

**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: 22/03/2011**

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**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 Shao Malla who runs Shao Bakery at Kisumu prepared his profit and loss Account for the year ended 31<sup>st</sup> December 2010 as follows:

<b>Receipts:</b>	<b>Sh</b>
Sales	480,000
Post office savings Bank interest	700
Dowry for daughter	4,500
Harambee collection for his hospital bill	30,000
Inheritance from uncle	8,000
Sweepstake winning	5,000
Cash gifts while in hospital	1,600
Horse race winning	<u>4,000</u>
	<b><u>535,000</u></b>
<b>Less: Expenses:</b>	<b>Sh</b>
Purchases	360,000
Water -for business	11,000
Electricity - for business	19,000
Rent -business premises	12,000
-family house	6,000
Subscription of Golf Club	4,000
Drawings	20,000
School fees	10,000
Loss on sale of motor cycle	800
Payment of his tax	7,200
Wedding party for daughter	6,500
Salary for employees	36,000
Harambee for local MP	<u>1,000</u>
	<b><u>505,000</u></b>
Net profit	<b><u>30,000</u></b>

### **Required:**

Prepare the income tax computation to show Mr. Malla's taxable income for the year 2010 and the tax payable thereon. **(Total: 20 marks)**

## **QUESTION TWO**

Alex Kipkoech is employed by Zintac Ltd as a salesman. He provided the following information relating to his income and that of his wife for the year ended 31 December 2009.

1. His monthly basic salary is Sh. 60,000 (PAYE deducted Sh. 15,000 per month)
2. He is also entitled to a commission based on 5 % of all extra sales he makes above sh. 200,000 per month. His sales for the months of March, June, August and October 2009 amounted to Sh. 250, 000, Sh.300, 000, Sh.220,000 and Sh.215,000 respectively.
3. He lives in a company house and pays a nominal rent of Ksh. 8,000 per month. The market rental value of the house is Sh. 45,000 per month.
4. The education fee for his two children amounting to Sh. 200,000 was paid by the company during the year. This amount was charged to the company's income statement.
5. He earned a net interest income of Sh. 150,000 during the year from his investments in housing development bonds.
6. He is contemplating purchasing a house for his residence in the near future. In the year 2009, he invested sh.1,900,000 in a registered home ownership savings plan and earned an interest income of sh. 110,000
7. He drove a 2000cc company car privately & on official duties ( $\frac{2}{3}$  &  $\frac{1}{3}$  respectively) which was purchased for sh. 2m
8. The company contributed for him sh. 12,000 p.m. to a pension scheme which was still seeking registration.
9. The company paid for him life insurance premium of Ksh. 10,000 p.m. and for his private car an insurance premium of sh. 5,000pm
10. Company paid for him house telephone bills totaling sh. 56,000 p.a
11. He received water from a company owned borehole.
12. During the year, he had taken company paid lunches and dinner with customers worth sh. 23,000

13. His other incomes during the year were as follows
- a) Dividend form Sacco society sh. 50,000
  - b) Interest form credit bank sh. 28000
  - c) Rent from a house he owned in Kampala sh. 180,000
  - d) Profit from retail business sh. 600,000
  - e) Losses brought forward from the retail business sh. 250,000
14. He has a life insurance policy for self and family for which he pays a total of sh. 145,000 per annum.
15. He has a firm which generated a surplus of sh. 120,000 during the year. A tax of sh. 15,000 had been deducted under tax regulations.
16. His 19 year old daughter has invested in the shares of a quoted company. She received a dividend of sh. 120,000 (gross) from the shares in the year 2009.

**Required**

- i) Compute the total taxable income of Alex Kipkoech for the year ended 31 December, 2009 **(16 marks)**
- ii) Determine his tax liability from the income computed in (i) above

**(4 marks)**

**(Total: 20 marks)**

**SECTION B**

**QUESTION THREE**

- (a) Discuss the role of taxation in Kenya using practical examples **(10 marks)**
- (b) Explain the negative effects of taxation on the economy **(5 marks)**

**(Total: 15 Marks)**

#### **QUESTION FOUR**

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

#### **QUESTION FIVE**

a) Discuss any merits and demerits of direct taxes in Kenya **(10 marks)**

b) Explain the demerits of Value Added Tax (VAT) **(5 marks)**

**(Total: 15 marks)**