



(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2021 /2022 ACADEMIC YEAR

**FOURTH YEAR SECOND SEMESTER
MAIN EXAM**

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCA 421

COURSE TITLE: TAXATION THEORY AND PRACTICE

DATE: 23RD MAY, 2022 TIME: 9.00AM - 11.00AM

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question one carries 30 marks and each of the other two questions carry 20 marks each.

TIME: 2 Hours

QUESTION ONE (30 MARKS)

- a) Define taxation and give its characteristics of tax (3 Marks)
- b) Explain situations when taxes can be avoided (4 Marks)
- c) Highlight situations when custom duty is refunded (4 Marks)
- d) Distinguish between absolute taxable capacity and relative taxable capacity(3 Marks)
- e) Mr. John Kimani provided the following for the year ended 2020. He was employed as a full time director of Safcom Ltd at a salary of Kshs.290,000.00 per month (PA YE Kshs.90,500 per month).
- (i) Free goods were received from the company Kshs.80,000.00
 - (ii) He enjoyed free medical treatment under the medical scheme operated by the company for senior officers which was assessed at Kshs.50,000
 - (iii) House Servant valued at 50000
 - (iv) Commuter Allowance sh180,000
 - (v) Mr. John Kimani and wife operate a Company fully owned by them whose taxable income has been assessed at Kshs240,000.00 after charging the wife's salary of Kshs. 600,000.00 (PAYE Kshs.220,000 per annum).Salary to the son from this company shs 500000
 - (vi) Safcom ltd provides him with housing from 1st August, 2020 before this he lived in his own house.
 - (vii) Farm income shs.400,000 after consuming farm produce of shs 190,000
 - (viii) His wife works as a nurse in a private hospital and she earns Kshs.700,000.00 per month (PAYE shs.35,000 per month)
 - (ix) Rent from property was Kshs. 40,000 per month from August 2020.
 - (x) Renovation on Residential house before letting cost shs 25,000
 - (xi) The house he was living in before had a mortgage of Kshs.2, 000,000 and Kshs.550, 000 was paid on it of which Kshs. 350,000 was the capital sum.

Required

- a) Mr John Kimani's taxable income for 2020 (10mrks)
- b) Taxability for 2020 (4mrks)
- c) Notes and comments on information not used (2mrks)

QUESTION TWO (20 MARKS)

- a) Explain any FOUR sources of other revenue sources by the government (10Mrks)
- b) Highlight ways of reducing budget deficit (3mks)
- c) Discuss the factors affecting taxable capacity (7mks)

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 income, write notes on wife's income (6mrks)
- c) John Mwau practices mixed farming and closes his books on 31st December every year. He has provided the following income and expenses summary for the year ended 31st December 2020

Income:	sh
Sale of milk to Maziwa Dairies	154,750
Sale of vegetables	136,500
Sale of broilers to Chicken World Ltd.	457,500
Sale of sheep and heifers	138,000
Sale of firewood	<u>116,500</u>
Total income	<u>403250</u>
Expenses:	Sh.
Fertilizers	19000
Pesticides	15500
Seeds	13600
Planting of tea seedlings	111100
Motor vehicle expenses (pick-up)	118000
Insurance for farm works	16900
Agricultural shows expenses	113300
Salaries and wages for employees	142000
Vaccines for livestock	18800
Electricity and water	16600
Purchase of chicks	158500
Animal Wood shavings and saw dust (for poultry)	12400
Construct of water storage tank	123500
Construction of chicken sheds	190000
Loan repayment - Famers SACCO Ltd	131200
Interest on loan - Farmers SACCO Ltd	110680
Repairs on dairy sheds and fences	16,000
Value of goats killed by a leopard	111,000

Wages for Mwau's house girl	13,300
Mwau's personal accident insurance	12,300
Bad debts written off	17,750
School fees for Mr. Mwau's children	300,00
Depreciation - motor vehicles	28,550
Total expenses	<u>49,3140</u>
Net loss	<u>(39,890)</u>

Additional information:

