



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE BACHELOR OF BUSINESS
ADMINISTRATION WITH IT
3RD YEAR 1ST SEMESTER 2022/2023 ACADEMIC YEAR
MAIN CAMPUS REGULAR

COURSE CODE: BAB 1301

COURSE TITLE: PRINCIPLES OF TAXATION

EXAM VENUE:

DATE: 09/12/2022

SESSION: 9.00-11.00AM

DURATION: 2 HOURS

INSTRUCTIONS

- a) Answer QUESTION ONE and any other TWO questions
- b) Show ALL your workings and be as NEAT as possible
- c) Candidates are advised not to write on the question paper
- d) Marks allocated to each question are shown at the end of the question.

QUESTION ONE (COMPULSORY)

- (a) Classification of zero-rated goods may sometimes be varied and grouped among those that are exempt.

Required;

Discuss any three benefits likely to be derived from changing zero rated supplies to exempt supplies under the Kenyan tax laws. (3 Marks)

- (b) The following details were obtained from the book balances of Mwalimu Investments Ltd for the month of October, 2020, with respect to VAT transactions;

- (i) The firm received debit notes to the tune of Kshs.23,200 in relation to invoices issued by suppliers in error
- (ii) A debtor who had purchased goods valued at Kshs.32,480 was declared bankrupt. The debt was subsequently written off.
- (iii) Imported goods valued at Kshs.500,000 had not been recorded. They were to attract import duty at the rate of 25%, Insurance charges of Kshs.20,000 and freight charges worth Kshs.40,000.
- (iv) Credit notes worth Kshs.20,880 were issued by the firm to credit customers during the month.
- (v) Due to employing an inexperienced accountant, the company had not kept proper sales and purchases records, so as to identify exempt sales made during the period.
- (vi) Other vatable transactions recorded were as follows;

Particulars	Amount (Kshs)
Motor vehicle fuel for sales van	78,880
Catering services for Company staff	81,200
Audit fees	41,760
Exempt supplies	280,000
Purchase of printing materials	29,000
Exports to Malawi	400,000
Water bills	21,000
Standard rate sales	1,136,800
Standard rate purchases	487,200
Exports to Uganda	400,000
Telephone bills paid	58,000

- (vii) All transactions are inclusive of VAT at the standard rate of 16% where applicable

Required;

Determine the VAT payable by (or refundable to) Mwalimu Investments Ltd for the month of October, 2020. (9 Marks)

- (c) In a tax seminar organized by the Kenya Revenue Authority, a facilitator made the following remark; “*Tax evasion* is not the same as *tax avoidance*”.

Required;

Bring out the difference between the two phrases and briefly explain any five activities that constitute tax evasion (6 Marks)

(d) You are provided with the following transactional details obtained from the financial records of Wanandegge Ltd in respect to their trading activities for year ended 31 December, 2021;

Particulars	Amounts (Kshs)
Machinery installation costs	84,000
Foreign exchange gain (realized)	464,000
Provision for Bad debts	90,000
Dividends Received (from Absa Bank Ltd)	200,000(net)
Legal fees	279,000
Salaries	1,920,000
Interest received (from Stanbic Bank Ltd)	680,000(net)
Bad debts recovered	1,080,000
Electricity expenses	360,000
Purchases	2,200,000
Discount Received	266,000
Audit fees	336,000
Donations to Political Party	2,100,000
Sales	9,600,000
General expenses	104,000
Car Hire expenses	840,000
Loss of Stock	1,060,000
Discount allowed	108,000
Purchase of Machinery	3,200,000
Subscription to Kenya Chamber of Commerce	130,000
Rent received (Commercial premises)	560,000
Advertisement expenses	790,000

Additional information;

- i. Within the advertising expenses was a sum of Kshs.390,000 which related to erection of bill boards.
- ii. Two thirds of the recovered bad debts related to bad debts which had earlier been written off from the firm's books of accounts.
- iii. The sales amount was recorded net of VAT, except for an amount of Kshs.1,856,000 which had factored VAT at the rate of 16%.
- iv. Of the Loss Stock amount, goods worth Kshs.240,000 were insured.
- v. The closing stock amounted to Kshs.1,680,000 while the opening stock was valued at Kshs.1,824,000
- vi. The amount for legal fees comprised of;
 - Trade dispute Kshs.54,000
 - Land Conveyance charges Kshs.84,000
 - Breach of contract Kshs.73,000
 - Preparation of Staff Contracts Kshs.68,000

