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University Examinations 2024/2025

THIRD YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR
OF APPLIED ACCOUNTING

BFH 3304: TAXATION OF SPECIALIZED INSTITUTIONS

DATE: JANUARY 2025

TIME: 2 HOURS

INSTRUCTIONS: Answer question *one* and any other *two* questions

QUESTION ONE (30 MARKS)

The management of Shamrock Bank Ltd. has sought your professional guidance in determining the Bank's tax liability for the year ended 31 December 2023.

The income statement of Shamrock Bank Ltd. for the year ended 31 December 2023 is given below:

Income	Sh. 000	Sh. 000
Interest on loans and advances to customers		540,800
Interest on government securities		120,600
Interest on placements with other banks and institutions		40,650
		39,360

Fees and commissions income		2,190
Rental income		31,980
Income from foreign exchange dealings		12,300
Gain on disposal of property and equipment		<u>42,950</u>
Other operating income		<u>830,830</u>
Total income		
Expenses:		360,400
Salaries and employee benefits		20,350
Occupancy expenses		12,360
Deposit protection fund contributions		43,700
Depreciation expense		202,450
Interest on customers' deposits		80,200
Interest on deposits from other Banks and institutions		
Directors emoluments	11,200	
Fees	<u>3,600</u>	14,800
Other		
Auditors' remuneration	2,100	
Current year	300	2,400
Under provision for the previous year		16,300
(2022)		7,250
Operating lease rental		20,620
Loss on disposal of equipment		80,500
Other administrative expenses		<u>20,950</u>
Provision for bad and doubtful debts		<u>882,280</u>
Provision for interest suspense		<u>(51,450)</u>
Total expenses		
Loss for the year		

- Salaries and employee benefits comprise:

Sh. 000

Leave benefits	720
Pension contributions	1,460
Termination costs	2,860
Provision for staff leave	4,920
accruals	9,960

2. Included in the Directors' "other" emoluments are:

Sh. '000'

School fees for the Chairman's children	1,200
Entertainment allowance (used on clients)	1,800
Travelling costs for a newly recruited expatriate director	600

3. The movement in provisions for bad and doubtful debts during the year was as follows:

	Specific provisions Sh. '000'	General provisions Sh. '000'	Total Sh. '000'
	Sh. '000'	Sh. '000'	Sh. '000'
At 1 January 2023	630,500	630	631,130
Charge for the year	83,800	15,300	99,100
Released during the year	<u>(18,600)</u>		<u>(18,600)</u>
At 31 December 2023	<u>695,700</u>	15,930	<u>711,630</u>

4. Provision for interest suspense represents non-performing loans and advances on which interest has been suspended. The management has confirmed that the loans and advances are fully secured.
5. Capital allowances for the year ended 31 December 2023 amounted to Sh. 18,900,000
6. Lease rental charges relate to office equipment leased from AB office solutions for use in the entire bank network.

Required:

- a) (i) Taxable income of Shamrock Bank Ltd. for the year ended 31 December 2023. (13 marks)
- (ii) Tax payable (if any), on the taxable income computed in (i) above. (4 marks)
- b) Given the Shamrock Bank Ltd's taxable income for the year ended 31 December 2023, was assessed at Sh. 2,400,000, show how the tax computed in (a) (ii) above is to be paid, inclusive of the due dates. (7 marks)
- c) Explain the implication of Income Tax Act section 15(7) (e) (specified sources of income) on Shamrock Bank Ltd's income. (5 marks)

QUESTION TWO (20 MARKS)

- a) State the key provisions of section 19 of the Income Tax Act (Cap.470) relating to the taxation of savings and credit cooperative societies (SACCOS). (10 marks)
- (i) Makazi Savings and Credit Cooperative Society (Sacco) Ltd. reported the following incomes and expenditure for the year ended 31 December 2023:

Income:	Sh.
Interest on loans to members	1,500,000
Interest on savings accounts	30,000
Interest on fixed deposit accounts	400,000
Other investment income	12,000
Rental income	<u>600 000</u>
Total income	<u>2, 242, 000</u>

Expenditure

Administration expenses	<u>300,000</u>
Surplus	<u>1,942,000</u>

Required:

The taxable profit of Makazi Sacco Ltd. for the year ended 31 December 2023.

(10 Mark)

QUESTION THREE (20 MARKS)

Sporting members club was formed in November 2022 but became operational on 1st January 2013. For the year of income ending 31st December 2013 the club did not submit income tax returns. The club manager argued that section 21 of the income tax act excluded the club from taxation.

However, upon being advised by one of the members to consult a tax expert on the issue, the manager has approached you for further clarification and has provided the following information.

The club received gross income during the year ended 31st December 2023 amounting to Kshs 22,000,000. which was analysed as follows;

	KSHS
Entrance fees	3,000,000
Members' subscriptions	10,000,000
Interest on late subscriptions	500,000
Interest income on fixed deposit accounts	1,600,000
Dividend income	800,000
Royalties	1,200,000
Rent	4,000,000
Gain on Property	900,000
Total	22,000,000

Operating expenses amounted to shs 4,000,000

Interest and dividend income were stated gross of tax

Required:

Advise the manager on the taxation of the club. Your advise should include details on;

Circumstances on which members clubs are taxed

Whether sporting members club is subject to taxation for the year ended 31st December 2023 and the tax liability if any.

QUESTION FOUR (20 MARKS)

- a) Write brief notes on specified sources of income. To what extent do the rules on specified sources apply to insurance companies? (5 marks)
- b) Wananchi General Insurance Limited provided the following details with respect to the activities for the year ended 31 December 2023:

	Shs.
Claims paid	4,800,000
Claims outstanding on 1 January 2023	400,000
Claims intimated and accepted but not paid on 31 December 2023	700,000
Premiums received	12,000,000
Re-insurance premium paid	1,200,000
Commission paid	2,000,000
Commission on re-insurance ceded	80,000
Commission on re-insurance	40,000
Repair of rented premises	150,000
Fees paid to investment managers	600,000
Expenses of management	3,020,000
Provision for unexpired risk on 1 January 2023	4,000,000
Bonus utilized in reduction of premium	120,000
Re-insurance recoveries of claims	80,000
Medical expenses regarding claims	50,000
Loss on sale of motor car	35,000
Bad debts — specific	

Tax credit for double taxation	25,000
Interest received (Gross)	45,000
Dividend received (Gross)	2,600,000
Provision for unexpired risk — 31 December 2023	4,500,000
	4,677,200
Legal expenses regarding claims	400,000
Profit on sale of investments	2,350,000
Rent income on property	750,000
Depreciation	1,200,000
Wear and tear allowances have been agreed at Sh.800,000.	

Required

- a) With specific reference to the provisions of the Income Tax Act, compute the taxable income on Wananchi General Insurance Limited for 2023. (12 marks)
- b) Comment on any losses, gains or specified sources of income which you have ascertained in (a) above. (3 marks)

QUESTION FIVE (20 MARKS)

Mjengo contractors limited operates in the construction industry. On 1st November 2023 the company won a tender for the construction of two projects: a hospital and an office complex. Construction of the two projects commenced on 1st January 2022. The following details relate to the two projects for the year ended 31st dec 2023.

Additional information

1. Wear and tear allowance on plant is at the rate of 12.5%
2. Direct expenses accrued and not shown above were as follows;

	Hospital project	Office com le
	Shs '000'	Shs '000"
As at 1 st January 2023	200	-
As at December 2023	1,000	400

3. Consultancy fees for the hospital project include shs 40000 prepaid for the year 2024

Required:

Taxable profit or loss arising from each of the two construction projects for the year ended 31st December 2023