



# **MAASAI MARA UNIVERSITY**

## **REGULAR UNIVERSITY EXAMINATIONS 2019/2020 ACADEMIC YEAR FOURTH YEAR FIRST SEMESTER**

### **SCHOOL OF BUSINESS AND ECONOMICS BACHELOR OF COMMERCE**

**COURSE CODE: BCM 4103**

**COURSE TITLE: ADVANCED TAXATION**

**DATE: 10<sup>TH</sup> DECEMBER 2019**

**TIME: 1430 - 1630 HRS**

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#### **INSTRUCTIONS TO CANDIDATES**

1. Answer Question **ONE** and any other **THREE** questions
2. Do **NOT** write on this Question paper

*This paper consists of 7 printed pages. Please turn over.*

## QUESTION ONE

- a) Differentiate between the following as applied in tax:
- i) Balancing charge and balancing deduction (4 Marks)
  - ii) Trading receipt and trading deficit (4 Marks)
  - iii) Zero rated and exempt supplies (4 Marks)
- b) Explain the following terms as applied in taxation
- i) Pre-shipment inspection (2 Marks)
  - ii) Tax Havens (2 Marks)
  - iii) Dumping (2 Marks)
- c) The finance act of 2018 increased the VAT on fuel to 8% despite a lot of opposition by stakeholders. Using your tax knowledge prepare a write up with your opinion on the implications of such a move. (7 Marks)

## QUESTION TWO

The following information relates to Kwavonza Savings and Credit Cooperative Society Limited for the year ended 31 December 2019.

Income:		
Income from members loans		9,600.00
Interest from fixed deposit accounts		2,400.00
Interest from government infrastructure bonds		3,600.00
Other investment income		1,500.00
Rental income		3,200.00
Interest from front office savings activity (FOSA)		1,000.00
Dividends from Supa Cooperative Society ltd		<u>800.00</u>
<b>Gross income</b>		<b>22,100.00</b>
Expenses:		
Administrative expenses	5,600.00	
Capital allowances	1,400.00	
Operating expenses	3,000.00	<u>(10,000.00)</u>
<b>Surplus</b>		<b><u>12,100.00</u></b>

### Additional information:

- i) The society paid dividends and bonuses to members amounting to sh. 6,500,000 for the year ended 31 December 2019
- ii) Administrative expenses include:
  - Salaries to officers directly involved in processing of members loans 1,400,000
  - Salary to caretaker of rental property 200,000
  - Purchase of computer software 400,000

- iii) Operating expenses include depreciation of sh 84,000 and non-performing loans to members of sh. 120,000 which were written off
- iv) Other investment income includes interest from savings account of sh. 500,000

**Required:**

- i) Kwavonza Adjusted taxable profit or loss for the year ended 31 December 2018 **(10 Marks)**
- ii) Tax liability, if any, for the year ended 31 December 2018 **(3 Marks)**
- iii) Comment on any information not used in (i) above **(2 Marks)**

**QUESTION THREE**

Simon and Peter have been trading as partners under the name Simope Enterprises, sharing profits and losses equally. They manufacture motor vehicle accessories for local and overseas markets. They have provided you with the following information in relation to their trading results for the year ended 31 December 2018.

- i) They reported a net profit of sh.7,000,000 after charging the following expenses:

	<b>Sh.</b>
Salaries and wages	640,000
Repairs and maintenance	325,000
Bad debts written-off	120,000
Office expenses	605,000
Staff welfare costs	72,000
Partners' salaries	
Simon	750,000
Peter	900,000
Travelling expenses	120,000
Interest on capital	
Simon	200,000
Peter	160,000
Depreciation	265,000
Interest on bank overdraft	96,000

ii) Dividends were received from the following companies:

	<b>Sh.</b>
BAT Ltd.	- 285,000
Barclays Bank Ltd.	- 120,000
Firestone Ltd.	- 60,000

iii) Details of assets are as follows:

As at 1 January 2018, the written down values of assets brought forward for income tax purposes were as follows:

Factory building	Class I	Class II	Class III	Class IV
<b>Sh.</b>	<b>Sh.</b>	<b>Sh.</b>	<b>Sh.</b>	<b>Sh.</b>
18,000,000	1,093,750	3,125,000	2,187,500	2,980,000

Additions during the year:

	<b>Sh.</b>
Machinery	500,000
Fax machine	45,000
Photocopier	180,000
Computers	250,000
Saloon car	1,150,000
Factory building	2,400,000

Disposals during the year:

	Class I	Class II	Class III	Class IV
	<b>Sh.</b>	<b>Sh.</b>	<b>Sh.</b>	<b>Sh.</b>
Cost	650,000	175,000	300,000	400,000
Net book value	200,000	40,000	75,000	150,000
Sale proceeds	760,000	96,000	250,000	100,000

iv) The old factory building was constructed in 2013 and put into use with effect from 1 January 2014. The additional building was brought into use from 1 July 2005.

