

**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**SCHOOL OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**BUSIA LEARNING CENTRE**

**EXAMINATIONS**

**Instructions answer question one and any other two questions**

**2hrs**

**Individual income tax rates table 2008-2013**

*Income sh. P.a Rate*

Sh. 1 – sh.121 968	10%
Sh. 121 969 - sh. 236 880	15%
Sh. 236 881- sh.351 792	20%
Sh. 351 793 – sh. 466 704	25%
Over sh. 466 704	30%

**Motor vehicles benefits**

*Saloon and Estates pick-up or panel vans*

Cc sh. p.a cc sh. p.a

Upto 1200 43,200 upto 1750 43,200

1201-1500 50,400 over 1750 50,400

1501-1750 69,600

1751-2000 86,400 *Land Rover and Land Cruisers* sh. p.a

2001-3000 103,200 Any cc Rating 86,400

Over 3000 172,800

**Capital allowances**

Industrial Building Deduction: 2 ½ % p.a

Investment Deduction: 2004-2013 100%

**Question One**

Lichex limited has provided you with the following profit and loss account for the year ended 31<sup>st</sup> December 2012

Profit and loss for the year ended 31<sup>st</sup> December 2012

	Ksh		Ksh
Opening stock	524,000	sales	10,584,000
Purchases	4,692,000	closing stock	761,000
Manufacturing expenses	2,563,000		

Salaries and wages	252,000	
Supplies consumed	466,000	
General expenses	85,000	
Intrest on loan	364,000	
Director's fee	90,000	
Auditors' fee	55,000	
Bad debts reserve	43,000	
Depreciation	296,000	
Managing director's remuneration	648,000	
Provision for bad debt	43,000	
Provision for dividends	750,000	
Donations	21,000	
Profit for the year	<u>300,000</u>	
	<u>11,345,000</u>	<u>11,345,000</u>

#### Additional information

- Salaries and wages include Ksh. 20,000 contributed by the company to unregistered pension scheme
- General expenses include Ksh. 15,000 for commission and brokerage and Ksh. 10,000 for contributions to a business pressure group that protects traders of the same kind.
- Taxes represent VAT paid
- Bad debts (specific) are Ksh. 180,000
- Show the adjusted profit (loss) for tax purposes for the year 31.12.2012 ( 15 mks)
- Examine the main purposes of an effective tax system ( 10 mks)
- Discuss the main role of the Income tax commissioner in Kenya ( 5 mks)

#### **Question Two**

a) Mr. Wafula works with UngaKen ltd. as a senior manager he has furnished you with the following information for the year ended 2012.

- He retired from the civil service and earns a pension Sh.40,000 per month
- Salary Sh. 320,000 per annum (PAYE) Sh. 20,000 per month
- Bonus Sh. 50,000
- Overtime Sh.20, 000
- The employer contributed 5% of his basic salary to a registered pension scheme Wafula contributed the same amount.
- He was provided with a medical cover which covers only senior employees Wafula received Sh.65,000 as medical benefit
- He obtained free consumables from the company as christmas gift worth Sh.30, 000 during the year
- He was given a car of 2500cc with a cost of Sh. 800,000 in January 2012
- He's provided with ayah, cook and night watchman of which the employer pays Sh. 2,000, 1,500 and 1800 respectively
- He is provided with a furnished house of which Wafula at a cost of Ksh.240, 000 per annum Wafula pays Sh. 8,000 per month.
- He contributes Sh. 4,200 per month to H O S P
- He has other sources of income as follows:
  - Rental income sh. 120,000 per annum. During the year he incurred Sh.60, 000 in renovation, repairs and painting before letting the property. He obtained mortgage loan from housing finance company amounting to Sh. 30,000,000.
  - Farming income Ksh. 10,000 per annum
  - Dividend income from a co-operative society Ksh. 34,000.
- His wife works in the company in which Wafula controls a shareholding of 15% as his secretary at a monthly salary of sh. 40,000.
- He contributed sh. 4,000 per month towards a life insurance policy for his children.

Required:

- Mr. Wafula's taxable income for the year 2010 (15mks)
- His tax liability (5mks)

### Question Three

KenKen Ltd. based in Busia started its operations in January 2012. It had incurred the following capital expenditure

Cost of land	4,000,000
Cost of buildings	1,600,000
New machinery installed	1,200,000
Delivery vans	400,000
Computers	600,000
Furniture	250,000
Saloon car	1,700,000
Tractor	1,500,000
Photocopier	300,000

#### Additional information:

(i) On 1st January 2012, the company constructed a factory extension at a cost of sh. 1,600,000 and installed a processing machine at a cost of sh. 800,000.

(ii) Constructed a godown at a cost of sh. 960,000 and put it into use on 1st July, 2012.

(iii) Disposed off a saloon car acquired in 2009 at sh. 400,000 on 1st October 2012.

(iv) Constructed a staff canteen at a cost of sh. 480,000 and put it into use on 1st September, 2012.

(v) Purchased the following assets during the year 2012.

	Sh.
Switchboard	64,000
Curtains	36,000
Forklifts	940,000
Pickup	1,200,000
Electronic tax register	75,000

Calculate for the year 2012:

- Investment deduction
- Industrial buildings deduction
- Wear and tear allowance (15 mks)

b) Why determination residential status of an individual important for tax purpose. How is it determined? (5 mks)

#### Question four

- Discuss the main principles of taxes ( 6 mks)
- Discuss briefly ( 6 mks)
- Tax evasion and its causes
- Wife's income
- Income tax Act Cap 470 (laws of Kenya) Second Schedule provides for capital deduction in respect of capital expenditure. Discuss various capital deductions available to business enterprises in Kenya. (6 mks)
- State and explain four miscellaneous revenue sources to the Government. (4 marks)

#### Question Five

- Explain any three non-taxable incomes to a person and why do you think it is. (6 mks)

Ochieng, Onyango and Omondi are former school mates who are doing business together. The business is conducted as a partnership firm in which they share profits and losses equally. They keep proper books of accounts and have been able to provide the following profit and loss account for the year ended 31st December 2012.

#### Profit and loss Account

		Shs	
Operating expenses	800,000	Gross profit	1,908,000
Rent of business premises owned by all of them jointly	180,000	Sundry receipts	80,000
Interest expenses	80,000	Interest Income	72,000
Stationery and printing	120,000	Profit on sale of shares	200,000
Lighting and heating	40,000	Gross income from farming	800,000
General farm expenses	294,000	Lottery winnings	340,000
Repair of premises	40,000	Dividend (Gross)	120,000
Depreciation	300,000		

Interest on partner's capital

Ochieng 80,000

Onyango 120,000

Salary to Ochieng 160,000

Commission to partners

Ochieng 96,000

Onyango 96,000

Omondi 96,000

Bad debts 240,000

Gifts, present and charity 40,000

Donation to child Welfare 200,000

Interest on loan taken to pay tax 20,000

Legal charges 120,000

Net profit 398,000

3,520,000 3,520,000

### **Additional information**

- Capital allowances have been agreed as follows: Wear and Tear allowances Sh. 180,000, Farm works deduction Sh. 120,000
- The partners had borrowed Sh. 400,000 with a hope of investing it on fixed securities to earn more income. Interest rates nevertheless declined. Interest expense of Sh. 80,000 and interest income of Sh. 72,000 relate to this loan.
- Legal charges include Sh. 40,000 paid to finish a case in the customs department.
- In 2012 the partners brought forward losses amounting to Sh. 800,000 from this business.

### **Required**

- i. Compute taxable income derived from the partnership (10 mks)
- ii. Show allocation among the partners (4mks)

