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(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2017/2018 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER

MAIN EXAMS

**FOR THE DEGREE OF BACHELOR OF AGRICULTURE
ECONOMICS AND RESOURCE MANAGEMENT**

COURSE CODE: IAE 384.

COURSE TITLE: TAXATION THEORY AND PRACTICE

DATE: 10TH JANUARY 2018

TIME: 2 - 4 PM

INSTRUCTIONS TO CANDIDATES

Answer Question One and any other Two (2) Questions

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating



This Paper Consists of 4 Printed Pages. Please Turn Over.

QUESTION ONE

- a) State any five reasons why government levies taxes (5mks)
- b) Give advantages of direct taxes (3mks)
- c) Distinguish between Absolute taxable capacity and Relative taxable capacity (3mks)
- d) List any three instruments chargeable to stamp duty (3mks)
- e) Describe dumping in the context of taxation (3mks)
- f) List any five incomes exempt from tax (5mks)
- g) Highlight the tax treatment of compensation for loss of employment (4mks)
- h) List various tax points under VAT (4mks)

QUESTION TWO

- a) Under what situations can tax be avoided (4mks)
- b) Describe the following sources of revenue
 - Cess (3mks)
 - Passenger service charge (3mks)
 - Road maintenance levy (3mks)
- c) A notice of assessment is a standard form issued by the commissioner and contains specific information. Highlight the contents of assessment (7mks)

QUESTION THREE

- a) State and briefly explain list of taxable supplies under VAT law (4mks)
- b) Write short notes on wife's income (6mks)
- c) Mr. Banu Shah provided the following for the year ended 2014. He was employed as a fulltime Director of Latex Ltd. At a salary of Ksh 80000 per month (P.A.Y.E Ksh 31,200 per month)
 - Free goods received were worth sh. 50,000
 - He enjoyed free medical treatment under the medical scheme operated by the company which was assessed at Ksh 50,000
 - Mr. Banu Shah and wife operate a company fully owned by them whose taxable income has been assessed at Ksh 200,000 (P.A.Y.E 22000 p.a)
 - Latex provides him with housing from 1st August 2013. Before this He lived in his own house.
 - His wife works as a nurse in a private hospital and she earns Ksh20,000 p.m (P.A.Y.E sh 4000 p.m from August 2014
 - Repairs and painting costs on the property were Ksh 11,500.
- The house he was living in before had a mortgage of Ksh.2,000,000 and Ksh600,000 was paid and of which Ksh.330,000 was capital sum

Required

- a) Mr Banu Shah taxable income for 2014. (3mks)
- b) His Tax liability for 2014. (3mks)

QUESTION FOUR (a)

The directors of PQR limited have presented you with the following profit and loss account for the year ended 31 December 2014

	Sh.	Sh.
Gross profit		20,326,000
Less: Opening expenses		
Salaries and wages,	8,000,000	
Reserve for contingencies	1,580,000	
Hire purchase interest	413,000	
Laundry Expenses	434,000	
Legal and professional fees	400,000	
Depreciation	2,450,000	
Dividends paid	1,600,000	
Repairs and maintenance	872,000	
Insurance premium	320,000	
VAT Paid	168,000	
Bad and doubtful debts	228,000	
Advertising	1,200,000	
Bank charges	170,000	
Water and electricity	1,200,000	
Rent and rates	3,020,000	
Subscriptions and donations	371,000	
Telephone and postage	1,204,000	
Sundry expenses	600,000	
Motor Vehicle expenses	2,300,000	16,030,000
Net Profit		3,296,000

Additional information:

- 1) Salaries and wages include sh. 66,000 paid to the income Tax Department as penalties and the interest on delayed submission of PAYE deduction.
 - 2) Hire purchase interest relates to loans obtained to purchase a delivery Van Sh146,000 and the Chairman's personal car Sh. 267,000.
 - 3) The company directors and senior managers are given free laundry services at the company's laundry. The cost of cleaning their personal clothing for the year ended 31 December 2014 was Sh. 133,000.
 - 4) Legal and professional expenses include Sh. 146,000 incurred while defending the Managing Director in a private suit against him.
 - 5) Repairs and maintenance include the cost of acquiring a second hand laundry machine for sh. 167,000.
- 5) Bad and doubtful debts are made up of a 10% general provision against the debtors balance as at 31 December 2014 and full provision of Sh. 93,000 owed by Oriented Finance Ltd. That

has been placed under receivership. The Debtors balance as at 31 December 2014 was Sh. 1,350,000.

7) Subscriptions and donations comprise:

Subscription to Rhino Golf Club for the Managing Director 260,000

Subscription to the chamber of Manufacturing and Commerce 63,500

Donation of books to the Watoto School for the Handicapped 35,000

Annual subscription for Finance Manager paid to the Institute of Certified Public Accountants of Kenya 12,000

8) Sundry expenses include Sh. 263,000 paid to Health Africa for the Managing Director's medical cover. He is the only one in the company covered by the medical scheme.

9) Wear and tear allowances for the year ended 31 December 2014 have been agreed at Sh. 4,320,000.

Required

i) PQR Ltd's adjusted profit and loss statement for tax purposes for the year ended 31 December 2013.

(8marks)

ii) Corporation tax (if any) payable by PQR Ltd. For the year ended 31 December 2013.

(2 marks)

QUESTION (b)

Write short notes on the following)

- i. Diminutive in value allowance (2mks)
- ii. Shipping deduction (2mks)
- iii. Investment allowance (3mks)
- iv. Industrial building allowance (3mks)

QUESTION FIVE

a) State and briefly explain any six tax exempt incomes (6mks)

b) PQ Ltd purchased 600 units at sh.960 each and sold 590 units at sh.1320 each prices are inclusive of VAT of 16%

Required

- i. VAT a/c
 - ii. Purchases a/c
 - iii. Sales a/c (6mks)
- c) List any 8 allowable deductions for tax purposes (8mks)