

LAIKIPIA



UNIVERSITY

# UNIVERSITY EXAMINATIONS

1<sup>ST</sup> SEMESTER 2023/2024 ACADEMIC YEAR

FOURTH YEAR EXAMINATION FOR THE DEGREE  
OF BACHELOR OF COMMERCE

**BCOM 411: TAX LAW AND PRACTICE**

***STREAM:***

***TIME: 2 HRS***

***DAY: MONDAY [11.30-1.30 P.M]***

***DATE: 18/12/2023***

**THIS QUESTION PAPER CONSISTS OF EIGHT (8) PAGES**

**PLEASE DO NOT OPEN UNTIL THE INVIGILATOR SAYS SO.**



## INSTRUCTIONS TO CANDIDATES:

This paper contains four questions

Answer question one and any other two questions in the answer booklets provided

**RATES OF TAX** - (including wife's employment, self employment and professional income rates of tax). **Year of income 2023**

Monthly taxable pay (shillings)	Annual taxable pay (shillings)	Rates of tax % in each shilling
1 – 10164	1 – 121968	10%
10165 – 19740	121969 – 236880	15%
19741 – 29316	236881 – 351792	20%
29317 – 38892	351793 – 466704	25%
Excess over 38892	Excess over 466 704	30%

**Personal relief Sh.1,162 per month) Sh.13, 944 per annum)**

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

	Monthly Rates (Sh.)	Annual Rates (Sh.)
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**Capital allowances:**

**Wear and tear allowances:**

Class I 37.5%

Class II 30%

Class III 25%

Class IV 12.5%

Software 20%

(i) Saloons Hatch Backs and Estates

**Industrial building allowances:**

Industrial building 2.5%

Hotels 10.0%

Hostels / Educational buildings 50%

**Farm works allowances** 100%

**Investment deduction allowance:** 100%

Upto 1200cc 3,600 43,200

1201 - 1500cc 4,200 50,400

1501 - 1750cc 5,800 69,600

1751 - 2000cc 7,200 86,400

2001 - 3000cc 14,400 172,800

(ii) Pick-ups, panel vans (Unconverted)

**Shipping investment allowances** 40%

**Mining allowance:**

Year 1 40%

Year 2-7 10%

Upto 1750cc 3,600 43,200

Over 1750cc 4,200 50,400

(iii) Land Rovers/Cruisers 7,200 86,400

OR 2% of the initial capital cost of the vehicle for

each month.



**Commissioner's prescribed benefit rates**

	Monthly rates Sh.	Annual rates Sh.
<b>Services</b>		
(i) Electricity (Communal or from a generator)	1,500	18,000
(ii) Water (communal or from a borehole)	500	6,000
(iii) Provision of furniture (1% of cost to employer)		
If hired, the cost of hire should be brought to charge		
(iv) Telephone (Land line and mobile)	30% of bills	
<b>Agriculture employees: reduced rates of benefits</b>		
(i) Water	200	2,400
(ii) Electricity	900	10,800

**Other benefits**

Other benefits for example, servants, security, staff meals etc are taxable at the higher of fair market value and actual cost to employer

**QUESTION ONE**

- a). Explain five objectives /purposes of taxation in an organized economy (10marks)  
 b). Kamala, Susan and Kubasu are in partnership trading as Kasuku Traders sharing profit or losses equally. They have provided the following statement of profit or loss for the year ended 31 December 2022:

	<b>Sh.</b>	<b>Sh.</b>
Gross profit		7,020,000
VAT refund		102,500
Foreign exchange gain		485,000
Dividend income (net)		562,500
Profit on disposal of furniture		591,000
Rental income		<u>415,000</u>
		9,176,000
<b>Less expenses:</b>		
Insurance premiums	480,000	
Legal fees	1,556,250	
Depreciation	575,000	
Repairs and maintenance	2,250,000	
VAT paid	233,750	
Sundry expenses	2,702,500	
Interest on capital:		
Kamala	407,500	
Susan	185,000	
Kubasu	146,000	
Motor vehicle expenses	528,500	
Custom duty	227,500	
Accountancy fees	575,000	



Bad and doubtful debts	155,000	
Rates and rent	410,000	
Salaries and wages	1,700,000	
		<u>(12,132,000)</u>
Net loss		<u>(2,956,000)</u>

**Additional information:**

1. Insurance premiums include Sh.282, 500 paid to insure Susan's private car.

2. Legal fees include:

	Sh.
Parking fines	150,000
Settling a dispute with a customer	102,500
Appeal against a tax assessment	62,500
Court expenses for breach of a contract	400,000
Preparation of tender documents	235,000

3. Sundry expenses include:

	Sh.
Interest charged on hire purchase	425,000
Cash embezzled by the cashier	565,000
Registration of a trade mark	281,250

4. Repairs and maintenance comprised the following:

	Sh.
Repair of furniture	22,500
Installation of surveillance cameras	812,500
Cost of office furniture	525,000

5. The partners took goods for personal use which had a cost price Sh.225, 000. The gross profit margin was 20%, as recorded in partnership books of account.

