



MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

SECOND YEAR SECOND SEMESTER EXAMINATION FOR

DIPLOMA IN ACCOUNTANCY

DACC 212: TAXATION II

DATE: 22/10/2020

TIME: 8:30 – 10:30 AM

INSTRUCTIONS:

Answer Question One and Any Other Two Questions.

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) FaidaMax Limited's estimated tax liability for the year 2019 was Kes. 1.50 million. The actual tax liability for the same year was Kes. 2.50 million. Assume the company pays tax for the year on installment basis based on previous year's tax liability.

Required:

- i) Estimated tax liability for 2020 (2 marks)
- ii) Based on question (a) above, determine the value of each installment payable in 2020 and the due dates. (4 marks)
- b) The following relates to Protection Life Assurance Company Ltd for the year ended 31 December 2019:
- The fund balance was valued by an Actuary at Kes. 200 million as at 31 December 2019. 40% of this fund balance was recommended to be transferred for the benefit of shareholders.
 - Analysis of life assurance premium during the year was as follows:

	Kes. Million
Received during the year	100
Outstanding as at: 1 January 2019	40
31 December 2019	20

- i) Management expenses and commission paid during the year amounted to Kes. 20 million and Kes. 4 million respectively.
- ii) The company had no other income during the year.

Required:

Taxable income of Protection Assurance Company for the year ended 31 December 2019. (5 marks)

- c) Briefly explain THREE functions of the Kenya Revenue Authority. (6 marks)
- d) The following information was obtained from the books of Mambo Ltd for the year ended 31 December 2019.

	Sh.
Profit after tax	4,200,000
Dividend paid	6,400,000
Dividend received	1,500,000

Additional information:

- i) A tax refund of Sh. 360,000 was received by the company for the year ended 31 December 2019.
- ii) Corporation tax rate is 30%.

Required:

Compensating tax (if any) payable by Mambo Ltd. for the year Ltd. for the year ended 31 December 2019. (5 marks)

- e) Differentiate between tax planning and tax investigation. (4 marks)
- f) As a tax student, you have been nominated by your institution to make a seminar presentation regarding the various rights conferred to a registered tax payer under the VAT Act. Summarize FOUR rights of a registered tax payer that you would include in your presentation. (4 marks)

QUESTION TWO (20 MARKS)

- a) KK Ltd is a registered supplier of vatable goods. The following information relates to the company transactions for the month of October 2019.
- i) Sales at standard rate Kes. 36 million
 - ii) Sales at zero rate Kes. 14 million
 - iii) Export sales Kes. 4 million
 - iv) Exempt sales Kes. 6 million
 - v) Purchases at standard rate Kes. 30 million
 - vi) Purchases at zero rate Kes. 12 million
 - vii) Salaries and wages Kes. 6 million
 - viii) Purchase of ETR machine Kes. 120,000.

The amounts above are stated VAT exclusive.

Required:

- Determine VAT payable or refundable for the month of October 2019. (10 marks)
- b) Briefly explain the following terms
- i) Finance lease
 - ii) Operating lease
 - iii) Hire purchase
 - iv) Cross border lease (10 marks)

QUESTION THREE (20 MARKS)

Moto Insurance Company Ltd. provided the following details with respect to the financial year ended 31 December 2019.

	Sh.
Bad debts	468,000
Investment income	960,000
Reserve for unexpired risk: 1 January 2019	948,600
Commission on re insurance accepted	3,484,900
Claims outstanding: 1 January 2019	676,200
Gross premium	24,648,600
Claims paid	4,826,000
Claims outstanding: 31 December 2019	1,850,000
Claims recovered on reinsurance	545,700

Legal expenses relating to claims	376,800
Commission on reinsurance ceded	728,900
Agency fees	1,296,400
Foreign exchange losses	392,700
Dividends from Life Assurance fund	216,400
Management fees	1,804,600
Bonus utilized in reduction of premiums	371,700
Royalties from patent rights	1,460,000
Repair of rented premises	264,800
Travelling expenses	89,400
Purchase of motor vehicle	800,000
Re insurance premium paid	724,800
Returned premium	1,314,600
Rental income	560,000

Additional information:

- i) Agency fees include Sh. 16,400 relating to the life fund.
- ii) Management fees include Sh. 24,200 which relates to tax consultancy.
- iii) Repair of rented premises includes Sh. 14,800 for purchase of furniture.

Required:

A statement of taxable profit or loss for Moto Insurance Company Ltd. for the year ended 31 December 2019. (20 marks)

QUESTION FOUR (20 MARKS)

- a) One of the facilitators in an East African Community tax seminar commented that “There are diverse factors that influence taxable capacity (or tax income) in various countries”. Justify the facilitator’s comment by discussing THREE factors that influence the taxable capacity of a country. (6 marks)
- b) Naivasha Dairy Cooperative Society Limited prepared the following income statement for the year ended 31st December 2019.

	Sh.	Sh.
Sale of milk and other products		21,600,000
Dividend from quoted companies		<u>40,000</u>
Revenue		21,640,000
Expenditure		
Legal fees on overdraft	125,000	
Income tax paid year 2018	807,000	
Repairs and maintenance	82,000	
Bad debts and reserves	160,000	

Donations	68,000	
Loss on sale investment	60,000	
Education workshop for members	120,000	
Committee sitting allowance	300,000	
Interest on overdraft	200,000	
Purchase of stationary	100,000	
Bonuses and dividends to members/ farmers	<u>12,000,000</u>	<u>14,022,000</u>
Net surplus		<u>7,618,000</u>

Required:

Determine the tax payable by the cooperative society for the year ended 31/12/19. (14 marks)

QUESTION FIVE (20 MARKS)

- a) Explain FIVE circumstances that may trigger tax investigation by Kenya Revenue Authority. (10 marks)
- b) Briefly discuss FIVE methods or avenues that individuals/companies can use to avoid taxes or reduce gross tax liability. (10 marks)