



KABARAK

UNIVERSITY

**UNIVERSITY EXAMINATIONS
2010/2011 ACADEMIC YEAR**

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: ACCT 313

COURSE TITLE: TAXATION 1

STREAM: Y3S1

DAY: TUESDAY

TIME: 9.00 – 11.00 A.M

DATE: 14/12/2010

INSTRUCTIONS:

1. Answer all questions in **section A** and two questions in **Section B.**
2. Answers should be very precise and concise
3. Marks are shown at the end of the question.

PLEASE TURNOVER

SECTION A

QUESTION ONE

Mr. Barasa Jamuando retired from teaching in 2008 and was employed by Bunge Ltd, a private publishing company at Kisumu as a sales Manager with effect, from 1st January 2009. He is married and has 2 children. His wife was a salaried employee of the company throughout the year ended 31st December 2009. She was paid salary of Ksh. 60,000 per month (P.A.Y.E sh. 11,000 p.m). Jamuando received the following amounts and benefits during the year ending 31st December 2009.

- i) Pension from previous employment Sh. 30,000pm
- ii) Salary at sh. 80,000p.m (PAYE sh. 15,200).
- iii) Housing
He was housed by the company in rented premises and the company deducted 10% of his basic salary to cover part of the rent. The house had company furniture worth ksh. 400,000
The premises are rented at Sh. 9,000 p.m
He used a company car purchased at sh. 2m, both privately and for company business equally.
- iv) Salary bonus sh. 50,000 p.a
- v) Reimbursement of school fees for his children sh. 150,000 in 2009.
- vi) Medical expenses paid by his employer was sh. 130,000 the company has a medical scheme which covers only the senior employees.
- vii) Insurance – the employer paid 5% of his basic annual salary to Kenya Assurance Company Ltd for his life insurance policies.
- viii) Dividend – sh. 13,600 net. He holds 2% of the shares in the company
- ix) Company paid for him wages of his house girl and watchman of ksh. 6,000 each per month.
- x) Incomes from other sources included:
 - (a) Rent Ksh. 100,000
 - (b) Interest from savings with KCB Ksh. 56,000 (net of tax)

(c) Proceeds from sale of a Toyota saloon car Ksh. 300,000

d) The excess of income over expenditure from farming was Sh. 150,000 for the year.

Mr. Jamuando had a few cows and grew maize and cassava in 3 acre farm at his home. 50% of the produce from his farm is consumed by his family.

Required :

Calculate Mr. Jamuando's taxable income and the tax liability thereon for the year of income 2009 showing the date due.

Show all your workings and any assumptions made.

(Total: 20 marks)

QUESTION TWO

Mr. I.M.A. Cooker ,helped by his wife, runs a tea house cum snack bar on University way, patronized mostly by students. He submitted his return of income for 2004 showing losses amounting to Sh.24,680.In support of this figure the following Receipt and Expenditure Account and other information were submitted are as follows:

Expenses:	Sh
Purchases of groceries etc	124,300
Wages of staff	78,240
N.S.S.F. and P.A.Y.E	7,200
Gas and electricity	12,260
New cooker	4,320
Salary to wife	18,000
Rent and Rates	44,000
Uniforms, cleaning material, flowers etc	6,380
Utensils and Crockery	4,320
Insurance	8,600
Legal Expenses	6,320

House hold expenses including school fees	44,300
Car-running expenses	<u>18,300</u>
	<u>376,540</u>

Receipts	Sh
Sale of food	112,900
Juke box collection	38,060
Sale of old cooker and furniture	4,220
Charity sweepstake winning	13,000
Loss	24,680

The family live in the flat above the business premises; the rent is apportionable 2/5 flat and 3/5 tea house. Insurance includes premiums amounting to Sh 2800 in respect of cooker's life insurance policy.

It is estimated by cooker that personal use of car is about 40% of total mileage.

Cooker has not yet paid the rent of Sh4000 for December and shop grocery bill of Sh 6320.

Analysis of Repair and Renewals:	Sh
Painting and Decoration	4,320
New furniture	8,360
Repairs to toilets	<u>3,640</u>
	<u>16,320</u>

There was, at the beginning of the year stock of groceries, tinned food, soft drink amounting to Sh.2, 300 and at the end Sh 1,380

You are required to:-

- Calculate the adjusted profit/loss for the year for income tax purposes
(15 marks)
- Explain all the assumptions made in arriving at the adjusted profit (3 marks)
- Make any enquires and comments that you consider necessary. (2 marks)

(Total: 20 Marks)

SECTION B

QUESTION THREE

a) Discuss the role of the Kenya Revenue Authority (KRA). Use practical examples to support your points. (10 Marks)

b) Identify any five challenges that KRA may face in the course of discharging its duty. (5 Marks)

(Total: 15 Marks)

QUESTION FOUR

Discuss any five principles of a good tax system, clearly showing the importance of each, and use practical examples to support your points. (15 Marks)

QUESTION FIVE

a) Discuss any five main reasons behind taxation in Kenya (10 Marks)

b) Discuss demerits of direct taxes in Kenya. (5 Marks)