



# MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

**BAC 400: TAX LAWS AND PRACTICE**

**DATE: 17/8/2021**

**TIME: 11.00-1.00 PM**

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## INSTRUCTIONS:

*Answer question ONE and any other TWO questions*

*Marks allocated for each question are shown at the end of the question.*

*Show your working where necessary.*

### QUESTION ONE: COMPULSORY (30 MARKS)

- a) Explain FOUR contributions of insurance companies to the Kenyan economy (8 marks)
- b) Distinguish between input tax and output tax (2 marks)
- c) Baraka Limited's estimated tax liability for the year 2019 and year 2020 was Kes. 3.6 million and Kes. 4.2 million respectively. The actual tax liability for 2019 and 2020 was Kes. 3.8million and Kes 4.0 respectively. Assume the company pays annual tax on installment basis based on previous year's tax liability.

### Required:

- i. Estimated tax liability for 2021 (2 marks)
- ii. Based on question (c) (i) above, determine the value of each installment payable in 2021 and the due dates. (4 marks)
- d) Explain any FOUR cannons of a good tax system (8 marks)
- e) Explain FOUR roles of the Kenya Revenue Authority in achieving the country's development agenda. (8 marks)

## QUESTION TWO (20 MARKS)

- a) Mali Safi Ltd reported the following income during the year ended 31 December 2020.

	Sh.
Operating income before tax	12,000,000
Investment income	650,000
Rental income (Gross)	1,600,000

Investment income comprised;

Dividends from a company in which Kweli Ltd holds 8% of the capital	100,000
Interest from fixed deposit accounts (Gross)	50,000
Interest from treasury bills (net)	<u>500,000</u>
	<u>650,000</u>

**Note:** Expenses incurred in the generation of rental income amounted to Sh. 124,000.

**Required:** Determine the shortfall distribution dividends (if any) payable by Mali Safi Ltd for the year ended 31 December 2020. (12 marks)

- b) 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 FOUR factors that influence the taxable capacity of a country. (8 marks)

## QUESTION THREE (20 MARKS)

Faza Ltd. a large scale manufacturing company, has provided you with the following information for the year ended 31 December 2020.

	Sh. “000”	Sh. “000”
Gross Profit		48,000
Less:		
General expenses	3,900	
Director’s fees	7,200	
Depreciation	10,400	
Salaries and Wages	4,600	
Donations to a political party	820	
Interest expenses	6,200	
Dividends paid	4,605	
Repairs and Maintenance	<u>6,250</u>	<u>43,975</u>
Net profit for the year		<u>4,025</u>

**Additional information:**

1. On 1 January 2020, Faza Ltd purchased its factory from Msambweni Ltd., a registered contractor for Sh. 500 million. Msambweni Ltd availed the following details concerning the cost of construction for the factory:

	Sh. "000"
Acquisition of land	25,000
Demolition of old building on site	19,000
Labour Quarters build on site	60,000
Factory building	190,000
Stone perimeter wall around the factory	30,000
Bank interest paid during period of construction	<u>56,000</u>
	<u>380,000</u>

2. The factory housed a warehouse costing Sh. 17 million, administration block costing Sh. 50 million and showroom costing 25 million. Faza Ltd. installed processing machinery costing Sh. 200 million on 2 January 2020 and started manufacturing animal feed.
3. The following additional assets were acquired during the year ended 31 December 2020.

Date	Asset	Cost Sh. "000"
5 January	New Photocopiers	620
12 February	Furniture	820
15 March	Computers	2,250
13 April	Motor Cycles	190
14 June	Wheel barrows	36
18 July	Television set	48
21 July	3 Saloon cars (Sh. 2.6 million each)	7,800
26 October	2 Lorries (4 tons Sh. 4 million each)	8,000

4. The written down values brought forward for capital allowance purposes as at 1 January 2020 were as follows:

Class I	Class II	Class III	Class IV
Sh. "000"	Sh. "000"	Sh. "000"	Sh. "000"
7,790	4,615	8,777	2,990

**Required:** Compute for Faza Limited for the year ended 31 December 2020;

- a) Capital allowances (18 marks)
- b) Taxable Profit (2 marks)

#### QUESTION FOUR (20 MARKS)

The following information relates to Zawadi Savings and Credit Co-operative Society Ltd. for the year ended 31 December 2019.

	<b>Ksh. "000"</b>
Interest on loans to members	1,960,000
Accrued interest from loan defaulters	480,000
Rental income (gross)	1,800,000
Interest from infrastructure bond	600,000
Interest from 91- day treasury bills	1,280,000
Salaries and wages	420,000
Committee and delegation expenses	380,800
Staff expenses	1,460,200
Financial and professional fees	286,400
Sundry income	180,000
Land rent and rates	582,000
Burial benevolent fund entrance fees	1,340,600
Dividend equalization fund	4,340,000
Zawadi house maintenance expenses	362,800
Generator fuel	240,000
Dividend income from shares in Sacco Union	950,000

#### Required:

- a) Taxable profit or loss for Zawadi Sacco Ltd. for the year ended 31 December 2019 (14 marks)
- b) Tax liability (if any) for the year ended 31 December 2019 (2 marks)
- c) Comment on any information not used on income received by the Sacco (4 marks)

#### QUESTION FIVE (20 MARKS)

- a) Explain the following terms as used in Taxation.
  - i. Tax evasion (2 marks)
  - ii. Tax avoidance (2 marks)
  - iii. Tax investigation (2 marks)
- b) Explain FOUR circumstances that may trigger tax investigation (8 marks)
- c) Explain THREE circumstances under which a tax payer can get Value Added Tax (VAT) refund. (6 marks)