



(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2020/2021 ACADEMIC YEAR

THIRD YEAR 1ST SEMESTER
MAIN EXAMINATIONS

FOR THE DEGREE OF BACHELOR OF ECONOMICS

COURSE CODE: AEC 312
COURSE TITLE: TAXATION THEORY AND PRACTICE

DATE: 16TH JULY 2021 **TIME: 9AM – 11AM**

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

QUESTION ONE = 30 MARKS (Compulsory)

i) Write short notes on the following terms used in taxation

- a) Excise duty. **(2 Marks)**
- b) Stamp duty. **(2 Marks)**
- c) Tax. **(2 Marks)**
- d) Income tax. **(2 Marks)**
- e) Proportional Taxes. **(2 Marks)**

ii) Tom, Jerry and Peter are in partnership, trading as Jamii enterprises. They share profits and losses in the ratio of 2:2:1. In the year 2019, they reported a loss of Sh. 200,000 after charging the following items. Calculate the adjusted partnership profit/(loss) and its distribution among the partners. **(10 Marks)**

Depreciation		100,000
Salaries	Tom	400,000
	Jerry	300,000
	Peter	200,000
Interest on capital	Tom	100,000
	Peter	100,000
Commission	Jerry	200,000
Stationery		50,000
Office Expenses		100,000

iii)Brookeside Dairy Ltd. buys milk from dairy farmers at Sh 5 per litre and after processing sells it at Sh 10. Assuming that a tax of 20% is imposed on every litre of milk sold, demonstrate how the tax can be shifted? **(5 Marks)**

iv)Distinguish between regressive and digressive taxes. **(5 Marks)**

QUESTION TWO = 20 MARKS

- i) What are the penalties for submitting fraudulent tax returns. **(4 Marks)**
- ii) Distinguish between tax evasion and tax avoidance. **(5 Marks)**
- iii) Suggest three possible ways in which the Government may prevent loss of tax revenue from imports. **(5 Marks)**
- iv) Discuss how Inflation and urbanization determine the tax policy of a country. **(6 Marks)**

QUESTION THREE = 20 MARKS

- i) Mr. Mali Mingi is a hardware merchant. He purchases cement from Athi Cement Ltd. which he then sells to his customers. Both Mali Mingi and Athi Cement Ltd. require a profit margin of 20% on cost. Cement attracts 16% VAT. If the cost of production by Athi Cement Ltd. is Sh.220 per bag of 50Kg, at what price should Mali Mingi sell a bag of cement including VAT? **(10 Marks)**
- ii) Should citizens feel obliged to pay tax? Explain. **(5 marks)**
- iii) Write short notes on export processing zone. **(5 Marks)**

QUESTION FOUR = 20 MARKS

- i) Explain what is meant by Non-Resident Individual. **(5 Marks)**
- ii) Mrs. Ongera works with Anga Ltd. and has provided you with the following information for the year ended 31 December 2018.

Pension from previous employment Sh.20,000 per month.

Salary sh.120,000 per month (P.A.Y.E Sh.42,000 per month)

Mrs. Ongera and her husband own a company whose taxable income was agreed at Sh.500,000 after charging husband's salary of sh.250,000 per month (P.A.Y.E sh.60,000 per month).

Anga Ltd. provided a company house to Mrs. Ongera in South B where rent of similar houses was Sh.20,000 per month.

Mrs. Ongera works over-time and her over-time income averages Sh.10,000 per month.

Mrs. Ongera enjoyed medical benefit of Sh.160,000 during the year. She is a senior manager and the company has medical cover for all its employees.

She obtained free consumables from the company as a Christmas gift worth Sh.30,000 during the year.

Mrs. Ongera owns rental property at Komarock Estate and receives Sh.50,000 as rental income per month. During the year, she incurred Sh.60,000 in renovations, repairs and painting before letting the property. She had obtained a mortgage loan from Housing Finance Company amounting to sh.3,000,000. She paid sh.900,000 during the year of which sh.500,000 was principal.

Mrs. Ongera owns 20% of the shares of Anga Ltd.

Required: The taxable income for Mr and Mrs Ongera for the year of income 2018. **(15 Marks)**

QUESTION FIVE = 20 MARKS

i) You are provided with the following details:

- a) Installing a system of ventilation in the factory.
- b) Legal expenses incurred when acquiring a new building
- c) Giving the factory a fresh cost of plant
- d) Replacing 200 tiles on a roof damaged by wind
- e) Expenditure incurred in demolishing part of a wall to make room for a recently purchased machine.

Required: (i) From an Income Tax perspective indicate for each of the above items whether it is capital or revenue expenditure. Explain. **(12 Marks)**

ii) Explain the meaning of farmworks allowances. **(4 Marks)**

iii) Differentiate between allowable and non-allowable expenses. **(4 Marks)**