



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE **BACHELOR OF BUSINESS**
ADMINISTRATION WITH IT (ACCOUNTING and FINANCE OPTION)
3rd YEAR 1st SEMESTER 2023/2024 ACADEMIC YEAR
MAIN/ KUSIMU CAMPUS

COURSE CODE: BAB 1301

COURSE TITLE: PRINCIPLES OFF TAXATION.

EXAM VENUE:

DATE:

DURATION: 2 HOURS.

INSTRUCTIONS

- 1. Answer QUESTION ONE and any other TWO questions**
- 2. Show ALL your workings and be as NEAT as possible.**
- 3. Candidates are advised not to write on the question paper**
- 4. Marks allocated to each question are shown at the end of the question.**

RATES OF TAX (including wife's employment, self employment and professional income rates of tax).

Year of income 2022

Monthly taxable pay (shillings)	Annual taxable pay (shillings)	Rates of tax % in each shilling
1 – 24,000	1 – 288,000	10%
24,001 – 32,333	288,001 – 388,000	25%
Excess over 32,333	Excess over 388,000	30%

Personal relief Sh.2,400 per month) Sh.28,800 per annum)

Prescribed benefit of motor vehicles provided by employer

	Monthly Rates (Sh.)	Annual Rates (Sh.)
Pick-ups, Panel Vans (unconverted)		
Upto 1750cc	3,600	43,200
Over - 1750cc	4,200	50,400
Land Rovers/Cruisers		
	7,200	86,400
Saloons Hatch Backs and Estates		
Upto 1200cc	3,600	43,200
1201 - 1500cc	4,200	50,400
1501 - 1750cc	5,800	69,600
1751 - 2000cc	7,200	86,400
2001 - 3000cc	8,600	103,200
Over - 3000cc	14,400	172,800
Commissioners prescribed benefit rates:	Monthly Rates	Annual Rates
Electricity (Communal or from a generator)	1,500	18,000
Water (Communal or from a borehole)	500	6,000
Agriculture employees: Reduced rates of benefits		
Water	200	2,400
Electricity	900	10,800
Other benefits:		

Other benefits, for example servants, security, staff meals etc are taxable at the higher of fair market value and actual cost to employer.

QUESTION ONE

- a) Explain the conditions for being a resident for an individual and also for a body corporate as per the Kenyan income tax Act. **(5 Marks)**
- b) Using example where appropriate, explain the significance of residence as far as taxation in Kenya is concerned. **(5 Marks)**
- c) Jane Nekesa is a resident individual employed as a finance manager at Total International Ltd. She provided the following information relating to her income for the year ended 31st 2022:

1. Her employment contract indicated the following:

	Ksh.
Basic monthly salary	250,000
Monthly hardship allowances	45,000
Monthly responsibility allowances	50,000
Monthly commuter allowances	25,000

2. During the year, she received Ksh. 90,000 as a bonus for the previous years' reported profits.
3. She made a donation of Ksh. 50,000 to the National Kidney Fund during the year.
4. She was provided with a fully furnished house by the employer. The employer paid a monthly rent of Ksh. 80,000 and the cost of furniture was Ksh. 320,000.
5. The employer paid her monthly medical insurance premiums of Ksh. 5,000 during the year.
6. PAYE deducted from her monthly salary was Ksh. 68,000.
7. The company provided her with a 2,500 cc saloon car on 1st October 2022 for official and private use. The car had been purchased for Ksh. 1,800,000.
8. She contributed Ksh. 15,000 per month towards a registered pension scheme.
9. She obtained a mortgage loan for the purpose of constructing her residential house from the National Savings Bank. The loan amount was Ksh. 4,000,000 with a monthly repayment of Ksh. 332,000. During the year, the total interest paid on the loan was Ksh. 144,000.
10. The company has a medical scheme for its managers. She was reimbursed Ksh. 380,000 during the year in respect of medical bills.

11. During the year, she was voted as the best employee and the company rewarded her with a cash of Ksh. 60,000.
12. The company paid her son's college fees amounting to Ksh. 120,000 during the year. This amount was treated as an allowable expense in the company's books of account.

Required:

- i) Total taxable income for Jane Nekesa for the year ended 31st December 2022. **(15 Marks)**
- ii) Tax payable (if any) from the income computed in (i) above. **(5 Marks)**

QUESTION TWO

- a) Principles of an optimal tax system refers to the rules or standards established by economic scholars for an optimal tax system. The principles guide the formulation of tax systems by any Government.

