



**DEDAN KIMATHI UNIVERSITY OF TECHNOLOGY
UNIVERSITY EXAMINATION ACADEMIC YEAR 2021/2022
SECOND YEAR SUPPLEMENTARY/SPECIAL EXAMINATION FOR THE
DEGREE OF BACHELOR OF COMMERCE AND BACHELOR OF BUSINESS
ADMINISTRATION**

BCM 2203: INTRODUCTION TO TAXATION

APRIL 2022

TIME: 2 HOURS

Instructions:

Answer question ONE and any other TWO questions

QUESTION ONE

- a) Discuss the effects of taxation on an economy (4 marks)
- b) Highlight any four benefits of direct taxes (4 marks)
- c) List four types of buildings that would qualify for industrial building deductions under the Second Schedule of the Income Tax Act (4 marks)
- d) Discuss the Circumstances under which an individual tax payer is said to be in employment by the commissioner domestic taxes. (5 Marks)
- e) Explain the key gains or profits from employment to which the commissioner may allow for taxation of individuals. (5 Marks)
- f) Discuss the role of information technology development on tax administration in Kenya (8 marks)

QUESTION TWO

- a) With reference to the provisions of the Income Tax Act identify four methods which the Commissioner of Income Tax is empowered to use in order to collect overdue tax from a taxpayer. (4 marks)
- b) Jane is an accountant with Sigma Enterprises Ltd. Details of employment income for the year ended 31 December 2019 are as follows:
 - 1. Salary per month; Sh.250,000 (PAYE of Sh.84,600 per month).
 - 2. She contributes 5% of her monthly salary to the company's pension scheme which is registered with the Commissioner of Income Tax.
 - 3. She is provided with a company house.The financial controller has informed you that Sigma Enterprises Ltd. has leased the house, which Jane is occupying at the monthly rent of Sh.50,000

Required:

- (i) Compute chargeable income for Jane in 2019. (6 marks)
- (ii) Compute Jane's 2019 tax liability. (6 marks)

- (iii) Would the chargeable income and the tax liability in (i) and (ii) above change if the house that Jane occupies was rented from her? Explain (Calculations are not required). (4 marks)

QUESTION THREE

Amos, Kinyua and Muli are in a partnership of selling imported clothes, handbags and shoes. They have provided the following information for the year of income 2019:

		Sh.
Net loss after deducting the following:		(1,080,000)
Rent		180,000
Legal costs		75,000
Salaries and wages		300,000
Donations: Turkana Food Relief Fund		50,000
Electricity and water		35,000
Repairs to business premises		65,000
Stationery		12,000
Vehicle expenses		90,000
Audit and accountancy		24,000
Advertising		65,000
Depreciation:	Car	10,000
	Building	33,000
Salaries:	Kinyua	240,000
	Muli	240,000
	Amos	360,000
Interest on capital	Kinyua	80,000
	Muli	80,000
	Amos	120,000
Bad debts		40,000
Loss on sale of shares		8,000
Political party membership: Kinyua		6,000
Withdrawals by Muli		5,000
Dresses taken by Amos for her own use		12,000
School fees paid for Amos's children		55,000

Additional information:

- Wear and tear deductions were estimated at Sh.16,000.
- Fifty per cent of vehicle expenses was for personal use.
- Salaries and wages include Sh.30,000 paid to Amos's daughter for assisting in the business during the school holidays.
- Rent analysis:

Payment for Partners residence	Sh. 80,000
Business	Sh.100,000
- Legal costs included a payment of Sh.15,000 paid to an arbitrator to settle a personal dispute between Kinyua and Muli.
- Bad debt analysis: Sh.

