



# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

**A. M. E. C. E. A**

**MAIN EXAMINATION**

P.O. Box 62157  
00200 Nairobi - KENYA  
Telephone: 891601-6  
Fax: 254-20-891084  
E-mail: academics@cuea.edu

**AUGUST - DECEMBER 2016 TRIMESTER**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**REGULAR PROGRAMME**

**CAC 424: TAX LAW AND PRACTICE**

**Date: DECEMBER 2016**

**Duration: 2 Hours**

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

- Q1. a) Explain the following type of returns, indicate the person eligible to file the returns and the due dates.
- i) Self assessment Return **(2 marks)**
  - ii) VAT return **(2 marks)**
  - iii) Fringe benefit tax return **(2 marks)**
- b) Differentiate on the roles of local committee and tribunals **(6 marks)**
- c) Explain the tax treatment in Kenya regarding
- i) Inheritance and gift **(2 marks)**
  - ii) Rental income **(2 marks)**
  - iii) Taxation on professional income **(2 marks)**
- d) Jane is a Sole trader who has been in business since 2010. She has not been paying taxes since she started. Jane has received an enquiry form from Domestic tax Department, requiring her to show her income changeable to tax from 2010 to 2015. She has approached you as a tax consultant and in your discussion the following information has been noted.

1. She was in employment and from her savings was able to start te business with sh. 400,000. She had a personal car valued at sh. 300, 000 which was put for business use. It was 80% business and 20% personal in usage.
2. She has not been keeping full records of her transactions for the period she has been in business.

The following records have been summarized form your discussion with her regarding the assets and liabilities.

	2010	2011	2012	2013	2014	2015	2016
Assets	Sh. 000	Sh. 000	Sh. 000	Sh. 000	Sh. 000	Sh. 000	Sh. 000
Buildings	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Furniture and fittings	1, 000	1,000	1,200	1,200	1,400	1,500	1,500
Motor vehicle	300	300	600	600	1,000	1,000	1,000
Stock in trade	20	40	60	80	100	120	120
Debtors (trade)	-	10	30	-	60	40	100
Prepayments	5	2	4	5	8	4	12
Bank balance	<u>20</u>	<u>24</u>	<u>30</u>	<u>22</u>	<u>26</u>	<u>30</u>	<u>40</u>
Assets:	1645	1676	2044	2027	2534	2548	2622
<hr/>							
<u>Liabilities</u>							
Payables (trade)	-	10	60	50	70	70	80
Friendly loan	60	-	-	10	-	-	20
Accruals	2	2	2	4	4	5	5
Bank loans	<u>100</u>	<u>80</u>	<u>60</u>	<u>40</u>	<u>20</u>	<u>-</u>	<u>-</u>
Total liabilities	192	122	122	104	94	75	105
<hr/>							
Estimated living							

1. Interest on loan was at 10% on reducing balance based with balance outstanding at the beginning of the year. She had taken sh. 1, 200, 000 on 2<sup>nd</sup> January 2010. No interest on Friendly loan.
2. She sold the motor vehicle she started with for sh. 250, 000 and bought a second vehicle for sh. 600, 000 on 1.1.2012.

Investment income amounted to dividends received of sh. 100, 000 from shares she bought while on employment from a limited liability company.

Required

- i) Calculate the income changeable to tax for each year based on the information provided. **(10 marks)**
  - ii) State briefly what further information you would require to satisfy yourself and the Domestic tax Department that the changeable income you have calculated reflects the true and correct income of the taxpayer each year. **(2 marks)**
- Q2. a) Explain the duties of a tax agent **(4 marks)**  
 b) James recently graduated with a Bcom in Marketing and was given the following job offers per month.

	Benta Co. Ltd	Limo Co. Ltd
	Sh.	Sh.
Salary basic	240, 000	180, 000
House allowance	-	30,000
Entertainment allowance	20, 000	10, 000
Medical allowance	10, 000	-
Vehicle	2000cc	1800cc
Cost of vehicle	2, 000, 000	1, 800, 000

Facilities:

House	Provided	Not provided
-------	----------	--------------

Watchman	4, 000	-
Medicinal scheme for all employees	-	Provided
Insurance premium (his life)	10, 000	10, 000

Sum assured sh. 5, 000, 000 payable in Kenyan currency.

Personal plans:

1. Save for Home ownership saving plan sh. 6,000 p.m
2. Save with SACCO and 10% of the basic salary.

Required

Advice James on the best offer (Support your answer) **(16 marks)**

Q3. a) Define and explain the concept of Value Added Tax (VAT) **(4 marks)**

- b) Given below were the purchases and sales made by Kelly traders during the month of September 2016. The prices were inclusive of VAT at the standard rate of 16%

Date	Purchases		Sales	
	Units	@Sh.	Units	@Sh.
Sept 1.	100	40		
2.			80	200
4.	210	42		
6.	190	43		
8.			300	210
10.	30	60		
12.	160	100		

14.			140	260
22.	215	200		
24.	300	250		
25.			300	350
26.			160	300
28.	400	300		
30.			360	500

Return inwards was for sales made on 8<sup>th</sup> September for 20 units and 10 units for sales on 25<sup>th</sup> September.

Return outwards was for 30 units bought on 4<sup>th</sup> September and 40 units for units bought on 24<sup>th</sup> September.

Required:

- i) The VAT account for the month of September 2016 **(14 marks)**
- ii) On what date is VAT due payable **(2 marks)**

Q4. a) Mr. Mbutia has 60 units rented by tenants for sh. 30, 000 p.m. on 1<sup>st</sup> January 2015. On 1<sup>st</sup> July, the rent was increased to sh. 40, 000 for 40% of the units.

The following information is provided:

1. She paid the following costs
  - Land rent for rates Sh. 200,000
  - Insurance against fire sh. 100,000
  - Wages to care taker sh. 20,000 p.m.
  - Repainting and repairs sh. 180,000
2. Structural alteration for 40% of the units at a cost of the units at a cost of sh. 3,000,000.
3. Mortgage interest of sh. 400, 000 for building the premises.
4. She occupies part of the property which is estimated to be 1/20<sup>th</sup> of the whole property.
5. Two tenants failed to pay for sh. 100, 000 rent of 2015.

Required:

- a) Compute the taxable rental income for Mr. Mbutia in 2015. **(12 marks)**
- b) Explain the difference between customs duties and excise duties **(4 marks)**
- c) Explain the difference between tax evasion and tax avoidance, give examples  
In each case **(4 marks)**

**\*END\***