1. Insurance for farm works includes cover for Mwau's household items amounting to Sh. 11,900
2. Mr. Mwau received Sh.12,500 dividend, net of withholding tax from Majani Ltd.
3. Farm produce consumed by Mr, Mwau's family was valued at Sh.126,500
4. Mr. Mwau received Sh. 200000 from the local farmers' co-operative society as consultancy fees. The farmers' co-operative society uses his farm as demonstration farm from training other farmers.
5. Salaries and wages include Sh. 100,000 paid to Mwau wife.
6. Capital allowances for the year ended 31 December 2020 have been agreed with the Commissioner of Income Tax at Sh. 39,400

Required:

Mr. Mwau's taxable income an tax liability for 2020

(10 Mrks)

QUESTION FOUR

- a) A good tax system should have have principles or canons. Highlight the basic Canons of a good tax system as put forward by Adams Smith (8mrks)
- b) Mrs Janet Mbugua is a professional medical doctor practicing in Nairobi. Given below are the financial details of her clinic for the year ended 31 December 2020.

	KShs.
Gross professional fees received	3,000,000
Director fees received (deductions at source)	360,000
Interest income from AJ Bank Ltd-Gross	72,000
Dividend income (net)	102,000
Subscriptions to professional association and publications	60,000
Donations to destitute children's home	30,000
Subscription to wildlife Magazine	6,000
Debt collection (patients) expenses	18,000
Wages for clinic assistant	360,000
Replacement of clinic instruments	120,000
Rent for clinic premises	420,000
Electricity and water for clinic	120,000
General expenses - clinic	210,000
Car hire expenses for use in practice	150,000
Uniform for staff	115,000
Payment of school fees for own children	120,000
Terminal benefits paid to retired receptionists	50,000

Contributions to registered provident fund-self	180,000
Payment of life insurance premium - self	60,000
Depreciation on furniture - clinic	36,000
Rents received from sub-rentals	42,000
Rent collection expenses	6,000
Wages paid to cleaners and watchman - clinic	150,000
Tarmacking of drive-way-personal residence	240,000
Additional servant quarters residence	420,000

Required:

- a) Taxable income of Mrs. Janet Mbugua for the year ended 31 December 2016 (8 Mrks)
- b) Tax liability of Mrs Janet Mbugua (4Mrks)

QUESTION FIVE

a) Section 3 of the Income Tax Act is the main charging section. Give the provisions of Section 3 (subsection 3)

(4mrks)

b) Moses Damba, Amos Waki and John Ogolla Trade in Household goods the share profit and loss in the ratio 2:2:1. The following are the details of the draft accounts regarding their profit and loss status as at 31 December 2020

Debits.	Ksh.
Office expenses	408,000
General expenses	188,000
Salaries and Wages	800,000
Exhibition expenses	234,000
Printing and stationery	128,000
Rent and Rates	300,000
Installment tax paid	90,000
Legal charges	164,000
Interest on capital	420,000
Depreciation	184,000
Bad Debts	136,000
Commission to partners	160,000
Donations for poverty	200,000
Property taxes	24,000
Electrical expenses	92,000
General reserve	240,000
Credits	Ksh.
Gross Profit	3,900,000
Interest earned	240,000
Discount received	160,000
Other receipts	300,000
Rent income	264,000
Capital gain on shares	200,000
Reported profit	1,536,000

The partner provides additional information as follows:

1. Closing stock had been understated by Kshs. 30,000 at 31st December 2020.
2. Moses Damba was paid Kshs. 240,000 as salary (include in salaries and wages) and P.A.Y.E of Kshs. 3,000 was paid on it.
3. The firm was fined Kshs. 30,000 for breach of regulations. This is included in legal charges.
4. Interest on capital was shared as per profit and loss sharing ratio
5. Commission to partners included Kshs. 90,000 to Damba Moses and the Balance to John Ogolla
6. Capital Allowances have been agreed as Kshs. 1,980,000 with tax Authorities.

Required

- a) Compute total income (Loss) from the partnership business for 2020 (6mrks)
- b) Show allocation of profit and loss among partners (5mrks)
- c) Tax liability for each partner (5mrks)