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**University Examinations 2016/2017**

SECOND YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF

 BACHELOR OF COMMERCE

SECOND YEAR FIRST SEMESTER BACHELOR OF COOPERATIVE MANAGEMENT

THIRD YEAR FIRST SEMESTER BACHELOR OF FOOD SCIENCE &MANAGEMENT

 **BFC 3276: INTRODUCTION TO TAXATION**

 **DATE: DECEMBER 2016 TIME: 2HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. Taxation is part of public finance that deals with the means by which the government raises revenue from the public. Discuss this statement giving justifications for the government to tax (10marks)
2. Explain any five canons of taxation as propounded by Adam smith (5marks)
3. Discuss any four non-taxable income (4marks)
4. The profit and loss account of Katini a sole trader in Nanyuki town for the year ended 31.12.2014 is as follows

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Shs. 000 Shs.000

Sales 200,000

Opening stock 26,000

Add purchases 60,000

 86,000

Less closing stock 30,000 56,000

Gross profit 144,000

**Other incomes**

Sweepstake winning 5,000

Tax reserves interest 3,000

Post office savings bank interest 15,000

Barclays bank interest 2,000 25,000

 169,000

Less expenses (64,000)

Net profit 105,000

The following information was also given.

1. An amount of sh. 10,000,000 received from an insurance company as compensation for stock destroyed by fire was included in the drawings account
2. A creditor one Mr. Muriungi wrote off amounts payable to him by Mr. katini of shs.5,000,000. This amount was included in drawings account.

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1. The expenses in the profit and loss account include:
2. Cost of bicycle used in the shop for sh.4,000,000
3. Alimony paid to a former wife he divorced sh.3,000,000
4. Depreciation of assets sh.4,200,000
5. He paid with amounts drawn and included in his drawings accounts
6. Insurance premium of sh. 3,000,000 against fire in respect of trading stock
7. Painting of business premises sh.1,000,000
8. Stationery sh. 600,000
9. Wear and tear deduction of sh.3000 has been agreed with DTD

Required:

1. Compute taxable income for the year ended 31.12.2014 (8 marks)
2. What is the tax due? (3 marks)

**QUESTION TWO (20 MARKS)**

1. Explain with example the meaning of the term”set-off” (4 marks)
2. Mrs karanja works with apex ltd and has provided you with the following information for the year ended 31.12.2013
* Pension from previous employment sh.30,000 per month. Mrs karanja and her husband own a company whose taxable income was agreed at sh.600,000 after charging husband’s salary sh. 240,000 per month PAYE (sh. 50,000 per month)
* Apex ltd provided a company house to Mrs. karanja where rent of similar houses was sh. 30,000 per month.
* Mrs. Karanja works overtime, and the income averages sh.20,000 per month
* Mrs karanja enjoyed medical benefit of shs.160,000 during the year. She is a senior manager and the company has medical cover for all its employees
* She obtained free consumables from the company as a chrismass gift worth sh.30,000 during the year

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* Mrs karanja owns rental property at Timau and receives sh.60,000 as rental income per month. During the year she incurred sh.60,000 in renovations, repairs and painting before letting property. She had obtained a mortgage loan from housing finance company amounting to sh. 3,000,000. She paid sh. 900,000 during the year of which sh. 500,000 was principal. Mr karanja owns 12.5% and above of the shares of Apex ltd.

**Required:**

1. The taxable income of Mr. and Mrs karanja for the year ended 2013

(10 marks)

1. Tax payable on the income computed (4marks)
2. Mrs Karanja did not fill her self assessment return form for 2013. State the penalties due? (2marks)

 **QUESTION THREE (20 MARKS)**

1. The following information was extracted from the book of wasonga ltd a manufacturer in western Kenya for 31/12/2012

Written down values of assets brought down for income tax purposes:

I III IV

SH SH SH

WDV 1/1/2012 275,000 200,000 107,000

Disposals during the year

Cost net book sales

Value proceeds value

Sh. Sh. Sh.

Lorry above 3 tonnes 350,000 200,000 300,000

Motor car 2,200,000 1,000,000 950,000

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Additions during the year:

Mercedes benz car for director 5,000,000

Tractor second hand 100,000

Trailer occasionally used by tractor 70,000

Shop fittings 120,000

Computers 300,000

Telephone system 80,000

The office hard safe which cost sh.50,000 to purchase was traded in for a more modern safe costing sh.60,000. The old safe was valued at sh. 32,000 and the company paid the balance of sh. 28,000 to acquire the new safe. The book value of the old safe was sh. 34,560 as at 31.12.2012

**Required:**

1. Show all the working /adjustment relevant for wear and tear deductions (6marks)
2. Compute the wear and tear deductions due to the company for the year (14marks)

**QUESTION FOUR (20 MARKS)**

1. Tax can be distinguished from other payments. Explain giving any four differences (4marks)
2. VAT replaced sales tax, discuss citing the importance of VAT (10marks)
3. Explain with examples, zero rated good and service and vatable items (6marks)

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**QUESTION FIVE (20 MARKS)**

Explain the following terms in taxation

1. Direct taxes (4marks)
2. Indirect taxes (4marks)
3. Tax incidence and impact (4marks)
4. Progressive taxes (4marks)
5. Proportional taxes (4marks)

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