



# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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**MAIN EXAMINATION**

**JANUARY – APRIL 2014 TRIMESTER**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**REGULAR PROGRAMME**

**CAC 424: TAX LAW AND PRACTICE**

**Date: APRIL 2014**

**Duration: 2 Hours**

**INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions**

- Q1. a) i) State **THREE** circumstances under which the commissioner of VAT may issue an assessment. **(3 marks)**
- ii) List **SIX** matters that are contained in a notice of assessment. **(6 marks)**
- b) i) Explain what is fringe benefit tax. **(3 marks)**
- ii) Suggest what factors the commissioner will take into account in generating penalties and interest on the lost tax. **(7 marks)**
- c) Explain in brief what VAT law states in relation to vatable goods obtained from illegal sources **(4 marks)**
- d) Write brief notes on the determination of taxable income of resident insurance companies. **(7 marks)**
- Q2. a) Alpha Insurance Company Ltd, provides motor vehicle and five insurance cover to its policy holders. The following information was

extracted from the financial records of the company for the year ended 31<sup>st</sup> December 2013.

	<b>Motor Vehicle Insurance Ksh '000'</b>	<b>Five Insurance Ksh. '000'</b>
Gross premiums	56000	12640
Uncarned premium 1 <sup>st</sup> Jan 2013	8240	2360
31 <sup>st</sup> Dec 2013	4630	1070
Claims paid	2860	1250
Claims outstanding 1 <sup>st</sup> Jan 2013	3950	4820
31 <sup>st</sup> Dec 2013	3680	10340
Depreciation	700	860
Reinsurance coded	22400	5200
Gaing on sale of equipment	64	-
Agency expenses	480	170
Commission received	300	1690
Telephone and postage	1460	1580
Management expenses	3475	1875
Bad debts (specific)	600	230
Advertising	846	802

**Additional information:**

1. The agency expenses for motor vehicle insurance include:

	Ksh.
Commission paid on sale of investments	120000
Commission paid on purchase of equipment	80000

2. Capital allowance have been agreed with the tax authorities of Ksh. 6000000 for the year ended 31 December 2013.

**Required:**

Compute the taxable income or loss for Apha Insurance Company Ltd for the year ended 3st December 2013. **(10 marks)**

- b) Mr. C. Kamau is employed by Makazi Ltd as the finance director. He holds 12% of the company's issued ordinary share capital. During

the year ended 31<sup>st</sup> December 2013, he reported the following incomes:

1. Employment income

	Ksh.
Basic salary per annum	1200000(PAYE Ksh. 200000)
Bonus for the year	300000 (PAYE Ksh. 50000)

Annual pension contribution by employer:

• To registered scheme	120000
• To unregistered scheme	155000
Annual life insurance premium paid by employer	70000

Ordinary January 2013, the employer rented a house for him at a monthly rent of Ksh. 20000. He is charged 5% of his monthly basic salary a part of rent contribution.

2. Dividend income:

	Ksh.
Biashara Commercial Bank Ltd	180000 (net)
Kahawa Farmers Cooperative Society	100000 (gross)

3. Interest income:

Post office savings bank	220000 (gross)
Nyumba Housing Finance Company	150000 (gross)
Bank deposits	65000 (net)

4. Lumpsum pension received from previous employer Ksh. 500000.

5. His wife is employed by Amua Ltd where he owns 30% of the ordinary share capital. During the year ended 31<sup>st</sup> December 2013 she received the following salary and benefits:

- i) Basic pay Ksh. 400000 per annum (PAYE Ksh. 50000)
- ii) Sick leave allowance Ksh. 60000
- iii) Harambe contributions for her medical costs:
  - From fellow employees Ksh. 400000
  - From employer Ksh. 150000

She owns a retail shop which is registered in her name. the shop reported a net loss of Ksh. 200000 for the year ended 31 December 2013.

**Required:**

Compute the taxable income of Mr. C. Kamau for the year ended 31 December 2013. **(10 marks)**

- Q3. a) Wanga Ltd is seeking a tax refund from the commissioner of BAT. In this connection, the company has engaged Koech and Otieno (CPAs)s so that they may issue an auditor's certificate in conformity with regulation 13A of the VAT Act (Cap. 476) Regulations.

**Required:**

As the audit senior of Koech and Otieno Associates (CPAs), prepare a program of work that you and your team will follow to enable you determine whether Wanga Ltd should obtain the refund it seeks from the Commissioner of VAT. **(8 marks)**

- b) ABC Ltd has VAT due amounting to Ksh. 3600000. It was late in making the returns and payments of the amount due by five months.

**Required:**

The penalties that ABC Ltd will be required to pay by the VAT Department. **(4 marks)**

- c) The following is a summary of the sales and purchases of Panda Limited for the six months ended 31 December 2013.

<b>Month</b>	<b>Sales (Ksh)</b>	<b>Purchases (Ksh)</b>
July	1200000	450000
August	1400000	300000
September	165000	Nil
October	2200000	700000
November	Nil	650000
December	2800000	900000

Additional information:

1. The composition of each month's sales is as follows:

- At the standard rate 85%
- Exempt sales 4%
- Export sales 11%

2. One tenth of all purchases are made from supplies not registered for VAT purposes. The rest of the purchases are made from suppliers registered for VAT purposes, at the standard rate.

3. For the six months period ended 31 December 2013, the company issued credit notes amounting to Ksh. 40000, exclusive of VAT, for sales made at the standard rate. In addition, the company received debit notes amounting to Ksh. 22000 (exclusive of VAT) from suppliers registered for VAT purposes.

4. A customer who had purchased supplies worth Ksh. 200000 at the standard rate in October 2013, was declared bankrupt in December 2013.

5. As at 31 December 2013, the company had not yet received payment for the sales made in August 2013.

**Required:**

VAT account for the six – month period ended 31<sup>st</sup> December 2013. (Where applicable, the transactions are exclusive of VAT at the standard rate). **(8 marks)**

- Q4. a) i) State the key provisions of section 19 of the Income Tax Act (Cap. 470) relating to the taxation of Savings and Credit Cooperatives Societies (SACCOs). **(4 marks)**
- ii) Makazi Savings and Credit Cooperatives Society (SACCO) Ltd reported the following incomes and expenditure for the year ended 31 December 2013.

<b>Income</b>	<b>Ksh.</b>
Interest on loans to members	1500000
Interest on savings accounts	30000
Interest on fixed deposits accounts	100000
Other investment income	12000
Rental income	<u>600000</u>
Total income	<u>2242000</u>
Expenditure	
Administration expenses	<u>300000</u>
Surplus	<u>1942000</u>

**Required:**

The taxable profit of Makazi Sacco Ltd for the year ended 31 December 2013. **(4 marks)**

- b) Daniel Otworu a resident of Kenya, earned income from the countries listed below during the year ended 31 December 2013.

Income from Kenya:	Ksh. 765000		
Income from United Kingdom (UK):	UK£4800	net.	Tax
deducted amounted to UK £960.			

The average exchange rate during the year 1UK£=140 Ksh. A double taxation agreement exists between Kenya and United Kingdom.

**Required:**

The double taxation relief (in Kenya Shillings) due to Daniel Otworu for the year ended 31<sup>st</sup> December 2013. **(4 marks)**

- c) The Income Tax Act (Cap 470) grants the Commissioner General the power to effect the recovery of unpaid taxes. Outline three ways through which the Commissioner General may exercise this power. **(6 marks)**
- d) Outline specific measures under the custom and Excise Act (Capt 472) designed to prevent dumping in Kenya. **(2 marks)**

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