MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARMENT OF BANKING, ACCOUNTING & FINANCE

SPECIAL/SUPPLEMENTARY EXAMINATION FOR BACHELOR OF COMMERCE

BAC 304: INTRODUCTION TO TAXATION

DATE: **TIME:**

Instructions:

i. Answer question one and any other two questions.
ii. Marks allocated for each question are shown at the end of the question.
iii. Show your working where necessary.

QUESTION ONE (30 MARKS)

(a) Biashara Poa Ltd is a manufacturing company dealing with manufacture of a food product. The accountant of the company has provided you with the following profit and loss account for the year of income 2014

	Sh.		Sh.
		Gross profit b/d	20,845,000
Rent and Rates	410,000		
Depreciation	2,052,000		
Directors remuneration	543,000		
Salaries and wages	756,000		
General expenses	255,000		
Auditors fees	210,000		
Reserves	2,250,000		
Bad debts reserve	888,000		
Taxes	129,000		
Interest on loan	1,038,000		
Manufacturing expenses	7,689,000		
Supplies used	1,338,000		
Commissions paid	270,000		
Provision for dividends	900,000		
Audit fees – for tax appeal	100,000		
Preliminary expenses	700,000		
Fire insurance	122,000		
Net profit	1,195,000		
	20,845,000		**20,845,000**

Additional information provided is as follows:

1. Preliminary expenses relate to company formation.
2. Bad debts reserve amounting to Sh. 380,000 was specific.
3. Taxes represent VAT paid.
4. General expenses include Sh. 41,000 for burials and Sh. 32,000 contributions to a trade union.

Required

a) The adjusted income loss for Biashara Poa Ltd for the year of income 2014. (12 marks)

b) The tax payable (if any), indicating when it is due. (6 marks)

<u>QUESTION 1(B)</u>

The following assets were acquired in 2015, by ABC Company limited for its manufacturing business.

	Shs.
Machinery fixed in building	20,358,000
Computers	2,400,000
Furniture and fittings	1,580,000
New machinery fixed in building	16,600,000
Factory building	12,000,000
Extension to factory building (Brought to use on 1 August 2015)	4,000,000
Pick up	4,400,000
Tractors	4,000,000

Required

Compute wear and tear allowances for the year 2014. (12 marks)

<u>QUESTION TWO (20 MARKS)</u>

(a) State and explain **five** characteristics of a good Tax system (10 marks)

(b) Using relevant examples, explain any 3 classification of Taxes. (10 marks)

<u>QUESTION THREE (20 MARKS)</u>

(a) Explain the term **Residence** and its relevance in taxation. (10 marks)

(b) Discuss **five** disallowable expenses, in Income taxation as per the income Tax Act Cap 470. (10 marks)

<u>QUESTION FOUR (20 MARKS)</u>

(a) State and explain **four classes of** machinery that qualify for Wear and Tear deduction according to the 2nd schedule of Income Tax Act. (15 marks)

(b) With reference to wife's employment income, explain three incomes which do not qualify separate taxation. (5 marks)

QUESTION FIVE (20 MARKS)

Ouma is a retailer, who operates a retail shop in Kisumu town. During the month of September 2015, his total purchases amounted to Shs 5,400,200 (inclusive of 16% VAT). His business policy is to mark-up at 20%. During the month, he sold all the goods he had purchased.

Required;

Assuming there was no opening stock at the beginning of the month, calculate;

a) The sales amount(inclusive of VAT) (6 marks)

b) The VAT payable (4 marks)

c) Due date of payment and the default penalty applicable (2 marks)

d) With the use of relevant examples, distinguish between Zero rated supplies and non-vatable supplies (8 marks)