MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

THIRD YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 304: PRINCIPLES OF TAXATION

DATE: 23/4/2019 **TIME: 11.00-1.00 PM**

INSTRUCTIONS: Attempt Question One and any other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) The following information relates to the transactions of communication solutions ltd for the month of September 2017. The company is registered for VAT.

September 2 purchased goods worth sh.2,400,000 from Japan. Customs duty was paid at 5%.

September 2 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.

September 5 purchased office furniture for sh.640,000. One desk worth sh.80,000 was defective and was returned to the seller.

September 9 purchased goods worth 4,500,000 on credit from a manufacturing company. Goods worth sh.500,000 were damaged in transit and were thus not salable. it cost the company sh.240,000 to transport the goods.

September 10 sold goods for cash worth sh.960,000

September 12 exported goods worth sh.2,400,000

September 16 imported goods worth 1,500,000 from india. Customs duty was paid at 5%

September 20 sold goods worth sh.218,000 to XYZ ltd.

September 25 Exported goods worth sh.2,600,000 to kimbo ltd.

September 30 paid the following expenses for the month of September.

Salaries 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.

Required: the VAT payable (or refundable) for the month of September 2017. (10 marks)

b) Explain the government economic policies. (6 marks)

c) Distinguish between tax evasion and tax avoidance. (4 marks)

d) Distinguish between direct and indirect taxes. (4 marks)

e) Explain the advantages of direct taxes and its disadvantages. (6 marks)

QUESTION TWO (20 MARKS)

Explain the cannons of a good tax system

QUESTION THREE (20 MARKS)

Mrs Kamau is the owner of a supermarket in Nairobi East. Her accounts clerk has submitted to you the following trading profit and loss account for the year ended 31 December 2017.

	Shs		Shs
Opening stock	8640,000	Closing stock	1,004,000
Purchases	96,000,000	Proceeds from sale of land Allocated to her by government	500,000
Donations to Kenya Chamber Of commerce	100,000	Gain on salary shares	200,000
Redundancy payments	600,000	Gain on sale of residential plot	400,000
Contributions to registered Pension fund	100,000	general bad debt recovery	36,000

Rent, rates and taxes	110,400	dividends (net)	43,200
Insurance	14,880		
Legal and professional fees	109,200		
Depreciation	363,840		
Advertising	116,800		
Value added tax	247,200		
Customs duty-2017	700,000		
Income tax for 2015	312,000		
Medical expenses (mrs kamau)	28,800		
Interest on bank overdraft	49,920		
Purchase of equipment	25,200		
Christmas gifts to customers	20,160		
General bad debts	55,200		
Household expenses	100,800		
Stationery and postage	33,120		
Net profit	2,905,680		
	112,183,200		112,183,200

The following additional information is also provided

i) Rent, rates and taxes includes sh.20,400 being customs duty for the purchase of equipment.

ii) Sales include a sum of sh. 120,000 representing the value of goods withdrawn for use by mrs kamau and her children. These goods had been purchased at a cost of sh.96,000

Required: a) Mrs. Kamau's chargeable profit for the year of income 2017 (16 marks)

b) The tax payable on the profit. (4 marks)

QUESTION FOUR (20 MARKS)

Rai, Sai and Tai are former school mates who are doing business together. The business is not registered but they regard themselves as equals in it. They keep proper books of accounts and have been able to provide the following profit and loss account for the year ended 31 December 2016.

Profit and loss account

	Shs		shs
Establishment expenses	800,000	Gross profit	1,908,000
Rent of business premises (jointly owned by them)	180,000	Sundry receipts	80,000
Interest expense	80,000	interest income	72,000
Stationery and printing	120,000	profit on sale of shares	200,000
Lighting and heating	40,000	gross income from farming	340,000
General farm expenses	294,000	lottery winnings	800,000
Repair of premises	40,000		
Depreciation	300,000		
Interest on capital			
Rai	80,000		
Tai	120,000		
Salary to Sai	160,000		
Commission to partners			
Rai	96,000		
Sai	96,000		
Tai	96,000		
Bad debts	240,000		
Gift, presents and charity	40,000		
Donations	200,000		
Interest on loan taken			

To pay- income tax	20,000	
-legal charges	120,000	
Net profit	398,000	
	3,520,000	3,520,000

Additional information

i) capital allowances have been agreed as follows:

wear and tear sh.180,000

farm works deductions sh.120,000

ii) the partners had borrowed sh.400,000 with a hope of investing it in fixed securities to earn more income. The interest rates nevertheless declined. Interest expenses of sh.80,000 and interest income of sh.72,000 relate to this loan.

iii) legal charges include sh.40,000 paid to finish a case in the customs department.

iv) The partners had brought forward losses amounting to sh.800,000 from, the previous year.

REQUIRED: a) Taxable income from the partnership. (16 marks)

b) Show allocation among the partners. (4 marks)

QUESTION FIVE (20 MARKS)

a) Outline any five allowable expenses in respect of business income. (5 marks)

b) Outline any unallowable expenses in respect of business income. (5 marks)

c) Peter earned the following incomes in the year 2017.

Basic salary sh.20,000 per month

Medical allowance sh.10,000 per month

Travelling allowance sh.15,000 per month.

He contributed 10% of his basic pay to a registered pension fund. He was provided with a car which had cost sh.1,000,000. He was provided with a house by his employer.

Required: calculate his taxable income for the 2017. (10 marks)