**Required:**

- Capital allowances due to Simope Enterprises for the year 2018 **(8 Marks)**
- Taxable profit (or loss) for the partnership and show its division among the partners. **(3Marks)**
- Tax payable by each partner **(2Marks)**
- Comment on any information you have not used. **(2Mark)**

## QUESTION FOUR

Malimali Merchants reported the following relating to the month of April 2019. The extract of the company's cashbook for the month is presented below:

### Cashbook

1-Apr	Balance b/f	160,000.00	2-Apr	Purchases	400,000.00
2-Apr	Sales (standard)	840,000.00	7-Apr	Telephone bill	36,000.00
3-Apr	Sales (zero rated)	180,000.00	9-Apr	Tuk Tuk repairs	32,000.00
4-Apr	Sales (Export)	340,000.00	18-Apr	Purchase of equipment	90,000.00
5-Apr	Bank A/c - contra	200,000.00	20-Apr	Salaries and wages	272,000.00
			28-Apr	Rent and rates	28,000.00
			30-Apr	Staff meals	60,000.00
			30-Apr	Balance c/d	802,000.00
		<u>1,720,000.00</u>			<u>1,720,000.00</u>

### Additional information:

- i) Sales on credit amounted to sh. 600,000 at the standard rate of 16%. One of the debtors who owed sh. 100,000 was declared bankrupt on 1<sup>st</sup> may 2019.
- ii) Opening stock as at September was valued at sh. 4,800,000
- iii) Credit notes amounting to sh. 60,000 were sent to customers. These related to goods sold at the standard rate
- iv) The telephone bill relates to the month of February, March and April 2019. The expense accrued evenly over the three months period
- v) The company returned goods worth sh. 48,000 to suppliers
- vi) Insurance was paid in connection to raw materials valued at sh. 288,000 before deducting import duty of sh. 52,000

### Required:

- a) Prepare the VAT for the month of April 2019. The amounts are stated as inclusive of VAT where applicable. **(8 Marks)**
- b) In respect to VAT explain the treatment of bad debts **(4 Marks)**
- c) Explain the fines and penalties applicable to the VAT **(3 Marks)**

## QUESTION FIVE

Kiota Insurance Company Limited based in Nairobi has provided the following information for the year ended 31 December 2018

	<b>Sh '000</b>
Gross premiums received	30,000.00
Claims paid	4,000.00
Commission added	800.00
commission accepted	20.00
Claims recovered on reinsurance	3,000.00
Foreign exchange gains	3,500.00
Dividend from life assurance fund	2,000.00
Rental income	1,600.00
Bad debts provision	500.00
Investment income	1,200.00
Reserve for unexpired risks (1 Jan 2018)	1,000.00
Legal expenses relating to claims	400.00
Agency fess	400.00
Management fees	120.00
Repairs of rented properties	200.00
Entertainment expenses	400.00
Purchase of furniture	600.00
Purchase of computers	300.00
Reinsurance premiums paid	4,000.00
Returned premiums	5,000.00

### **Additional information:**

- i) Reserves for unexpired risks on 31 December 2018 amounted to sh. 200,000
- ii) The outstanding claims on 1 January 2018 and 31 December 2018 were sh. 600,000 and sh. 900,000 respectively
- iii) Premiums outstanding on 1 January 2018 and 31 December 2018 were sh. 6,000,000 and sh. 12,000,000 respectively
- iv) Agency fees included sh. 200,000 relating to the life assurance business
- v) Legal fees included sh. 100,000 relating to settlement of a tax dispute
- vi) Investment income comprised the following:

Interest from bank (net)	850,000
Interest from treasury bonds (gross)	350,000

### **Required:**

- a) Taxable profit or loss of Kiota Insurance Company Limited from the general insurance business for the year ended 31 December 2018 **(10 Marks)**
- b) Tax liability, if any, from above **(2 Marks)**
- c) Describe the tax treatment of Trusts **(3 Marks)**

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

**Year of income 2018.**

Monthly taxable pay (Sh.)		Annual taxable pay (Sh.)		Rate of tax % in each Sh.
1	- 12,298	1	- 147,580	10%
12,299	- 23,885	147,581	- 286,623	15%
23,886	- 35,472	286,624	- 425,666	20%
35,473	- 47,059	425,667	- 564,709	25%
Excess over	- 47,059	Excess over	- 564,709	30%

**Personal relief Sh.1,408 per month (Sh.16,896 per annum).**

**Prescribed benefit rates of motor vehicles provided by employer**

	Monthly rates		Annual rates	
	(Sh.)		(Sh.)	
<b>Capital allowance:</b>				
<b>Wear and tear allowance:</b>				
Class I	37.5%			
Class II	30%			
Class III	25%			
Class IV	12.5%			
Software	20%			
<b>Industrial building allowance:</b>				
Up to 2009	2.5%			
From 1 January 2010	10%			
Hotels	10%			
Hostels/Education/Film producers buildings	100%			
From 1 January 2010 - Commercial building: (Shop, office or show room)	25%			
<b>Farm works allowance</b>	100%			
<b>Investment deduction allowance</b>	100%			
<b>Shipping investment deduction (Ships over 125 tonnes)</b>	100%			
<b>Extraction expenditure:</b>				
Written off over 5 years (20%)				
<b>Commissioner's prescribed benefit rates</b>				
<b>Services</b>	<b>Monthly rates</b>	<b>Annual rates</b>		
	<b>Sh.</b>	<b>Sh.</b>		
(i) Electricity (Communal or from a generator)	1,500	18,000		
(ii) Water (Communal or from a borehole)	500	6,000		
<b>Agriculture employees: Reduced rates of benefits</b>				
(i) Water	200	2,400		
(ii) Electricity	900	10,800		

**(i) Saloons, Hatch Backs and Estates**

Up to	1200 cc	3,600	43,200
1201	1500 cc	4,200	50,400
1501	1750 cc	5,800	69,600
1751	2000 cc	7,200	86,400
2001	3000 cc	8,600	103,200
Over	3000 cc	14,400	172,800

**(ii) Pick-ups, Panel Vans (unconverted)**

Up to	1750 cc	3,600	43,200
Over	1750 cc	4,200	50,400

**(iii) Land Rovers/Cruisers**

7,200	86,400
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