

LAIKIPIA



UNIVERSITY

UNIVERSITY EXAMINATIONS

2ND SEMESTER 2022/2023 ACADEMIC YEAR

FOURTH YEAR EXAMINATION FOR THE DEGREE
OF BACHELOR OF ECONOMICS & STATISTICS AND
BACHELOR OF ECONOMICS & SOCIOLOGY

AGBM 415: BUSINESS TAXATION

STREAM:

TIME: 2 HRS

DAY: WEDNESDAY [8.30-10.30 A.M.] DATE: 19/04/2023

THIS QUESTION PAPER CONSISTS OF FIVE (5) PAGES

PLEASE DO NOT OPEN UNTIL THE INVIGILATOR SAYS SO.



INSTRUCTIONS:

- i. This paper contains Four questions
- ii. Answer question **One** and other **Two** questions
- iii. Do not write anything on your question paper.

QUESTION ONE (COMPULSORY)

- a) State and explain three principles of an optimal tax system **(6 marks)**
- b) Mr. Ole mboga an employee of Bidii company Ltd received income in 2022 as follows:
Basic salary of Sh.550,000 p.a A day and night watchman whose salaries were Sh.5,000 p.m. and Sh.6,500 p.m. respectively. Furniture was also provided at cost of Sh.280,000. A car of 2000 cc whose initial cost was Sh.1,400,000 was provided for his personal use. The company paid his telephone bills averaging Sh.4,000 p.m. He was granted free company products valued at Sh.3,500 p.m. Calculate his taxable income **(6 marks)**
- c) Taxable capacity refers to the maximum tax which may be collected from a person without producing undesirable effects on him. Discuss factors that influence taxable capacity **(10 marks)**
- d) Explain the importance of progressive tax system for achieving the social justice **(8 marks)**

QUESTION TWO

- (a) Mr. A. Kimiti prepared the following profit and loss account for his business for the year ended 31 December 2019.

	Sh.	Sh.
Income		
Sales		18,400,000
Discount received		600,000
Profit on sales of shares		100,000
Foreign dividends received		15,000



Foreign exchange gain		35,600
Insurance recovery on stolen stock		180,000
		<u>19,330,600</u>

Expenditure

Purchases	12,800,000	
Salaries	1,200,000	
Audit Fee	45,000	
Tax consultancy fee	30,000	
Legal expenses	325,000	
Licenses & Permits	64,000	
Depreciation	145,600	
Loss on sale of equipment	78,400	
Bank Charges	44,200	
Donations to a political party	50,000	
Subscriptions	12,800	
Repairs & Maintenance	174,200	
Rent & Rates	150,000	
Purchase of loose tools	90,000	
Commission & brokerage tools	<u>23,000</u>	(15,232,700)
		<u>4,097,900</u>
		=====

Additional Information:

- Legal expenses comprise:

	Sh.
• Employment contracts	5,000
• Acquisition of trademark	80,000
• Successful defense of a legal suit for breach of a trade contract	200,000
• Debt collection	<u>40,000</u>
	<u>325,000</u>
- Subscriptions comprise:

	Sh.
• Chamber of commerce and industry	2,800
• Child care international	8,000
• Golf club membership	<u>2,000</u>
	<u>12,800</u>
- Repairs and maintenances expense includes Sh. 74,200 used for the renovation of a store.
- Capital allowance were agreed with the tax authorities at Sh. 680,000.



Required

- i) Prepare the adjusted taxable profit or loss for Mr. A. Kimiti for the year ended 31 December 2019 **(12 Marks)**
- ii) Determine the tax payable (if any), from the computations in (i) above **(4 Marks)**
- iii) Indicate the latest date for submission of tax returns by Mr. A. Kimiti. **(4 Marks)**

QUESTION THREE

- a) Explain the treatment of losses while ascertaining the taxable income **(10 marks)**
- b) What are capital allowances? Discuss the capital allowances available in respect of capital expenditure in Kenya **(10 marks)**

QUESTION FOUR

Rotich, Mambo and Nora have been trading in partnership as Romano Enterprises sharing profits and losses in the ratio of 2:2:1 respectively. They have presented the following profit and loss account of the firm for the year ended 31 December 2021:

	Sh.000	Sh.000
Gross profit		24,800
Investment income (gross)		450
Miscellaneous income		<u>315</u>
		25,565
Deduct:		
Depreciation	110	
Office expenses	1,568	
Legal fees	360	
Sundry	630	
Trade expenses	380	
Partners' salaries, interest on Capital and drawings	<u>13,350</u>	<u>(16,398)</u>
Net profit		<u><u>9,167</u></u>

Additional information

1. Investment income comprises:	sh.000
Interest on bank deposits	210
Dividend on shares in quoted companies	130
Interest charged on partners' drawings: Rotich	50
Mambo	40
Nora	<u>20</u>
	<u><u>450</u></u>



2. Miscellaneous income comprises:

Sh.000

Gain on sale of furniture and fittings	195
Insurance recoveries for stolen stock	<u>120</u>

3. Office expenses comprise: **Sh.000** **315**

Advertisements on billboards	250
Rent	800
General expenses (allowable)	<u>518</u>
	<u><u>1,568</u></u>

4. Legal fees include sh.150,000 incurred on a successful defense of a partner in a private legalsuit.

5. Sundry expenses comprise:

Sh.000

Donations to watoto orphanage	420
Debt recovery charges	90
Vehicle maintenance costs	<u>120</u>
	<u><u>630</u></u>

6. Trade expenses comprise:

Sh.000

Subscriptions to a trade association	150
Value Added Tax (VAT) paid	170
Repairs to building	<u>60</u>
	<u><u>380</u></u>

7. Partners' salaries, interest on capital and drawings are analysed below:

	Rotich	Mambo	Nora	Total
	Sh.000	Sh.000	Sh.000	Sh.000
Salaries	4,000	4,500	3,700	12,200
Interest on capital	200	300	330	830
Drawings	<u>60</u>	<u>100</u>	<u>160</u>	<u>320</u>
	<u><u>4,260</u></u>	<u><u>4,900</u></u>	<u><u>4,190</u></u>	<u><u>13,350</u></u>

8. Capital allowances for the year ended 31 December 2021 were agreed with the tax authority atsh.480,000.



Required:

- (a) Adjusted partnership profit or loss for the year ended 31 December 2021. **(12 Marks)**
- (b) Distribution of the adjusted profit or loss amongst the partners **(4 Marks)**
- (c) The tax liability for each of the partners for the year ended 31 December 2021
(4 Marks)