Required:

Describe any FIVE major principles of taxation applicable to a Government. **(10 Marks)**

- b) Elchico Co. Ltd. a manufacturer, purchases raw materials at Sh.1,000,000. The company then incurs conversion costs which are estimated at 40% of material cost. The profit mark-up is 20% of total cost. The completed product is sold to Pramukh Wholesalers who then incur conversion costs of 50% on cost. The wholesalers mark-up is 10% on cost. The wholesaler sells the product to a retailer, who has no conversion costs but sells at a profit of 30%. **(10 Marks)**

QUESTION THREE

The directors of Kabunde engineering Company Limited presented the following Profit and Loss for the year ended 31st December 2021:

	Sh.
Revenues	
Sales	30,780,000
Interest on Government Securities (Gross)	<u>50,000</u>
	30,830,000
Expenses:	
Purchases	24,000,000
Wages	2,320,000
Carriage inwards	370,000
Rent	300,000
Insurance	190,000
Trade expenses	100,000

Repairs:	
Building	300,000
Machinery	56,000
Advertising	254,000
Legal charges	80,000
Audit fees	70,000
Depreciation	3,017,000
Provision for doubtful debts	104,000
Debenture interest	600,000
Interim dividend	400,000
Proposed dividend	<u>731,300</u>
	<u>32,892,300</u>
Net Loss	2,062,300

The following additional information is provided:

1. Purchase returns and sales returns were Sh.500,000 and Sh.700,000 respectively. These were left out while preparing the trial balance.
2. Wages include Sh.25,000 per month paid to a “consultant” who helps the company whenever there is a problem with the VAT department. VAT of Sh.560,000 remains unpaid and the “consultant” promises to find a way of getting it written off. Full PAYE is deducted from his salary.
3. Trade expenses include an amount of Sh.60,000 travel expenses to Korea for the Director as part of the National Chamber of Commerce Trade and Industry promotion tour.
4. Repairs to machinery include small loose tools written off by Sh.10,000.
5. Bad debts which are specifically bad are Sh.74,000.
6. Capital allowances have been agreed at Sh.2,000,000.

Required:

- (a) Taxable profits for the year of income 2021. **(15 marks)**
(b) Tax payable if any for 2021. Comment on the results. **(5 marks)**

QUESTION FOUR

Juma, Kassim and Aman are partners operating a chain of retail shops. They share profits or losses in the ratio of 2:2:1 respectively. During the year ended 31st December 2022, the partners reported a loss of 2,542,000 after deducting the following:

	Ksh.
Interest on capital:	
Juma	135,000
Kassim	135,000

Aman	215,000
Salaries to partners:	
Juma	400,000
Kassim	320,000
Aman	576,000
Motor vehicle repairs	526,000
Office and sundry expenses	260,000
General repairs and maintenance	120,000
Good will impairment	340,000
Loss on disposal of a motor vehicle	385,000
Postage and telephone	180,000
Water and electricity	146,000
Subscription to Wananchi Golf Club	105,000
Donations	240,000
Bad debts written-off	346,000
Rent, rates and licenses	180,000
Accountancy services	325,000
Depreciation	845,000
Purchase of pick-up	1,500,000
Transport cost	340,000
Insurance of motor vehicles	520,000

Additional information:

- Office and sundry expenses included cost of office cabinet of Ksh. 90,000.
- Transport cost included Ksh. 10,000 per month relating to personal use.
- Provision for bad and doubtful debt account.

	Ksh.		Ksh.
Bad debts	246,000	General (brought forward)	330,000
Specific (carried forward)	192,000	Specific (brought forward)	152,000
General (carried forward)	<u>390,000</u>	Profit and loss account	<u>346,000</u>
	<u>828,000</u>		<u>828,000</u>

- Wear and tear allowances agreed with commissioner amounted to Ksh. 1,236,000.
- Included in general repairs and maintenance is Ksh. 80,000 paid for the year 2023.

Required:

- Adjusted taxable profit or loss for the partnership for the year ended 31st December, 2022. **(15 marks)**
- Distribution schedule of profit or loss computed above. **(5 marks)**

QUESTION FIVE

Ganges Millers Ltd is a maize flour milling company. The company started its operations on 2nd January 2020 after incurring the following expenditure:

	Ksh.
Cost of land	1,600,000
Furniture and fittings	250,000
Distribution van	3,400,000
Photocopier machine	135,000
Water pump	520,000
Factory building	4,200,000
Packing machine	960,000
Mercedes Benz Saloon (for the director)	3,800,000
Digital weighing scale	60,000
Processing machine	540,000
Tractor	2,400,000
Computers	620,000
Mobile phones	140,000
Combined harvester	1,800,000

Additional information:

1. The company constructed the following structures during the year which were utilized from 1st September 2020:

	Cost of construction (Ksh.)
Sports pavilion	624,000
Labour quarters	1,200,000
Recreation facility	480,000
Stone perimeter wall	1,400,000

2. The company disposed of two computers at Ksh. 30,000 each on 1st August 2020.
3. The cost of processing machines includes the installation cost of Ksh. 120,000.
4. A godown was constructed at a cost of Ksh. 900,000 used with effect from 1st October 2020.
5. The Directors Mercedes Benz was involved in an accident on 13th December 2020 and the insurance company compensated the company Ksh. 3,200,000 as the write-off value.
6. The company sunk a borehole at a cost of Ksh. 52,000 which was utilized from 1st November 2020.
7. A loading bay and an extension to the factory building were constructed and utilized with effect from 1st September 2020. The loading bay Ksh. 420,000 while the factory extension cost Ksh. 960,000.

Required:

Capital allowances due to Ganges Millers Ltd for the year ended 31st December 2020.

(20 marks)