Required;

Compute the adjusted taxable income for Wanandegge Ltd for the year ended 31 December, 2021
(12Marks)

QUESTION TWO

- (a) Mrs. Kikwetu purchased a building for Kshs.2,400,000. The lawyer's charges for transferring the title was Kshs.180,000 while the valuer's fees was Kshs.160,000. She replaced the roof and the sewerage system at a cost of Kshs.360,000 and Kshs.78,000 respectively. The Revenue Authority accepted accumulated industrial building deduction at Kshs.282,000, before the building was later sold for Kshs.5,840,000, upon incurring advertisement expenses of Kshs.246,000.

Required;

Compute the capital gain tax payable by Mrs. Kikwetu following the successful disposal of the building
(5 Marks)

- (b) Edmonton Ltd is a small scale manufacturer of home products. The firm started its operations on 1 April, 2019. The following information relates to their activities during the year ended 31 December, 2019;
- The firm constructed a sports pavilion at a cost of Kshs.650,000 and put it in active use from 1 October, 2019
 - Edmonton Ltd incurred a cost of Kshs.2,600,000 for construction of staff quarters. The same were occupied from 1 October of the year under review.
 - To address the biting water shortage, a borehole was sunk at a cost of Kshs.680,000. It was put into active use from 1 November, 2019
 - Before starting their business operations on 1 April, 2019, they had incurred the following expenses;

Particulars	Kshs
Computers	450,000
Godown	1,800,000
Factory building	5,200,000
Staff Canteen	960,000
Furniture	980,000
Machinery for processing final products	2,400,000
Drainage system	320,000
Water pump	360,000
Saloon car	1,600,000

- On 1 May, 2019, a forklift was imported at a cost of Kshs.1,200,000. This was before factoring import duty and value added tax at the rates of 25% and 16% respectively.
- The directors approved the purchase of the following assets to facilitate smooth operations;

Particulars	Kshs
Fax machine	200,000
Cash register	120,000
Boiler	920,000
Conveyor belts	780,000
Motor vehicle (pick-up)	1,900,000

Photocopying machines	180,000
Wooden Office cabinets	160,000

Required;

Capital allowances claimable by Edmonton Ltd for the year ended 31 December, 2019
(15 Marks)

QUESTION THREE

(a) Realizing target collections remain a challenge to the tax collecting authority in Kenya. There is need to devise innovative ways that will help in enhancing the amount of revenue collected as a strategy to realize set targets. In reference to the above statement, explain five ways that the Kenya Revenue Authority may adopt to enhance revenue collection. (5 Marks)

(b) Below are records extracted from the financial transactions of Kunyanzi Ltd for the year ended 31 December, 2021;

Income	Kshs	Kshs
Sales		1,920,000
Foreign exchange gain realized		620,000
Cash received from sale of old car		120,000
Discount Received		136,000
		2,796,000
Expenditure		
Bad debts	(96,000)	
Interest on loan	(220,000)	
Legal charges	(380,000)	
General expenses	(840,000)	
Provision for income tax	(120,000)	
Loan repayment	(460,000)	
Directors' expenses	(360,000)	
Audit fees	(280,000)	
Stationery	(180,000)	
Depreciation	(150,000)	
Dividends	(980,000)	(4,066,000)
Net loss		(1,270,000)

You are provided with the following relevant information;

(i) General expenses is made up of the following details;

Particulars	Kshs
Stamp duty paid for transfer of land	190,000
Staff catering expenses	220,000
Office partition	120,000
Cash stolen by cashier	60,000
Staff end-year party	250,000

(ii) Bad debts relate to the general provision as at the end of the year, 2021

- (iii) Within the audit fees is Kshs.100,000 relating to an audit on the subsidiary company of Kunyanzi Ltd and another Kshs.80,000 paid to a firm of accountants for preparing revised accounts.
- (iv) Capital allowances amount to Kshs.220,000 as authorized by the tax authority
- (v) Legal charges are worked out as follows;

Particulars	Kshs
Penalties for VAT late payments	64,000
Debt collection charges	56,000
Drafting lease agreement (99 years)	80,000
Breach of Contract expenses	180,000

Required;

Adjusted taxable income for Kunyanzi Ltd for the year ended 31 December, 2021
(15 Marks)

