



*(Knowledge for Development)*

## **KIBABII UNIVERSITY**

### **UNIVERSITY EXAMINATIONS 2016/2017 ACADEMIC YEAR**

#### **SECOND YEAR 2ND SEMESTER SPECIAL/SUPPLEMENTARY EXAMINATION**

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

**COURSE CODE: IAE 384**

**COURSE TITLE: TAXATION THEORY AND PRACTISE**

**DATE: 27<sup>TH</sup> SEPT. 2017**

**TIME: 11:30 AM – 1:30 PM**

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#### **INSTRUCTIONS TO CANDIDATES**

Answer Question ONE and any other TWO Questions.

TIME: 2 Hours

This paper consists of 3 printed pages. Please Turn Over



KIBU observes ZERO tolerance to examination cheating

**Instructions: Answer All Question**

**Question 1**

Ingen Mengit Ltd presented the following income statement for the year ended 31 December 2010.

<b>Revenue</b>	<b>Sh.</b>
Gross profit	36,000,000
Bad debts recovered	1,200,000
Gain on sale of shares	200,000
Dividend from companies	8,500,000
Interest on Post Office Savings Bank account	1,300,000
Proceeds from sale of furniture	<u>60,000</u>
Total revenue	<u>47,260,000</u>
<b>Expenditure:</b>	<b>Sh.</b>
Legal and accountancy fees	24,000,000
Salaries paid in lieu of leave	45,000
Donations	120,000
Patents written off	60,000
Repairs and renewals	1,420,000
Interest on overdue loan	14,000
Directors' fees	2,450,000
Bad debts – general	160,000
Depreciation	180,000
Partions	64,000
Purchase of furniture	128,000
Salaries and wages	3,400,000
Advertising	1,360,000
Library books	148,000
Stamp duty – transfer of land	360,000
Electricity bills	<u>171,000</u>
Total expenditure	<u>34,080,000</u>

Net profit

13,180,000

**Additional information:**

1. Legal and accountancy fees include

Sh.

▪ Staff contract agreement	600,000
▪ Defence of a company driver on a traffic offence	36,000
▪ Income tax appeal	18,000
▪ Lease agreement (100 years)	46,000
▪ Conveyance fees – land transfer	48,500

2. Repairs and renewals include:

▪ Replacement of a car engine	75,000
▪ Painting of a new factory extension	24,000
▪ Redecoration of existing premises	16,000
▪ Carpeting of the managers' office	42,000
▪ Conversion of a garage into an office	84,000

3. Advertising includes Sh. 80,000 spent on acquisition of a neon sign.

4. Electricity bills include Sh. 640,000 relating to bad debts which were not previously allowed as an expense.

5. Capital allowances for the year ended 31 December 2010 were agreed with the tax authority at Sh. 250,000.

**Required:**

Adjusted taxable profit or loss and tax payable for Ingen Mengit Ltd. For the year ended 31<sup>st</sup> December 2010.

## Question 2

Mr. Ingogiet Arap Kipsoiwet prepared the following profit and loss account for his business for the year ended 31 December 2010.

	Sh.	Sh.
<b>Income</b>		
Sales		18,400,000
Discount received		600,000
Profits on sale of shares		100,000
Foreign dividends received		15,000
Foreign exchange gain		35,000
Insurance recovery on stolen stock		<u>180,000</u>
		19,330,000
<b>Expenditure</b>		
Purchases	12,800,000	
Salaries	1,200,000	
Audit fees	45,000	
Tax consultancy fees	30,000	
Legal expenses	325,000	
Licenses and permits	64,000	
Depreciation	145,600	
Loss on sale of equipment	78,400	
Bank charges	44,200	
Donations to political party	50,000	
Subscriptions	12,800	
Repairs and Maintenance	174,200	
Rent and Rates	150,000	
Purchase of loose tools	90,000	
Commission and brokerage fees	<u>23,400</u>	<u>(15,232,700)</u>
Net Profit		4,097,900

### **Additional information**

1. Legal expenses comprise:

Sh.

○ Employment contract	5, 000
○ Acquisition of a trade marks	80, 000
○ Successful defence of a legal suit for breach of a trade contract	200, 000
○ Debt collection	<u>40, 000</u>
	<u>325, 000</u>

2. Subscriptions comprise:

○ Chamber of Commerce and Industry	2, 800
○ Childcare International	8, 000
○ Golf club membership	<u>2, 000</u>
	<u>12, 800</u>

3. Repairs and maintenance expenses includes sh. 74, 200 used for the renovation of a store.

4. Capital allowance were agreed with the tax authorities at Sh. 680,000.

**Required:**

- a) Prepare the adjusted taxable profit or loss for Mr. Ingogiet Arap Kipsoiwet for the year ended 31 December 2010. [15 marks]
- b) Determine the tax payable, (if any), from the computations in (a) above. [10 marks]

**Question 3**

(a) Outline main canons of optimal of a tax system [10 marks]

(b) The following details were extracted from the books of Pendo Pusha traders for the month of December 2010. The transaction are inclusive of VAT at the rate of 16% where appropriate.

1 December: Opening stock; 45 units of merchandise valued at sh. 67, 500.

2 December: Purchased 300 units at Sh. 1, 800 per unit.

3 December: Sold 60 units at Sh. 2, 400 per unit.

5 December: Sold 80 units at Sh. 2, 500 per unit.

8 December: Purchased 180 units at Sh. 2, 000 per unit.

10 December: Return 40 units which had been purchased on 2 December at Sh. 2, 000 per unit.

14 December: Sold 120 units at Sh. 2, 400 per unit.

19 December: Sold 80 units at Sh. 2, 200 per unit.

27 December: Exported 60 units at Sh. 3, 000 per unit.

**Required:**

- 1) The VAT account for the month of December 2010 showing the VAT payable or refundable. [13 marks]
- 2) State the treatment by the company of the VAT amount computed in 1) above. [2 marks]

**Question 4**

1. Distinguish between regressive and degressive tax [4 marks]

2. Suppose the market demand function for corn is  $Q^d = 15 - 2P$

Suppose the market supply function for corn is  $Q^s = 5P - 2.5$

Suppose the government imposes a \$0.70 tax per bushel on the corn producers.

Using graphical and algebra analysis.

(a) Calculate the equilibrium price and quantity of corn before the tax was imposed.

[5 marks]

(b) After the tax, what will be the equilibrium price and quantity of corn.

[5 marks]

(c) Calculate the government revenue.

[5 marks]

(d) Calculate the tax incidence.

[6 marks]