KABARAK UNIVERSITY

UNIVERSITY EXAMINATIONS

2009/2010 ACADEMIC YEAR

FOR THE DEGREE OF BACHELOR OF OMMERCE

COURSE CODE: ACCT 313

COURSE TITLE: TAXATION I

STREAM: Y3S1

DAY: WEDNEDAY

TIME: 9.00 – 11.00A.M.

DATE: 11/08/2010

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 (COMPULSORY)
QUESTION ONE

(a) Identify any five employment benefits that are not taxable in Kenya and explain why they are tax free. **(5 marks)**

(b) Ms. Mercy got married to Mr. Major Karanja on 10th January 2009. The following relates to Ms. Mercy's income for the year 2009.

Mercy was an employee of Meat Options Ltd With a basic salary of Kshs. 240,000 per month plus an annual bonus of 6% of her basic salary. In May 2009, she received payment worth two months' salary in lieu of leave which she did not take in 2008. 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. (Mercy had 1 year old baby boy).

Mercy and her family lived a company owned house with company worth ksh.500,000. and uses a company car of 2000cc that had been purchased at a cost of ksh. 1.5m.

The company gives employees an option of taking their families on a two weeks tour of tourism spots in the coastal region of Kenya or payment in lieu of the tour. Mercy 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 2009, Mercy bought 4000 company shares at Kshs. 300 per share (Nakobi Stock Exchange value was Kshs.400 each).

She received dividends of Kshs. 40,000 in 2009 on which withholding tax had been deducted.

She had taken a life insurance cover with Alico Kenya and paid monthly premiums of Kshs 15,000 and contributed ksh. 10,000 to Alico Kenya pension scheme.

Required:
Determine the taxable income of Ms. Mercy and the net tax liability thereon for the year 2009. **(15 Marks)**

(Total: 20 marks)

QUESTION TWO

Daudi Waka 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	
Travelling 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	(1,072,800)
Net loss		(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.

(20 Marks)

SECTION B

QUESTION THREE

a) Identify any five taxes that have been abolished in Kenya in the recent past and explain why each of these taxes has been abolished.

(10 Marks)

b) Identify any five taxes which should be abolished among the existing taxes in Kenya, giving clear reasons why they should be abolished.

(5 Marks)

(Total: 15 Marks)

QUESTION FOUR

Discuss any five purposes of taxation in Kenya and illustrate your arguments with practical examples.

(15 Marks)

QUESTION FOUR

a) Distinguish between 'exempt supplies' and 'zero rated supplies' and give examples of each drawn from Kenya.

(6 Marks)

b) Discuss the merits and demerits of value added tax (VAT) in Kenya.

(9 Marks)