Marks)

**QUESTION THREE (20 MARKS)**

1. Discuss the benefits of Value Added Tax (V.A.T) in the context of the principles of a good tax system (5 Marks)
2. Kiprop operates an electronic shop in Bomet town of Bomet county. In the month of May 2008, he undertook the following transactions

May 1 Purchased 20 cameras for at total of Shs.1,000,0000

May 3 Purchased flash bulbs for a total of shs.200,000

May 5 Sold 10 cameras each @25% above cost

May 8 Purchased 200 wrist watches at shs.2000 each

May 10 Sold two slide projectors for shs.500,000

May 13 Sold flashbulbs that cost shs.100,000 for shs.150,000

May 15 Purchased 50 stop watches for a total value of shs.50,000

May 16 Purchased 100 alarm clocks at a total value of shs.80,000

May 20 Sold the remaining 10 cameras each at 25% above cost

May 22 Sold 3 slide projectors for a total of shs.750,000

May 25 Sold 100 wrist watches at shs.2,500 per watch

May 27 Sold 70 alarm clocks each at 60% above cost

May 29 Sold 50 wrist watches at a total value os shs.90,000

Given that the prices are V.A.T inclusive. Calculate input tax and output tax (15 Marks)

**QUESTION FOUR (20 MARKS)**

1. Discuss the mutuality clause giving examples (5 Marks)
2. What are some of the allowable deductions when it comes to ascertaining of taxable income of a petroleum company (5 Marks)
3. What are the provisions for taxing the following special businesses?
4. Members clubs
5. Amateur Sporting Association
6. Insurance companies (10 Marks)

**QUESTION FIVE (20 MARKS)**

1. Clearly enumerate the steps in computing partnership income for income tax purposes (6 Marks)
2. Albert, Ben and Clara are in partnership trading as AB&C Enterprises. They share profits and losses in the ratio of 1:2:2 respectively. In the year 2010 they reported a profit of shs.400,000 after deducting the following items:

Shs

 Depreciation 100,000

 Salaries A 400,000

 B 300,000

 C 200,000

 Commission B 200,000

Interest capital A 200,000

 C 200,000

Stationery 50,000

Office expenses 100,000

**Required:**

1. Calculate the adjusted partnerships profit/loss and its distribution among the partners (8 Marks)
2. Show the partners tax liability (6 Marks)