QUESTION FOUR

- (a) Plastecene Ltd spent on the following items at the start of its business operations on 1 January, 2021;

Delivery Van	-	Kshs.2,600,000
Tractor		Kshs.2,800,000
Computer Software		Kshs.320,000
4 Ton Isuzu Lorry		Kshs.3,200,000
Water Pump		Kshs.420,000
Processing Machinery		Kshs.6,200,000
Dell Computers		Kshs.380,000
Staff Clinic Construction		Kshs.1,200,000
Factory Land and Buildings		Kshs.10,500,000
Staff Canteen Construction		Kshs.960,000
Weighing Machines		Kshs.250,000
Staff Furniture		Kshs.180,000

You are further informed that;

1. During the year, the firm constructed a perimeter wall to the tune of Kshs.960,000
2. The item with respect to factory land and buildings is inclusive of Kshs.5,800,000 which was the cost of factory land purchased,
3. The firm also constructed a godown at a cost of Kshs.2,800,000 and Staff quarters at Kshs.1,600,000. Both the godown and Staff quarters were ready for use from 1 October, 2019.

Required;

Compute Plastecene Ltd's capital allowances for the year ended 31 December, 2019

(14 Marks)

(b) Discuss the following theories of tax shifting;

- (i) Demand and supply theory
- (ii) Diffusion theory
- (iii) Concentration theory

(6 Marks)

QUESTION FIVE

(a) Mr. Cliff Maroro retired as a Manager from Macliff Ltd on 20 September, 2021 after serving for 20 years. He received a lumpsum pension of Kshs.1,580,000.

The following information has been obtained from the records of his employment and other income for the year ended 31 December, 2021;

(i) Basic salary and allowances were as follows;

Monthly basic salary	Kshs.160,000p.m	(PAYE Kshs. 42,000)
Bonus (paid in June, 2021)	-	Kshs. 250,000
Responsibility allowance	-	Kshs. 42,000p.m
Risk allowance	-	Kshs.35,000p.m

(ii) He made monthly contributions to a registered home ownership savings plan while working at Macliff Ltd

(iii) In October, 2021, he invested half of his pension income in a car-hire business, from where he earned a net profit of Kshs.120,000. The following expenses relate to the car-hire business;

Drivers' Salaries	-	Kshs.64,000
Car engine replacement	-	Kshs.260,000
Depreciation	-	Kshs.60,000
Motor vehicle inspection	-	Kshs.25,000
Licenses	-	Kshs.60,000
Repairs and maintenance	-	Kshs.180,000
Parking fines	-	Kshs.42,000
Fuel	-	Kshs.240,000
General provision for bad debts	-	Kshs.26,000

(iv) While in employment, Macliff Ltd paid for his monthly electricity, water and telephone bills to the tune of Kshs.22,000, 18,500, 16,000 respectively.

(v) A total of Kshs.320,000 was paid during the year by the company to cover for his family's life insurance policy

Required;

(i) Taxable income for Mr. Maroro for the year ended 31 December, 2021

(12Marks)

(ii) Tax payable (if any) from the income in (i) above

(2 Marks)

- (b) Tax shifting involves moving the tax burden from one party to another. This may be influenced by a number of factors that must be borne in mind before settling on the decision on whether or not it is capable of being effected. Discuss. (6 Marks)

ADDITIONAL DATA PROVIDED FOR THE STUDENTS TO USE

Annual taxable Pay (Sh.)	Rate of Tax % in each Sh.			
		Saloon, Estates and Hatchbacks	Monthly Rate (Sh.)	Annual Rate (Sh.)
1 - 147,580	10%	Up to - 1200 cc	3,600	43,200
147,581 - 286,623	15%	1201 - 1500 cc	4,200	50,400
286,624 - 425,666	20%	1501 - 1750 cc	5,800	69,600
425,667 - 564,709	25%	1751 - 2000 cc	7,200	86,400
Excess over 564,709 Personal relief to taken as Sh. 1,408 per month.	30%	2001 - 3000 cc	8,600	103,200
		Over - 3000 cc	14,400	172,800
Commissioner's Prescribed Benefit Rates				
Services	Monthly Rates (Sh.)	Annual Rates (Sh)		
1) Electricity (Communal or From Generator)	1,500	18,000		
2) Water (Communal or Bore Hole)	500	6,000		
Agriculture Employee. Reduced Rates of Benefit				
1) Water	200			
2) Electricity	900			