

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: 2.00 – 4.00 P.M.

DATE: 10/12/2008

INSTRUCTIONS:

Answer ALL questions in section A and One question in Section B.

Show all your workings.

Use the taxation rates provided in this examination.

Give precise and concise answers.

Marks are shown at the end of the question.

PLEASE TURN OVER

QUESTION ONE

Mrs. Obama an was employee of Wasiwasi Company Ltd. and in the year of income 2007, she received the following incomes.

- i) Employment income:
She earned a basic salary of Kshs. 110,000 per month. Other employment benefits included the following:
- A company car purchased at the cost of Kshs. 2,400,000.
 - She was housed and the market value for the house was Kshs. 60,000 per month.
 - She received annual performance bonus equivalent to three months basic salary.
 - A watchman and house girl paid by the company Shs. 7000 each per month.
- ii) Business income:
She runs an internet café that generated Kshs. 800,000 in 2007 but it had incurred loses amounting to Kshs. 300,000 in the year 2006.
- iii) Husband's income:
Her husband is employed by Kogelo Dairy Ltd. where he draws a salary of Kshs. 45,000 per month. In addition, he is given five litres of milk per day to take home. The market price of milk is Kshs. 30 per litre. PAYE of Kshs. 93,264 was deducted from his salary and paid to Kenya Revenue Authority (KRA) for the year 2006.
- iv) During the year, she sold her saloon car and made a profit of Kshs. 200,000.
- v) She obtained the following investment income:
- Dividends Shs. 600,000
 - Interest from house savings plan with HFCK Sh. 120,000
 - Interest from treasury bills Sh. 420,000
 - Interest from KCB fixed account Sh. 96,000
 - Interest from loan to a friend Sh. 200,000

Required:

- a) Total income chargeable to tax for Mrs. Obama for the year 2007 **(12 marks)**
- b) Tax payable by Mrs. Obama for the year of income 2007 **(4 marks)**
- c) Comment on the incomes that were not included in her taxable income **(4 marks)**
- d) Explain why it is important for Mrs. Obama to pay her taxes **(5 marks)**

QUESTION 2

Mrs. Z. Karanja is the owner of supermarket in Nairobi East. Her accounts clerk has submitted to you the following, Trading, Profit and Loss account for the year ended 31 December 2007.

	<u>Shs.</u>		<u>Shs.</u>
Opening Stock	8,640,000	Closing Stock	1,004,000
Purchase	96,000,000	Sales	110,000,000
Salaries & Wages	1,500,000	Proceeds from sale of land allocated to her by the government	500,000
Donations to Kenya	100,000	Gain on sale of residential plot	400,000
Contributions to a Registered pension Fund	100,000	General bad debts recovered	36,000
Rent, rates and taxes	110,400	Dividends (Net)	43,200
Insurance	14,880		
Legal and professional Fee	109,200		
Depreciation	363,840		
Advertising	166,800		
Value Added Tax	274,200		
Customs duty (for 2005)	700,000		
Purchase of equipment	25,200		
Christmas gifts to Customers	20,160		
General Bad Debts	55,200		
Stationery and postage	33,120		
Net Profit	2,905,680		
	<hr/>		<hr/>
	112,183,200		112,183,200
	<hr/>		<hr/>

The following additional information is provided:

1. Rent, rates and taxes include Sh. 20,400 being customs duty for the purchase of equipment.
2. Sales include a sum of Sh. 240,000 representing the value of goods withdrawn for use by Mrs. Z. Karanja and her children. These goods had been purchased at a cost of Shs. 192,000.
3. Opening stock and the closing stock are consistently overvalued by 20% above the cost price.
4. The legal and professional fees are analysed below.

	Shs.
Appeal to local committee against tax assessment	24,000
Renewal for 5 year lease	25,200
Defending a suit for breach of trade agreement	36,000
Court fines	20,400
Miscellaneous (Allowable for tax)	3,600

	<u>109,200</u>

Wear and tear allowance were agreed at Shs. 259,200.
Included in advertising expenses is a signboard erected at the junction leading to the supermarket at a cost of Shs. 24,000.

Required:

- a) Calculate Mrs. Z. Karanja taxable profit for the year of income 2007
(20 marks)

- b) Calculate the tax payable on chargeable profit and state when it is payable
(5 marks)

SECTION B

QUESTION 3

Discuss any five types of taxes found in Kenya and give illustrations (examples) of each.
(20 marks)

QUESTION 4

With illustrations explain any eight principles of a good tax system **(20 marks)**