

KABARAK



UNIVERSITY

EXAMINATIONS

2008/2009 ACADEMIC YEAR

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: ACCT 313

COURSE TITLE: TAXATION I

STREAM: Y3S1

DAY: WEDNESDAY

TIME: 9.00 – 11.00 A.M.

DATE: 18/03/2009

INSTRUCTIONS:

- 1) Answer ALL questions in Section A and ONE QUESTION from section B.
- 2) Show all your workings.
- 3) Use the taxation rates provided in this examination.
- 4) Give precise and concise answers.
- 5) Marks are shown at the end of the questions.

PLEASE TURN OVER

SECTION A (COMPULSORY)

QUESTION ONE

Barrack Monda and his wife are the owners Masaba enterprises, a family business. For the year 2006 they presented you with the following profit and loss account.

	Sh.	Sh.
Gross profit		802,000
Profit on sale of fixed assets		30,000
Less: Operating Expenses		
Wages and salaries	210,000	
Wife's drawings	50,000	
Audit/accounting/legal fees	70,000	
Traveling expenses	115,000	
Motor expenses	105,000	
Repairs – Machinery	70,000	
Depreciation	215,000	
Rates and water	48,000	
Insurance	20,000	
Electricity	70,000	
Telephone	12,000	
Postage and stationery	4,200	
Leaking roof repairs	15,000	
Bank charges and interest	18,000	
Rent	50,000	<u>(1,072,800)</u>
		(240,800)

Notes:-

- § Included in motor expenses is an amount of Sh. 16,000 in respect of car used privately by the family.
- § The family lives behind their shop and the estimated private use of the building is Sh. 16,667.
- § The family took goods worth sh. 5,000 for private use. This was treated, as a business expense.
- § Private use of the telephone is 15% of the total expense.
- § The agreed wear and tear deduction is Sh. 227,000.

Required;

Compute the adjusted profit and loss for income Tax purposes in respect of Masaba enterprises for 2006 and determine the tax payable theorem. (20mks)

QUESTION TWO

- a) Discuss any five benefits that are not taxable on an employee. (5mks)
- b) Ms. Maria Mambo got married to Mr. Evans Otieno on 10th January 2007. The following relates to Ms. Maria Mambo's income for the year 2007.
Maria mambo was an employee of Meat Options Ltd. With a basic salary of Ksh. 240,000 per month plus an annual bonus of 6%.
Maria Mambo was housed by the company and she was not required to pay any rent for the house which could fetch a monthly rent of ksh. 20,000.
She received payment worth two months' salary in lieu of leave which she did not take in 2005.
The leave money was paid to her in May 2007.
She receives 2% of her salary as medical allowance per year.
The company, in line with its stated policy of gender equality, pays her Kshs. 8,000 per month as child allowance (Maria Mambo had 1 year old baby boy).
The company gives employees an option of taking their families on a two weeks tour of tourist spots in the coastal region of Kenya or payment in lieu of the tour. Mariamambo opted to take her husband and child on a one week tour and received cash in lieu of the other week amounting to Kshs. 80,000.
The company encourages employee share ownership. In 2007, Maria Mambo bought 4000 shares at Kshs. 300 per share (Nairobi Stock Exchange value was Kshs. 400 each)
She received dividends of Kshs. 40,000 in 2007 on which withholding tax had been deducted.
She had taken a life insurance cover with Alico Kenya and paid monthly premiums of Kshs. 5000.

Required:

Determine the taxable income of Ms. Maria Mambo and the net tax liability thereon for the year 2007. (15mks)

[Total: 20 marks]

SECTION B

QUESTION THREE

- a) Discuss any five taxes that have been abolished in Kenya in the recent past. (5mks)
- b) Identify any five taxes which should be abolished among the existing taxes in Kenya giving clear reasons why they should be abolished. (10mks)

[Total: 15 marks]

QUESTION FOUR

Discuss five features of an optimal tax system and illustrate your arguments with practical examples. (15mks)

QUESTION FIVE

- a) Distinguish between 'exempt supplies' and 'zero rated supplies' and give examples of each drawn from Kenya. (4mks)
- b) Discuss the merits and demerits of value added tax (VAT) in Kenya. (12mks)