**RCM ONLINE COLLEGE**

**PRINCIPLES OF TAXATION**

**ATD 11**

**CAT 11**

**Question 1**

1. (a) Identify five circumstances under which an object could be accepted by commissioner of domestic taxes (5mks)

b. Mr Opapo is employed as a senior manager with Bat ltd.

The following relates to Him for the year ended 31 Dec 2020.

1. Basic salary of sh 82,000 per month(PAYE shs 18,400per month)

2. Benefits in kind for the year amounted to sh 48,000

3. He was provided with a company car 2000cc whose cost was sh700, 000.The car was leased by the company at monthly rent of shs 24,000.He also received a monthly fuel allowance of sh 10,000for the car.

4. He was provided with a house by employer. The house is rented from one of the company’s director at sh 40,000per month. The electricity is supplied from a generator installed by the company, the monthly expenses in relation to generator amounted to 30, 000.

5. On May 2020, he moved to his own house which he had constructed through a 12% mortgage loan of shs 200,000. The loan had been from National corporation on 1October 2019.

6. He is a member of registered pension scheme where he contributes shs 18,000 per month with employer contributing the same amount.

7. On October 2020, he secured an education insurance policy for a child at an annual premium shs 72,000 payable by the company

8. He reported a farming income of 98000 after presumptive tax

9. He was out of work station for 5 days for which he was paid per Diem of shs 4,600 per day.

Required

a. Calculate taxable income and tax payable (13mks)

b. Comment on any information not used in your computation above (2mks)

**Question 2**

2. (a) Describe the composition & operation of the local committee or any other tax committee in your country (4mks)

(b) John and Mariam are in partnership trading as Ntemi enterprises. The following income statement relates to the business for the year ended 31 December 2012

**Income statement for the year ended 31 December 2012**

|  |  |  |  |
| --- | --- | --- | --- |
|  | sh |  | sh |
| PurchasesRepairsAdvertisementGeneral provision for bad debtsLoan repaymentLegal feesDrawings –ndishiInterest on capitalSalaries SubscriptionDepreciationPurchase of patentPurchase of furnitureInterest expense –loanCaretakers wages for rented propertyFarm works | 784,0000160,000184,00036,000120,000248,000150,000240,000682,800142,00094,000116,00072,00012,80024,0004000010,193,600 | SalesDividends from savings and creditCo-operative society (SACCO)Interest on drawingsCharity sweepstakes win-MariamInterest incomeRent incomeNet loss | 8,400,00095,0007500450, 000428001846001,043,70010193600 |

Additional information:

Advertisement includes a neon sign valued at sh 50000

Purchases includes goods not sold by the end of the year amounting to sh 534,000.

Interest on capital is in the proportion of 40% to John and 60% to Mariam

Salaries include sh 182,800 paid to general workers with the balance paid to John sh 200,000 and Mariam sh300000.

 Legal expenses includes sh 28,000 incurred on purchase of furniture and sh 35,000 for conveyance on a piece of land for the business

**Required :**

A statement of adjusted taxable income or loss for the partnership for the year ended 21 December 2012(11 mks)

Total taxable income or loss for each partner (5mks)

**Question 3**

3(a) Distinguish between custom warehouse and bonded warehouse (4mks)

 (b) Briefly explain the condition to be met for an asset to qualify for shipment involvement condition (SID) (4mks)

c) Ken Manufacturer Ltd commenced business on 1 January2013, after incurring the following capital expenditures:

|  |  |
| --- | --- |
|  | sh |
| Industrial buildingSecurity wallForkliftsPick-upsLandComputersBoilersStaff quartersFurniture and fittingsMilling machinesWarehousescanners | 14,000,0001,500,0008,000,0003,500,00015,000,000800,000950,0001,200,000350,0003,600,0001,800,000620,000 |

Additional information:

1. On 1 July 2022, the company purchased the following additional assets:

|  |  |
| --- | --- |
| AssetGeneratorWeighing machinesComputer deskSound silencers fitted to milling machinesFax machinegraders | Cost (sh)680,000850,000180,000800,000250,0001,200,000 |

2. On 1 September 2022, a factory extension was constructed at a cost of 4,000,000 which included administrative offices costing sh 1,000,000 a warehouse costing sh 1,050,000 and a staff social costing sh 900,000

3. During the year, the following assets were disposed of:

**Assets disposal proceeds (sh)**

Computers 180,000

Fax machine 150,000

Furniture and fitting 200,000

4. A pick-up which had cost sh 1,350,000 was traded in for a new one costing sh 1,800,000

The old pick-up was valued at sh 720,000 and balance was paid in cash

**Required:**

Capital allowance due to Ken manufactures ltd for the year ended 31 December 2022

**Question 4**

4(a) Citing four reasons highlights the importance of a tax invoice in the administration of value added tax (4MKS)

(b) As an accounts technician, you have been invited by your county government representative to make a presentation on the various challenges faced in administration of VAT

Suggest four cases against vat that you would include in your presentation (4MKS)

© The following details were extracted from the books of Vitec ltd for the month of April 2022

April1: purchased goods from Web traders on credit for sh 68,000.

April4: sold goods for cash sh 51,760

April8: purchased goods for cash sh 20,880

April12: Exported goods valued at sh 20,500

April18: received debt note for sh 17,400

April20: imported goods valued at sh 60,000 cost insurance and freight (CIF) import duty was at the rate of 20%

April24: Made exempt sales sh 30,000

April26: sold goods to the government for sh 69,600 to local customers

April28: Issued credit notes valued at sh 11,600 to local customers

April30: A debtor for good valued at sh 9,280 was declared bankrupt

All transaction are inclusive of VAT at the of 16% where applicable

 **Required:**

Calculate for Vitec Ltd for the month of April 2022

1. Output tax
2. Deductible input tax
3. VAT payable or refundable
4. Comment on the information Vitec Ltd, must include when filling VAT returns for the months of April 2013 (12MKS)

**QUESTION 5**

1. Explain occasions when an individuals could be considered resident for income tax purpose ( 3 marks)
2. Explain the following terms used in custom and excise Act
	* 1. Drawback (2 mks)
		2. Unaccustomed goods (2 mks)
3. Explain hindrance to the automation of tax collection systems in your county (8 mks)
4. Explain the term “pre-shipment inspection” as used in custom duty ( 2 mks)
5. Identify and explain three types of tax assessment that might originate from the commissioner of domestic taxes (3 mks)