

1804/305
TAXATION
November 2024
Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL
CRAFT CERTIFICATE IN ACCOUNTANCY

TAXATION

3 hours

INSTRUCTIONS TO CANDIDATES

This paper consists of TWO sections; A and B.

Answer ALL the questions in Section A and any FOUR question in Section B in the answer booklet provided.

Maximum marks for each part of a question are as indicated.

Candidates should answer the questions in English.

This paper consists of 7 printed pages.

Candidates should check the question paper to ascertain that all the pages are printed as indicated and that no questions are missing.

RATE OF TAX (including wife's employment, self employment and professional income rate of tax).
Year of income 2023.

Monthly taxable pay (Ksh)	Annual taxable pay (Ksh)	Rate of tax % in each (Ksh)
1 - 24,000	1 - 288,000	10%
24,001 - 32,333	288,001 - 388,000	25%
Excess over - 32,333	Excess over - 388,000	30%

Personal relief Ksh.2,400 per month (Ksh.28,800 per annum)

Investment allowance:	Rate of investment allowance	Residual value (per year on reducing bal- ance)	Prescribed benefit rates of motor vehicles provided (i) Saloons, Hatch Backs and Estates		
Capital expenditure incurred on:				Monthly rates (Sh)	Annual rates (Sh)
(a) Buildings:					
• Hotel building	50% in the first year of use	25%	Upto 1200 cc	2,600	43,200
• Building used for manufacture	50% in the first year of use	25%	1201 - 1500 cc	4,200	50,400
• Hospital buildings	50% in the first year of use	25%	1501 - 1750 cc	5,800	69,600
• Petroleum or gas storage facilities	10% per year on reducing balance	25%	1751 - 2000 cc	7,200	86,400
• Educational/hostels building	10% per year on reducing balance		2001 - 3000 cc	8,600	103,200
• Commercial building			Over - 3000 cc	14,400	172,800
(b) Machinery:					
• Machinery used for manufacture	50% in the first year of use	25%	(ii) Pick-ups, Panel		
• Hospital equipment	50% in the first year of use	25%	Vans (unconverted)		
• Ships or aircraft	50% in the first year of use	25%	Upto - 1750 cc	3,600	43,200
• Motor vehicles and heavy earth moving equipment	25% per year on reducing balance		Over - 1750 cc	4,200	50,400
• Computer software, calculators, copiers and duplicating machines	25% per year on reducing balance				
• Furniture and fittings	10% per year on reducing balance				
• Telecommunication equipment	10% per year on reducing balance				
• Film equipment by a local producer operations under prospecting rights and exploration under mining rights	25% per year on reducing balance				
• Other machinery	50% in the first year	25%			
(c) Purchase/acquisition of rights to use fibre optic cable by telecommunication operations	10% per year on reducing balance		(iii) Land Rovers/ cruisers	7,200	86,400
(d) Farm works	50% in the first year of use				

Commissioner's prescribed benefit rates

Services

- (i) Electricity (Communal or from a generator)
(ii) Water (Communal or from a borehole)

Monthly rates

(Sh)

1,500
500

Annual rates

(Sh.)

18,000
6,000

Agricultural employees: Reduced rates of benefits

- (i) Water
(ii) Electricity

200
900

2,400
10,800

SECTION A (32 marks)

Answer ALL questions in this section.

1. List three advantages of turnover tax. (3 mark)
2. State three offences that may be committed by a tax payer under value Added Tax (VAT) Act. (3 marks)
3. State three causes of tax evasion. (3 marks)
4. State three types of returns that may be filed by a tax payer. (3 marks)
5. List three principles of a good tax system. (3 marks)
6. Mageto obtained a loan of Ksh.2,000,000 from his employer at an interest rate of 5% per annum. The market interest rate is 15% per annum. Calculate the fringe benefit tax. (4 marks)
7. State two reasons that make the government to levy taxes on its citizens. (2 marks)
8. The following costs were incurred by Kaka Dairy Farm in the year income 2023.

Farm house	360,000
Cowshed	80,000
Chicken pens	40,000

Compute the farm works deduction for the year. (4 marks)

9. Vuya Limited, a Kenyan resident company, reported a net profit of Ksh 2,480,000 for the year ended 31 December 2023. Compute the corporation tax payable. (3 marks)

10. The following information relates to the employment income of Mr. Bidii for the year of income 2023

Basic salary Ksh 45,000 per month

House allowance Ksh 15,000

Medical expenses of Ksh 12,000 where the firm provides medical scheme for all employees.

Compute Mr. Bidii's taxable income for the year of income 2023.

(4 marks)

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Turn over

SECTION B (68 marks)

Answer any FOUR questions from this section.