6. The investment allowances were agreed with the revenue authority at Sh.1, 475,000 during the year ended 31 December 2022.

7. Salaries and wages included salaries to partners as follows:

	Sh.
Kamala	600,000
Susan	450,000
Kubasu	225,000

**Required:**

- (i) The adjusted partnership profit or loss for the year ended 31 December 2022. **(14 marks)**  
(ii) Distribution schedule of the profit or loss. **(6 marks)**

**QUESTION TWO**

a).The following information relates to Mea Ltd's assets as at 1January 2022

Asset	Written down value 1.1.2022
	Sh.
Office furniture	120,000
Delivery vans (4tonnes each)	4,000,000
Computers and Printers	400,000
Duplicating Machine	150,000
Telephone& fax machines	80,000
Machinery	200,000
Motorcycles	800,000

The following assets were acquired during the year ended 31December 2022

	Sh.
Lorry (12tonnes)	12,800,000
Computers	90,000
Office furniture	80,000
Motorcycles	300,000
Second hand Machinery	1,600,000
Printer	106,000

The following assets were disposed off during the year ended 31December 2022

Asset	Disposal proceeds (Sh.)
Printer	12,000
Delivery van	350,000
Duplicating machine	40,000

**Required:**

- a) Compute the capital allowances for the year ended 31December 2022 (12marks)
- b). Discuss any four cannons that a good / optimal tax system (8marks)

**QUESTION THREE**

- a). A person who is registered for VAT must maintain certain records to satisfy the VAT regulations. Explain four examples of such records that must be kept. (4 marks)
- b). The following information relates to the transactions of Communication Solutions Ltd. for the month of September 2023. 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 Dubai. Customs duty was paid at 5%
20 September	Sold goods worth sh.218, 000 to Abicus Ltd.
25 September	Exported goods worth Sh.2, 600,000 to Kims 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 exclusive of VAT. (VAT Rate 16%)**

**Required:**

VAT Account for the month of September 2023

**(16marks)**

#### **QUESTION FOUR**

- a). Enumerate five benefits excluded from Employment Income /Tax free employment benefits in Kenya. **(5marks)**
- b). Dr Kingi is a dentist who operates a clinic in Nakuru City .The following income and expenditure account relates to his medical practice for the year ended 31 December 2022

	<b>Sh.</b>	<b>Sh.</b>
Practice fees		3,760,000

#### **Less: Expenses**

Salaries (nurse and typist)	300,000
Salary to self	600,000
Mortgage repayment (residence)	240,000

Depreciation:		
Equipment	48,000	
Motor vehicle	36,000	
Locum paid to doctor	60,000	
Subscriptions:		
Dentist Board	16,000	
Golf Club	21,000	
Rent of premises	196,000	
Interest on bank overdraft	20,400	
Telephone expenses	239,000	
Postage expenses	8,600	
Stationery expenses	17,900	
Professional indemnities cover	11,600	
Motor vehicle running costs	60,000	
Parking meter fines	6,700	
Repairs and maintenance – equipment	33,500	
Purchase of medical equipment	70,000	
VAT paid during the year	69,000	
Books and Journals	99,000	
Legal and professional fees	22,300	
Entertainment	149,000	
Purchase of medicines	138,000	
Purchase of household items	53,000	
Salaries to domestic servants	<u>72,000</u>	<u>2,587,000</u>
Net income		<u>1,173,000</u>

**Additional Information:**

- Telephone expenses comprise the following:
 

	<b>Sh.</b>
Residence	62,000
Clinic	<u>177,000</u>
	<u>239,000</u>
- Motor vehicle running costs: 30% of these relate to use of the motor vehicle for private purposes
- Legal and professional fees:
 

	<b>Sh.</b>
Debt collection fees	13,000
Appeal against income tax assessment	<u>9,300</u>



4. Entertainment:	<b>Sh.</b>
Christmas gifts to clients and staff	33,000
Golfing expenses	60,000
Family outing	<u>56,000</u>
	<u>149,000</u>
5. Books and journals:	<b>Sh.</b>
Medical books	58,100
Schoolbooks for own children	19,000
Annual subscription –Dental News	<u>21,900</u>
	<u>99,000</u>

**Required:**

Dr. Kingi's taxable income for the year ended on 31December 2022

**(15marks)**