General provision	10,000
Specific provision	12,000
Written-off	8,000
Amos's son (defaulter)	<u>10,000</u>
	<u>40,000</u>

7. Advertising:	Sh.
Advertising campaign	28,000
Cost of new sign board	5,000
Sale of clothes	9,000
Amos's birthday expenses	<u>23,000</u>
	<u>65,000</u>

8. Other incomes (included in trading profit)	Sh.
Dividends from shares KCB Ltd.	19,000
Rental income: sub-letting business premises	22,000
Gain on sale of furniture	<u>13,000</u>
	<u>54,000</u>

Required:

- (a) Taxable income (loss) for the partnership business and distribution among the partners for 2019 if they share profits and losses in the ratio 2:1:1. (17 marks)
- (b) Determine the taxable income of each partner. (3 marks)

QUESTION FOUR

- a) List any four grounds of appeal to a VAT tribunal (4 marks)
- b) With reference to the provisions of the VAT Act, write brief notes on the following:

- (i) Bad debt relief. (2 marks)
- (ii) Deregistration of taxable persons (2 marks)
- (iii) Zero rated supplies (2 marks)

- c) The following information relates to the transactions of Communication Solutions Ltd. for the month of September 2020. The company is registered for VAT.

- 2 September Purchased goods worth sh.2,400,000 from Japan. Customs duty was paid at 5%.
- 2 September Sold goods to Mobile Connections Ltd. for Sh.960,000 on credit. Goods worth sh.60,000 were found to be defective and were returned.
- 5 September Purchased office furniture for Sh.640,000. One desk worth sh.80,000 was defective and was returned to the seller.
- 9 September Purchased office furniture for Sh.4,500,000 on credit from a manufacturing company. Goods worth sh.500,000 were damaged in transit and were thus not saleable. It cost the company sh.240,000 to transport the goods.

- 10 September Sold goods for cash worth Sh.960,000
 12 September Exported goods worth sh.2,400,000
 16 September Imported goods worth sh.1,500,000 from India. Customs duty was paid at 5%
 20 September Sold goods worth sh.218,000 to XYZ Ltd.
 25 September Exported goods worth Sh.2,600,000 to Kimbo ltd.
 30 September Paid the following expenses for the month of September:

- Sales and wages – Sh.1,400,000
- Electricity - Sh.48,000
- Telephone - Sh.36,000
- Water - Sh.10,000

Note: Where applicable, prices are quoted inclusive of VAT at 16%.

Required:

The VAT payable (or refundable) for the month of September 2020. (10 marks)

QUESTION FIVE

(a) With reference to the Income Tax Act (Cap. 470) explain the tax treatment of the following incomes received by company

- (i) Dividend (4 marks)
 (ii) Interest (2 marks)
 (iii) Rent (2 marks)

(b) The management of Echo Limited has presented the following income statement for the year ended 31 December 2019 .

Echo Limited
Income Statement for the year ended 31 December 2019.

	Sh	Sh
Gross profit		5,292,000
Other incomes		
Dividend from a subsidiary company	200,000	
Interest from foreign bank accounts	4,000	
Discount received	28,000	
Refund of VAT	12,000	
Gain on sale of motor vehicle	14,000	
		<u>258,000</u>
		5,550,000
 Expenditure		
Salaries and wages	800,000	
NHIF contributions	30,000	
Subscriptions to a trade association	50,000	
Hire purchase interest	15,000	
Bad debts written off	60,000	

General expenses	80,000	
Depreciation	25,000	
Legal expenses	40,000	
Insurance premiums	124,000	
Rent	66,000	
Electricity	34,000	
Purchase of furniture	26,000	<u>1,350,000</u>
Net profit		<u>4,200,000</u>

Additional information.

1. Capital allowances were agreed with the Revenue Authority at Sh 75,000
2. Included in bad debts is a loan of Sh 15,000 due from a former employee of the company who was dismissed in October 2019.
3. Legal experts include Sh 20,000 incurred in defending a manager against a traffic offence
4. Insurance premiums include Sh 24,000 paid to the National Hospital Insurance Fund (NHIF) as a penalty for late submission of contributions.
5. The company paid stamp duty of Sh 6,000 relating to a piece of land purchased in August 2019. The payments is included in the rent expense for the year ended 31 December 2019.

Required:

- (i) Compute the adjusted taxable profit or loss of Echo Limited for the year ended 31 December 2019 (10 marks)
- (ii) Calculate the tax liability (if any) of the company for the year ended 31 December 2019. (2 marks)