



**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: 4.00 – 6.00 P.M**

**DATE: 14/04/2011**

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**INSTRUCTIONS:**

- Answer all questions in section A and two questions in section B
- Illustrate your answers with practical examples
- Marks are shown at the end of the question
- Give precise and concise answers
- Do not write on this question paper during the exam session

**PLEASE TURNOVER**

**SECTION A**  
**QUESTION ONE**

Yaya runs a sole trade business in Nakuru and his his accounts clerk prepared the following trading account for the year 2010 was as follows:

	Sh
Gross profit	380,000
Goodwill written off	4,000
Bad debts	20,000
Insurance expenses	20,000
Motor vehicle expenses	30,000
Depreciation	60,000
Special expenses	8,000
Wages to his son	3,000
Employees salaries	60,000
Loss on sale of investments	10,000
Repairs and renewals	6,000
Salaries and wages	100,000
Light, Water and Electricity	20,000
Net profit	<u>32,000</u>
	<b><u>403,000</u></b>

**NOTES:**

(i) Bad Debts:

The bad debts account is as follows:

	Shs	Shs
Bad debts written off		10,000
provisions carried down:		
General	80,000	
Specific	22,000	<u>102,000</u>
		<u>112,000</u>

Balances b/d	Sh	Sh
General	60,000	
Specific	<u>30,000</u>	90,000
P&L Account		20,000
Debts recovered		<u>2,000</u>
		<b><u>112,000</u></b>

ii. Insurance and legal: Sh.

Business insurance	10,000
Yaya's insurance	2,000
Legal fees- Debt Collection	500
Legal fees for making partnership deed	<u>7,500</u>
	<u>20,000</u>

(iii) Special Expenses:	Sh.
Penalty for breach of sales tax regulations	4,000
Redundancy pay to employee	3,000
Christmas gifts to partner's wives	<u>1,000</u>
	<u>8,000</u>

(v) Loss on Sale of Investments:

The shares in a quoted company were disposed of by sale during the year. They had cost Shs. 60,000 and were disposed of for Sh. 50,000. There were no other incidental expenses.

(vi) Repairs and renewals:	Sh.
Office partitions	2,000
Office carpet	1,500
Replacement of adding machine	1,000
General repairs	<u>1,500</u>
	<u>6,000</u>

(vii) Wear and tear schedule:	Class III	Class IV
	Sh.	Sh
Written down value	90,000	56,000

One-third of the motor vehicle expenses is used on private motoring by yaya.

**Required:**

**Calculate the adjusted profit for tax purposes and show tax payable by Yaya.**

**(20 marks)**

**QUESTION TWO**

Ms. Mama Yurri is Kenyan resident living in Baringo and married to Mr. Evans Otieno since the year 2005. The following information relates to Ms. Mama Yurri's income for the year 2010.

Mama Yurri was an employee of Mineli (K) Ltd. with a basic salary of Ksh. 220,000 per month plus an annual performance bonus of 5% of her basic salary p.a. based on performance. She was rated above average in the year 2010.

Mama Yurri was housed by the company and she paid only ksh.10,000 p.m as rent for the house which could fetch a monthly rent of ksh.30,000.

She received payment worth two months' salary in lieu of leave which she did not take in 2009. The leave money was paid to her in June 2010.

She drives a company maintained car purchased at a cost of sh 1.4m for both private errands and official duties equally. The company supplies her with water and electricity from a communal source.

She receives 2% of her basic salary as medical allowance per month and this allowance is given to all employees of the company without discrimination.

The company, in line with its stated policy of gender equality, pays her Kshs. 8,000 per month as child allowance (Mama Yurri had 2 year old baby girl).

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.

Mama Yurri opted to take her husband and child on the two week tour and the company gave her Kshs. 160,000 for the tour, however the total tour expenses amounted to ksh. 110,000 only.

The company encourages employee share ownership. In 2010, Mama Yurri bought 4000 shares at Kshs. 300 per share (Nairobi Stock Exchange value was Kshs. 200 each).

She received dividends of Kshs. 40,000 in 2010 on which withholding tax had been deducted.

She had taken a life insurance cover with Alico Kenya and paid monthly premiums of Kshs. 25,000 and Ksh 80,000 p.a. to the same insurance for her private car.

Her other incomes: rent sh. 120,000 p.a , and interest on tax reserve certificate sh 40,000 .

She contributed to unregistered pension scheme Ksh. 10,000 p.m. and NSSF ksh.200 p.m

PAYE deducted by the employer and remitted to Kenya Revenue Authority (KRA) in 2010 was ksh. 640,000.

**Required:**

**Determine the taxable income of Ms. Mama Yurri, her total tax liability for the year 2010 and tax payable by her by the end of 2010. (20 marks)**

**SECTION B**

**QUESTION THREE**

Discuss any five principles on which good tax systems are based clearly showing how each is beneficial to both the tax man and the tax payer. (15 marks)

**QUESTION FOUR**

Discuss the role of Kenya Revenue authority in the economic development of Kenya

(15 marks)

**QUESTION FIVE**

Identify any five taxes in the tax system of Kenya and explain why in your opinion such taxes are necessary.