



(Knowledge for Development)

## **KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2019/2020 ACADEMIC YEAR**

**FOURTH YEAR SECOND SEMESTER  
MAIN EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE: BCA 422**

**COURSE TITLE: TAXATION THEORY AND PRACTICE**

**DATE: 11<sup>th</sup> NOVEMBER 2020**

**TIME: 2.00PM-4.00PM**

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### **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 5 Printed Pages. Please Turn Over. ►

### QUESTION ONE (30 MARKS)

- a) Define what a tax is and give its TWO characteristics ( 3 Marks)
- b) Give disadvantages of indirect taxes ( 4 Marks)
- c) State any FOUR anti-dumping measures (4 Marks)
- d) Distinguish between absolute taxable capacity and relative taxable capacity( 3 Marks)
- e) List any THREE instruments exempts from stamp duty ( 3 Marks)
- f) Under what circumstances can a fresh bond security be required ( 4 Marks)
- g) Who is a resident person ( 4 Marks)
- h) Distinguish between tax avoidance and tax evasion ( 3 Marks)
- i) What are the advantages of being a member of National Social Security Fund ( 3 Marks)

### QUESTION TWO (20 MARKS)

- a) Explain the following sources of revenue
  - i. Passenger Service Charge (3mks)
  - ii. Cess (3mks)
  - iii. Training Levy (3mks)
- b) Highlight ways of financing budget deficit (5mks)
- c) Discuss the factors affecting taxable capacity (6mks)

### QUESTION THREE

- a) Under VAT Act ( Cap 476) what do you understand by taxable supplies ( 4 Marks)
- b) Under the income tax Act on taxation of individuals, write notes on school fee implication
- c) Mr. Banu Shah provided the following for the year ended 2019. He was employed as a full time director of Latex Ltd at a salary of Kshs.80,000.00 per month ( PA YE Kshs.31200 per month)
  - (i) Free goods were received from the company Kshs.100,000.00
  - (ii) He enjoyed free medical treatment under the medical scheme operated by the company which was assessed at Kshs.50,000
  - (iii) Mr. Banu Shah and wife operate a Company fully owned by them whose taxable income has been assessed at Kshs200,000.00 after charging the wife's salary of Kshs. 120,000.00 ( PAYE Kshs.220,000 per annum)
  - (iv) Latex provides him with housing from 1<sup>st</sup> August, 2019 before this he lived in his own house.

- (v) His wife works as a nurse in a private hospital and she earns Kshs.20,000.00 per month (PAYE shs.4,000 per month)
- (vi) Rent from property costs on the property were Kshs. 11,500.00
- (vii) The house he was living in before had a mortgage of Kshs.2,000,000 and Kshs.600,000 was paid on it of which Kshs. 330,000 was the capital sum.

Required

- a) Mr. Banu Shah's taxable income for 2019 (5 Marks)
- b) Taxability for 2019 (3 Marks)
- c) Notes and comments on information not used (2 Marks)

#### QUESTION FOUR

a) Mr. Hand is the owner of a supermarket i account, for the ended 31/12/2019

Sales	46,000,000
Closing Stock	460,000
Profit on sale of Residential house	250,000
Dividend Gross	<u>18,000</u>
	<b><u>46,728,000</u></b>

#### Less Operating Expenses

Opening stock	2,600,000
Purchases	40,000,000
Salaries and Wages	1,250,000
Rent rates and taxes	46,000
Fire Insurance	6,000
House Hold expenses	42,000
Income tax for 2018	130,000
Advertisement	69,500
Legal & professional fee	45,500
Stationery & postage	13,800
Reserve for bad debts	23,000
Depreciation	151,600
Purchase of machinery	10,500
Interest on loan to purchase shares	20,800
Gifts and presents	8,400
Medical expenses of the proprietor	12,000
Sales tax	103,000
Net Profit	1,195,000
	<b><u>46,728,000</u></b>

#### Notes

1. Stock of goods at the opening and closing day had been undervalued at 10% above the cost price.
2. Sales include a figure of 50,000, representing value of goods withdrawn for private use. These goods were purchases at the cost of 40,000/=
3. Rent rates and taxes include 8,500/= for customs duty and sales tax for purchase of machinery.
4. Advertisements include 10,000/= on erecting a signboard at the shop front.
5. Analysis of the legal fees.
  - 10,500 renewal fee for a 5 year lease.
  - 15,000 defending a suit for alleged breach of contract (trading contract).
  - 10,000 Appeal to local committee against assessment.
  - 8,500 defending criminal proceedings against the proprietor for dealing in smuggled

- goods.  
1,500 miscellaneous and allowable.  
6. Wear and tear had been agreed with tax assessor at Kshs. 108,000/ =

**Required**

- (i) Mr. Hand's Taxable income 31 Dec 2019 (7mks)  
(ii) Mr. Hand's Tax Liability 31 Dec 2019 (3mks)

- 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)**

Andrew Ndwiga practices mixed farming and closes his books on 31 December 2019 every year. He has provided the following income and expenses summary for the year ended 31 December 2019

<b>Income:</b>	<b>Sh</b>
Sale of milk to Maziwa Dairies	547,500
Sale of vegetables	365,000
Sale of broilers to Chicken World Ltd.	2,575,000
Sale of sheep and heifers	380,000
Sale of firewood	<u>165,000</u>
<b>Total income</b>	<b><u>4,032,500</u></b>
<b>Expenses: Sh.</b>	
Fertilizers	90,000
Pesticides	55,000
Seeds	36,000
Planting of tea seedlings	111,000
Motor vehicle expenses (pick-up)	180,000
Insurance for farm works	69,000
Agricultural shows expenses	133,000
Salaries and wages for employees	420,000
Vaccines for livestock	88,000
Electricity and water	66,000
Purchase of chicks	585,000
Animal feeds	675,000
Wood shavings and saw dust (for poultry)	24,000
Construct of water storage tank	235,000
Construction of chicken sheds	900,000
Loan repayment - Wakulima Famers SACCO Ltd	312,000
Interest on loan - Wakulima Farmers SACCO Ltd	106,800
Repairs on dairy sheds and fences	60,000
Value of goats killed by a leopard	110,000
Wages for Ndwiga's housegirl	33,000
Ndwiga's personal accident insurance cover	23,000
Bad debt written off - Shambani Stores Ltd. (in receivership)	77,500
School fees for Mr. Ndwiga's children	300,000
Depreciation - motor vehicles	<u>85,500</u>
Total expenses	<b><u>4,931,400</u></b>
<b>Net loss</b>	<b><u>(898,900)</u></b>

**Additional information:**

1. Insurance for farm works includes cover for Ndwiga's house hold items amounting to Sh. 19,000
2. Mr. Ndwiga received Sh.25,000 dividend, net of withholding tax from Majani Ltd.
3. Farm produce consumed by Mr, Ndwiga's family was valued at Sh.265,000
4. Mr. Ndwiga received Sh. 135,000 from the local farmers' co-operative society as consultancy fees. The fanners' co-operative society uses his farm as demonstration farm from training other farmers.
5. Salaries and wages include Sh. 100,000 paid to Ndwiga's wife.
6. Capital allowances for the year ended 31 December 2019 have been agreed with the Commissioner of Income Tax at Sh. 196,400.

**Required:**

- (i) Mr. Ndwiga's taxable income for 2019 (7mrks)

- (ii) Tax payable for 2019 (3mrks)

**QUESTION FIVE (b)**

- a) State any SIX taxable income (3mks)
- b) Under what circumstances can one be deregistered as a taxable person and VAT law (3mks)
- c) List any EIGHT disallowable expenses (4mks)