

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**FOURTH YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR
OF AGRIBUSINESS MANAGEMENT**

AGBM 415: BUSINESS TAXATION

STREAMS: Y4S2

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 18/04/2018

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS:

Answer question one and any other two.

QUESTION ONE

- (a) State and explain any four reliefs that may be available against gains or profits from employment. (4 marks)
- (b) Explain any three cannons of taxation. (6 marks)
- (c) You have been approached by Mr. Mkubwa to help him determine his taxable income for the year 31 December 2015. He provided you with the following information.
1. Employment income:
He is employed by Nyorosha Ltd where he earns a salary of Sh. 81,000 per month. Other benefits from employment include the following:
 - Company car of 1850cc which was bought in the year 2015 of Sh. 850,000.
 - Housed in Furaha Estate. The house has a market rental value of Sh. 35,000 per month.
 - Annual performance bonus of one month's salary if he is rated more than 80% in the company's annual performance review. In the year 2005, he was rated 85%.
 - A watchman and a house girl who are paid by the company Sh. 6,000 each per month.

2. Business Income:

He runs an internet café in nearest Shopping Centre. It generated Sh. 725, 000 profits in the year 2015. However, in the year 2014 it had made a loss of Sh. 300,000.

3. In the course of the year, Mr. Mkubwa sold his personal saloon car for Sh. 620,000 This represented a gain of Sh. 200,000 which he used to travel to Dubai for a holiday.

4. Through the advice of his Personal Financial Advisor, he had obtained the following investment income in the year.

Interest	
HFCK Ltd. Housing development bonds	120,000
Treasury bills	420,000
Akiba Bank fixed deposit	96,000
Loan to a friend	200,000

Required:

- (i) Total income chargeable to tax for Mr. Mkubwa for the year 2015. (10 marks)
 - (ii) Tax payable and its due date. (6 marks)
 - (iii) Comment on any information not used. (4 marks)
- (Total: 30 marks)

QUESTION TWO

- (a) Describe the remedies available to tax objections. (4 marks)
- (b) Adrian and his wife are the owners of Green Traders Limited. For the year 2015, they presented you with the following profit and loss account.

	Shs	Shs
Gross Profit (you have agreed on its computation)		802,000
		<u>30,000</u>
		832,000
Wages and salaries	210,000	
Wife's drawings	50,000	
Audit/accounting/legal fees	70,000	
Travelling expenses	115,000	
Motor expenses	105,000	
Repairs-machinery	70,000	
Depreciation	215,600	
Rates and water	48,000	

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Insurance	20,000	
Electricity	70,000	
Telephone	12,000	
Postage and stationery	4,100	
Leaking roof repairs	15,000	
Bank charges and interest	18,000	
Rent	<u>50,000</u>	<u>(1,072,800)</u>
Net loss for the period		<u>(240,800)</u>

- (i) Included in the motor expenses is an amount of Shs. 16,000 in respect of car used privately by the family.
- (ii) The family lives behind their shop and the estimated use of the building is Shs 16,667.
- (iii) The family took goods worth Shs 5,000 for private use. This was treated as a business expense.
- (iv) Private use of the telephone is 15% of the total expense.
- (v) They agreed wear and tear deduction for the year is Shs 227,000.

Required:

- (i) Compute the adjusted profit or loss for Income Tax purposes in respect of Green Traders Limited. (10 marks)
- (ii) Calculate his tax liability. (6 marks)

QUESTION THREE

- (a) Capital allowance uptake in Kenya is still low. Discuss. (8 marks)
- (b) XYZ Ltd constructed a factory to manufacture shoes in Kisumu at a cost of Sh. 12 Million. Machinery installed therein cost Sh. 10 Million. The building and machinery were bought to use on 1st Jan 2015. She further acquired the following assets; Computers Kshs. 500,000, Furniture Kshs. 200,000, A two tonne distribution canter Kshs. 2,500,000, Mobile accessories for Kshs. 50,000.

Required

Computer capital allowances for the company for the year 2015. (12 marks)

QUESTION FOUR

- (a) Explain the treatment of Bad debts under VAT accounting. (6 marks)
- (b) Kareke General Store Limited deals in a variety of goods. In the month of March 2015 the following transactions took place:
 - March 1 Sold goods for cash of Sh. 117,000
 - March 2 Purchased goods on credit from River Road Limited of Sh. 18,000.
 - March 2 Paid for transport for goods from River Road Limited Sh. 6,000

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March 7	Purchased office equipment for use in the business on credit from Steel & Co. for Sh. 27,770.
March 9	Sold goods to Uganda's Jinja Limited for Sh. 39,600.
March 11	Paid Yusuf Transporters Sh. 8,000 to take goods purchased by Jinja Limited to Uganda.
March 12	Paid River Road Limited in full.
March 12	Purchased goods for Sh. 3,240 cash.
March 12	Returned defective office equipment which cost Sh. 5,400 to Steel & Co.
March 16	Sold goods to Tanga Limited a firm in Tanzania for Sh. 61,000 payable by Bank Transfer.
March 17	Granted Sh. 1,000 allowance to Tanga Limited for a minor defect on an item.
March 23	Agreed to cancel the account receivable from Jinja Limited in exchange of services rendered by them to the company in Kampala.

Required:

The Value Added Tax Accounts of Kareke General Stores Limited. (9 marks)

(c) Discuss the importance of Value Added Tax on the financing of business operations. (5 marks)
