**UNIVERSITY EXAMINATION 2014/2015**

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**BACHELOR OF COMMERCE**

**REGULAR**

**UNIT CODE: BAF4202 UNIT TITLE: ADVANCED TAXATION**

**DATE: DECEMBER 2014 MAIN EXAM TIME**: **2 HOURS**

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

1. a) Write short notes on the following

 i) Expected dividends

 ii) Shortfall distribution

 iii) Taxation of petroleum companies. (9 Marks)

b) The following information relates to m/s Winnie a shareholder in

 Safacom (k) ltd

 i) No of shares issued 8,000

 ii) Per value sh 10 share

 iii) Issued price sh 8/ share

 iv) Market price sh 15/share

**Required:**

Determine whether the discount given is taxable or not. (5 Marks)

c) Kiambu Sacco society has prepared the following income statement for

 the year ended 31/12/2013.

 Sh’000’

Interest of members loan 700

Interest from commercial bank 40

Interest from treasury bill 18

Dividends from Kengen ltd 4.2

Rental income 220

Gain on sale of equipment 60

 1042.2

Expenditure

Administration 235

Depreciation 12

Office furniture 65

Printing and stationery 9

Internet expenditure 14

Miscellaneous expenses 6

 341

Net profit 701.2

**Additional information**

a) The Sacco intends to distribute sh 100,000 as banks and dividends to the members

b) All investment income have been stated at gross of withholding taxes

 where applicable.

**Required:**

Determine the taxable income and tax thereof. (10 Marks)

d) Explain the term in depth investigation stating when it is undertaking. (6 Marks)

1. Tuungane investment insurance co. has provided to you the following income and expenses components relating the year ended 31st December 2013(in sh millions)

Investment income 13.78

Premiums returned on surrender policies 0.374

Re-insurance commission coded 1.36

Agency expenses 1.35

Premiums paid to re-insurance company 4.68

Management expenses 1.934

Travelling expenses 1.8

Advertising expenses 0.36

Bad debts (specific) 0.368

General expenses 8.49

Income from excursing subrogating rights 1.25

Interest on premiums return 0.396

Recoveries on re-insurance 0.15

Bonus in reduction of premiums 7.2

**Additional information**

a) Investment income comprises of:

 i) Interest on fixed deposit accounts sh 780,000 (net)

 ii) Rental income sh 10,000,000

b) General expenses include

 i) Computer sh 800,000

 ii) Fittings sh 1,260,000

c) Claims outstanding were as following

 Start 1st Jan 2013 sh 5,640,000

 End 31st Dec 2013 sh 6,200,000

d) Claims paid during the year were sh 7,600,000

e) Reserves for un-expired risk were as follows

 Start 1st Jan 2013 sh 3.240,000

 End 31st Dec 2013 sh 1,760,000

**Required**:

taxable income/loss and tax payable for year ended 31st Dec. ( 20mks)

1. a) Outline circumstances where 40% distribution rule of dividends may not be applied. (10 Marks)

 b) The following information was got from books of KBL ltd for the year

 ended 31st Dec 2013.

 i) Trading profit before tax sh 4 millions

 ii) Investment income sh 2millions investment income came

 from the sources

* Rental income sh 600,000
* Interest from bank deposit based in Kenya sh 800,00
* Interest from post bank savings sh 100,000
* Royalties sh 200,000
* Dividends from south African based company sh 100,000

During the year ended 31st December 2013 proposed and paid

Dividends amounted to sh 200,000

 **Required;**

 a) Short fall distribution. (5 Marks)

 b) Tax on the short fall distribution of dividends. (5 Marks)

1. Wakawaka construction company was contracted by MKU to contract CT

Tower at a price of sh 950 M. The following details were available as

At 31st December 2012.

Balance B/D 1st Jan 2012 sh ‘000’

Raw material on site 9000

Accrued wages 2,500

Plant and equipment 300,000

Cost of work done 316,400

Work certified 31st Dec 2011 320,000

Transaction during the year were:

Materials delivered to site – From supplies 240,000

 From stores 29,200

Additional plant 36,900

Sub-contractors fee 3,600

Salaries and wages 320,000

Consultancy fee 1,000,000

Head office expenses 2,500

Materials transferred out of sight 30,000

Plant hire 500,000

Direct expenses 5,200

Total cash received 1,160,000

Work certified during the year 1,320,000

Cost of work uncertified 84,000

Balance c/d 31st Dec 2012

Material on site 102,000

Accrued wages 5,600

**Required:**

Taxable income and tax payable thereof for the year ended 31st December 2012. (20 Marks)

1. a) Outline and explain how tax avoidance can be undertaken by a

 Potential tax payer. (10 Marks)

b) What are charitable trust stating clearly their tax position. (10 Marks)