11. (a) Explain each of the following terms as used in taxation:
- (i) Custom's duty;
 - (ii) Excise duty
 - (iii) Regressive tax
 - (iv) Tax shifting.
- (8 marks)
- (b) Kate Enterprises is registered for Value Added Tax (V.A.T) purposes. The following transactions relate to the month of April 2023.

- April 1 Purchased 3000 units at Ksh 840 per unit
- 4 Purchased 1,000 units at Ksh 1250 per unit
- 6 Sold 1,500 units at Ksh 1,300 per unit
- 8 Sold 900 units at Ksh 1,450 per unit
- 12 Purchased 1,200 units at Ksh 960 per unit
- 14 Sold 800 units at Ksh 1350 per unit
- 16 Sold 950 units at Ksh 1550 per unit
- 26 Sold 790 units at Ksh 1440 per unit

All the transactions are inclusive of VAT at the standard rate of 16%.
Prepare a Value Added Tax (VAT) account.

(9 marks)

12. (a) Explain four objectives of issuing personal identification Number (P.I.N) to tax payers in Kenya.
- (8 marks)
- (b) Beli and Sheri are in partnership business sharing profits and losses equally. The following is the income statement of the firm for the year ended 31 December 20223

	Ksh	Ksh
Gross Profit		4,325,000
Less expenses		
Salaries and wages	1,520,000	
Depreciation	250,000	
Drawings - Beli	405,000	
Interest on capital - Beli	58,000	
- Sheri	98,000	
Water and electricity	38,000	
Donations	100,000	
Travelling expenses	75,000	
Purchases of furniture	54,000	2,598,000
Net profit		<u>1,727,000</u>

Additional Information:

- Salaries and wages include salary of Ksh 330,000 paid to Sheri.
- Capital allowances were agreed with the commissioner for domestic taxes at Ksh 388,000.

Determine the:

- (i) Adjusted partnership income for the year of income 2023.
- (ii) Taxable income of each partner. (9 marks)

13. (a) Explain four functions of the Cabinet Secretary for Treasury in Kenya. (8 marks)

(b) Salia is an employee of Biko Limited. The following information relates to his income for the year 2023:

- Basic salary of Ksh 95,000 per month (PAYE Ksh. 16,000 per month)
- House allowance of Ksh 386,000 per annum.
- A company car of Ksh 2,500 cc purchased on 1 January 2022 for Ksh 2,300,000
- He contributes Ksh 7,6000 per month to NSSF and Ksh 6,300 per month to a registered Home Ownership Savings Plan (HOSP)
- Farming income Ksh 360,000

Determine;

- (i) Salia's taxable income for the year of income 2023.
- (ii) Tax payable for the year of income 2023. (9 marks)

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14. (a) Explain four ways in which Pay As You Earn (P.A.Y.E) satisfies the principle of a good tax system. (8 marks)

- (b) The following income statement relates to Pako Limited for the year ended 31 December 2023.

	Ksh 000	Ksh 000
Gross profit		13,000
Profit from disposal of motor vehicle		640
Bad debts recovered		128
Commissions received		<u>300</u>
		14,068
Less: Expenses		
Depreciation	630	
Salaries and wages	1,780	
Directors remuneration	1,500	
Foreign exchange loss	520	
Donations	250	
Insurance	140	
Legal expenses	640	
Tax penalty	2,000	
Repairs and maintenance	730	
Rents and rates	610	
	<u>380,000</u>	<u>8,800</u>
Net profit		<u>5,268</u>

16
39
55

Additional information:

- Directors remuneration include Ksh 350,000 for the managing director's son wedding.
- Bad debts recovered include Ksh 1000,000 in respect of specific bad debts.
- Legal expenses included a court fine of Ksh 20,000 for breach of trade agreement.
- Capital allowances were agreed with the commissioner of Domestic taxes at Ksh 560,000
- Donations comprises of:

Trade association	70,000
Political party	<u>180,000</u>
	<u>250,000</u>

- (i) Prepare a statement of adjusted taxable net profit for the year of income 2023.
- (ii) Determine the corporation tax payable.

(9 marks)

15. (a) Highlight four types of information contained in an amended tax assessment. (8 marks)
- (b) Segal Processing Company was established in 2023; and commenced operations immediately. The company incurred the following expenditure:

	Ksh
Factory building	10,800,000
CCTV cameras	280,000
Staff quarters	1,900,000
Warehouse	2,000,000
Processing machinery	1,800,000

Factory building includes a retail shop and a warehouse constructed at a cost of Ksh.300,000 and Ksh 500,000 respectively

On 1 September 2023, the company purchased furniture for Ksh 200,000 and a delivery van for Ksh 5,000,000.

Calculate the capital allowances due to the company for the year of income 2023. (9 marks)

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