**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 |
| Purchases  Repairs  Advertisement  General provision for bad debts  Loan repayment  Legal fees  Drawings –ndishi  Interest on capital  Salaries  Subscription  Depreciation  Purchase of patent  Purchase of furniture  Interest expense –loan  Caretakers wages for rented property  Farm works | 784,0000  160,000  184,000  36,000  120,000  248,000  150,000  240,000  682,800  142,000  94,000  116,000  72,000  12,800  24,000  40000  10,193,600 | Sales  Dividends from savings and credit  Co-operative society (SACCO)  Interest on drawings  Charity sweepstakes win-Mariam  Interest income  Rent income  Net loss | 8,400,000  95,000  7500  450, 000  42800  184600  1,043,700  10193600 |

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 building  Security wall  Forklifts  Pick-ups  Land  Computers  Boilers  Staff quarters  Furniture and fittings  Milling machines  Warehouse  scanners | 14,000,000  1,500,000  8,000,000  3,500,000  15,000,000  800,000  950,000  1,200,000  350,000  3,600,000  1,800,000  620,000 |

Additional information:

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

|  |  |
| --- | --- |
| Asset  Generator  Weighing machines  Computer desk  Sound silencers fitted to milling machines  Fax machine  graders | Cost (sh)  680,000  850,000  180,000  800,000  250,000  1,200,000 |

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)