

KABARAK



UNIVERSITY

UNIVERSITY EXAMINATIONS

2009/2010 ACADEMIC YEAR

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: ACCT 313

COURSE TITLE: TAXATION I

STREAM: Y3S1

DAY: FRIDAY

TIME: 9:00 – 11:00 A.M.

DATE: 11/12/2009

Instructions

Answer all questions

Give precise and concise answers.

Marks are shown at the end of the question.

QUESTION ONE

- (a) Explain why some expenses may not be allowed as business expenses by Kenya Revenue Authority. (5mks)
- (b) Njokerio traders is a family supermarket in Njoro area of Nakuru district. The accountant has extracted the following income statement for the year of income 2008.

Income	Shs.	Shs.
Sales		125,000,000.00
Rent income		8,000,000.00
Entrance/membership fees		1,200,000.00
Salary processing fees		5,600,000.00
Investment income		96,000,000.00
Photocopying member documents		1,600,000.00
Expenditure		
Purchase of treasury bills and bonds	2,344,000.00	
Owners (sole traders) salaries	8,165,000.00	
Bad debts written off	2,152,000.00	
Purchases	92,468,000.00	
Interest on borrowed funds	3,600,000.00	
Salaries & wages	36,900,000.00	
Family Meetings expenses	690,000.00	
Auditors fees	7,000,000.00	
Contributions to NSSF	89,000.00	
Depreciation expense	2,000,000.00	
Reserves for bad debts	4,500,000.00	
Tax paid	5,600,000.00	
Finance management training for owners	10,000,000.00	
Drawing by owners	19,600,000.00	
Total expenses		<u>195,108,000.00</u>
Net loss		<u>42,292,000.00</u>

The wear and tear allowances have been agreed at Kshs. 560,000.00

REQUIRED

Ascertain the taxable income of Njokerio Traders and the tax payable thereon. (20 marks)
(Total: 25 marks)

QUESTION TWO

You have been approached by Mr. Kujua to help him determine his taxable income for the year ended 31st December 2008. He has provided you with the following information.

1. Employment Income

He is employed by Nyorosha Limited, where he earns a salary of Kshs. 75,000.00 per month other benefits from employment include the following:-

- Company car 1850cc, which was bought by the company for Kshs. 850,000.00 in the year 2007.
- He is housed in Furaha estate by the employer. The house has a market rental value of Kshs. 35,000 per month.

- Annual performance bonus of Kshs. 120,000 if he is rated more than 80% in the company's annual performance review. In the year, he was rated 85%.
- A watchman and a house girl who are each paid by the company Kshs. 5,000.00 cash per month.
- Kujua paid Pension to a registered scheme and life insurance premium of Kshs. 15,000 and Kshs. 10,000 per month.

2. Business Income

He runs an internet café in Furaha shopping centre. It generated Kshs. 725,000.00 in the year 2008; however in the year 2007, it had made a loss of Kshs. 300,000.

3. Wife income: His wife is employed by Sukani Ranch Limited where she draws a salary of Kshs. 45,000.00 per month. In addition, she is given five litres of milk per day to take home. The market price of the milk is Kshs. 30 per litre. PAYE of Kshs. 93,264.00 was deducted and paid to the Income Tax Department for the year 2008.

4. During the year, Mr. Kujua sold his saloon car for Kshs. 620,000.00. This represented a gain of Kshs. 200,000.00, which he used to travel to Dubai.

5. Through the advice of his personal financial advisor, he had obtained the following investment income in the year.

Dividends	Kshs.
Castle Breweries Ltd	240,000.00
Mumias Sugar	360,000.00
Interest earned	Kshs.
A local bank	120,000.00
Treasury Bills	420,000.00
Akiba Bank fixed deposit	96,000.00

Required

- a) Total Income chargeable to tax for Mr. Kujua for the year 2008. (15 marks)
 b) Tax payable there on. (Total 20 marks)

QUESTION THREE

Discuss any five (5) principles on which good taxation systems are based. (15 marks)

QUESTION FOUR

Explain the role played by the Kenya Revenue Authority in the development of Kenya. (10 marks)