



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS AND ECONOMICS
UNIVERSITY EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION
WITH IT THIRD YEAR SEMESTER TWO

COURSE UNIT: ABA 314: TAX PLANNING AND MANAGEMENT

MAIN CAMPUS

DURATION: 2 HOURS

APRIL, 2017

INSTRUCTIONS

Answer QUESTION ONE and any other TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Discuss the methods that tax payer uses to minimize the tax liability for their business enterprises. **(6marks)**
- b) Distinguish between tax evasion and tax avoidance **(4marks)**
- c) Describe the various essentials of tax planning for business enterprises **(5 marks)**
- d) Explain the role of budgets as instruments of tax planning **(5marks)**
- e) Discuss the major steps taken by the government of Kenya to modernize the tax system **(5 marks)**
- f) Explain the challenges faced by KRA as the Tax Authority in the implementation of tax reforms in Kenya **(5 marks)**

QUESTION TWO (20 MARKS)

The following information was extracted from Mr. Einstein’s Business books of Accounts as at 31st December 2016

	Kshs		Kshs
		Gross profit	1,272,000
Rent premises owned by Mr. Einstein	180,000	Interest income	48,000
Establishment expenses	600,000	Dividend (gross)	80,000
Printing and stationary	135,000	Farming income	226,000
Interest expense	46,000	Profit on sales of shares	533,000
Electricity	40,000	Lottery winnings	733,300
Farm expenses	210,000	Other income	53,300
Repairs to premises	30,000		
Depreciation	196,000		
Salary to Mr. Einstein	380,000		
Drawings by Mr. Einstein	200,000		
Donation to children’s home	166,000		
Legal expenses	125,000		
Interest on loan obtained to pay income tax	29,000		
Bad debts	180,000		
Staff wages	144,000		
Net profit	<u>2,946,200</u>		<u>2,946,200</u>

Additional Information

i) Capital allowances were agreed as follows:

Wear and Tear allowances kshs 120,000

Farm Works Deductions kshs 80,000

ii) Legal expenses include Kshs 50,000 paid with regard to pursuing a dispute with VAT department

iii) Establishment’s expenses include Kshs 400,000 incurred in acquiring furniture and equipment for the business before commencement of operations.

You are required to:

(a) prepare Mr. Einstein’s Taxable Income for the year **(15 marks)**

(b) Compute the tax payable by Mr. Einstein’s Taxable Income **(5 Marks)**

QUESTION THREE (20 MARKS)

- a) Briefly explain the procedure to be followed when an error on past returns is discovered either by the tax payer or commissioner for domestic taxes (10 marks)
- b) Discuss the techniques which business entities and individuals can take advantage of to avoid taxes in Kenya (10 marks)

QUESTION FOUR (20 MARKS)

- i) The following information was extracted from the books of MFL Ltd for the year ended 31st December 2016:
- Profit before tax Kshs 400,000
 - Import duty refunded by tax authority Kshs 400,000
 - Dividend distributed by the company Kshs 8,800,000
 - Dividend received by the company Kshs 3,000,000
 - The corporation tax rate is 30%
- a) Use the information to compute the compensating tax payable by MFL ltd for the year (10 marks)
- b) Discuss the provisions of the income tax Act (Cap 470) relating to the shortfall tax on non-distribution of Dividend (10 marks)

QUESTION FIVE (20 MARKS)

The following information was extracted from the books of accounts of BM ltd for the year ended 31st December 2016

	Kshs
Bad debts	468,000
Investment income	960,000
Reserve for unexpired risks: 1 st Jan. 2016	948,000
Commission on reinsurance accepted	3,484,900
Claims outstanding: 1 st Jan. 2016	676,200
Gross premium	24,648,600
Claims paid	4,826,000
Claims outstanding: 31 st December 2016	1,850,000
Claims recovered on reinsurance	545,700
Legal expenses relating to Claims	376,800
Commission on reinsurance ceded	728,900
Agency fees	1,296,400
Foreign exchange losses	392,700
Dividends from life insurance fund	216,400
Management fees	1,804,600

Bonus utilized in reduction of premium	371,700
Royalties from patent rights	1,460,000
Repairs of rented premises	264,800
Travelling expenses	89,400
Purchase of motor vehicle	800,000
Re-insurance premium paid	724,800
Returned premium	1,314,600
Rental income	560,000

Additional information

- i) Agency fees include Kshs 16,400 relating to the life insurance fund
- ii) Management fees include Kshs 24,200 which relates to tax consultancy
- iii) Repair of rented premises includes Kshs 14,800 for the purchase of furniture.

Required: prepare a statement of adjusted taxable profit or loss for company **(20 marks)**