KENYATTA UNIVERSITY
UNIVERSITY EXAMINATIONS 2014/2015
DIGITAL SCHOOL OF VIRTUAL & OPEN LEARNING
SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE
BAC 304: FUNDAMENTALS OF TAXATION

DATE: WEDNESDAY 29TH APRIL 2015 TIME: 2.00 P.M. – 4.00 P.M.

INSTRUCTIONS

- Answer all questions
- Marks allocated are shown at the end of each question

Question One

O, N and K are partners operating a wholesale shop in Kisumu. They share profits and losses in the ratio 2:2:1 respectively. During the year ended 31 December 2014, the partners reported a loss of Sh.10, 325,000 after deducting the following:

		Sh.
Interest on capital:	O	406,000
	N	406,000
	K	609,000
Motor vehicle running expenses		532,000
Office expenses		420,000
Goodwill		700,000
Repairs and maintenance		168,000
Loss on investment		55,000
Postage and telephone		297,500
Water and electricity		238,000
Salaries and wages		1,246,000
Donations to charitable institutions		525,000
Subscriptions to KNCCI (Trade Association)		224,000
Bad debts expense		605,500
Rent, rates and licences		280,000
Professional fees		760,000
Depreciation		960,000
Purchase of lorry		2,329,250
Salary to partners	O	700,000
	N	735,000
	K	1,008,000

Additional information:

1. Office expenses included cost of office cabinet of Sh.192, 500.
2. The partnership received dividends amounting to Sh.462, 000 (net) from various stocks held in different companies. This was excluded from the above computation.
3. The partnership received Sh.910, 000 being insurance recovery for stocks which were destroyed by fire in 2014. This was omitted in arriving at the reported loss above.
4. Motor vehicle running expenses included Sh.21, 000 per month related to personal travel by the partners.
5. Provision for bad and doubtful debts account for the year was as follows:

	Sh.		Sh.
Bad debts written off	430,500	General brought forward	577,500
Specific carried forward	336,000	Specific brought forward	266,000
General carried forward	682,500	Profit and loss account	605,500
	1,449,000		1,449,000

6. O had taken goods worth Sh.122, 500 for his own use. This was not recorded in the books of account.
7. Included in repairs and maintenance is Sh.140, 000 paid for office partitions during the year.
8. The partners had other incomes as follows:

	O Sh.	N Sh.	K Sh.
Rent (net)	200,000	-	350,000
Farming income	-	750,000	(745,000)
Interest (net)	191,250	81,600	-
	391,230	831,600	(495,000)

9. Capital allowances have been agreed with the Commissioner at Sh.906, 000.

Required:

(a) The taxable profit/(loss) for the partnership business for the year 2014. **10 marks**

(b) Show the allocation of the profit/ (loss) among the partners. **5 marks**

Question Two

You are provided with the following information concerning Mombasa Ltd., a company that makes its accounts to 31 December every year. The company bought an industrial building from Mr. Korir at a cost of Sh.20, 000,000 in 2011. Mr. Korir had constructed the building in 2010 at a cost of Sh.16,600,000 which included the cost of land amounting to Sh.4,000,000, a canteen for workers for Sh.2,400,000, showroom costing Sh.600,000 and offices costing Sh.1,500,000. The building however, had not been put into any use in 2011. In the same year, Mombasa Ltd. made the following additions to the building:

- A warehouse at a cost of Sh.3, 600,000
- Labour quarters costing sh.2, 400,000
- Extension to the factory building to accommodate machines at a cost of Sh.4, 200,000.

Before commencing manufacturing on 1 July 2012, Mombasa Ltd. acquired the following additional assets:

Processing machinery	Sh.5, 200,000
Land Cruiser	Sh.1, 200,000
A three ton lorry	Sh.2, 600,000
A tractor	Sh.3, 600,000
Furniture and fittings	Sh.1, 200,000
Computers	Sh.1, 600,000
Photocopier	Sh. 240,000
Saloon car	Sh.1, 200,000

Mombasa Ltd. Also in 2012 converted one of the director's Mercedez Benz vehicles into company's use. It was valued at Sh.1, 500,000 and was used entirely for the company's business.

In the year 2013, Mombasa Ltd continued expanding and acquired/constructed the following:

- Additional processing machinery - Sh.2, 400,000
- An additional factory extension was constructed at a cost of sh.4, 600,000 which included an administrative office costing Sh.1, 000,000. These were brought into use with effect from 1 September 2013.
- A fire exit was also constructed at a cost of Sh.900, 000 and brought into use on 1 July 2013.

The management disposed of the following assets in the year 2013:

- Processing machinery Sh.1, 200,000
- One of the computers purchased in 2012 for sh.120, 000 was traded in with another one valued at Sh.300, 000. The trade-in-value was sh.150, 000.
- The Mercedez Benz was disposed of at Sh.600, 000.

In the year 2014, Mombasa Ltd. decided to strengthen the security at the factory by building a stone perimeter fence at a cost of Sh.1, 800,000. This was brought into use with effect from 1 June 2014. The company also bought a Range Rover for the Chief Executive at a cost of Sh.2, 400,000.

Required:

Mombasa Ltd.'s capital allowances for each of the years ended 31 December 2012, 2013 and 2014.
20 marks

Question Three

Mr. Kibwezi is employed by Molo Distributors Ltd. During the year of income 2014, he presented to you the following information:

1. Mr. Kibwezi owns 10,000 ordinary shares of Sh.50 each in Daima Ltd. During the year of income, he received a dividend of Sh.2 per share.

2. His employment earnings include:
   - Salary sh.60,000 per month (P.A.Y.E Sh.16,000 per month)
   - He received an end of the year bonus payable to executive staff: sh.20,000
   - He used his own car to travel during the course of duty and the following costs were met by the employer: Petrol paid for by Mr Kibwezi and reimbursed by his employer in full Sh.12,000, Maintenance and repair costs Sh.14, 000, Road licence and insurance sh.28,000.
   - Mr. Kibwezi spent Sh.17, 000 on entertainment of customers which was fully reimbursed by the employer.
   - Mr. Kibwezi is housed by his employer, in a house where the employer pays Sh.5, 000 per month.
   - His employer pays on his behalf life insurance premium at sh.2, 000 per month.
   - The employer paid Sh.2, 000 per month for Mr. Kibwezi's approved pension scheme.

3. Interest received by Mr. Kibwezi during the year was as follows:

Post Office Savings Bank	Sh.12, 000
Fixed Deposit Account: Euro Bank	Sh. 2,250
Savings Account: National Bank	Sh. 8,400

4. Mr. Kibwezi paid interest of Sh.20, 000 per month, on a loan from HFCK for the purchase of his residence.

5. Rental income:

	Sh.	Sh.
Gross rent		43,000
Less:		
Mortgage interest:	8,000	
Cost of building extension	120,000	
Painting extension	10,000	138,000
Net loss on rent		95,000

6. Mrs. Mary Kibwezi earned the following income for the year of income 2014:
   - Salary: Maxima Manufacturers sh.72,000 per month (P.A.Y.E. Sh.25,000 per month)
   - Free lunches by his employer Sh.2,400 per month
   - Part-time business Sh.10, 000 per month.

Required:

(a) Calculate the total taxable income for Mr. Kigo for the year of income 2014. (15 marks)

(b) Comment on any information that you did not use in computation of Mr. Kibwezi's taxable income.
5 marks