

**W1-2-60-1-6**

**JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2013/2014**

**YEAR 4 SEMESTER II EXAMINATION FOR THE DEGREE OF BACHELOR OF SUPPLY CHAIN MANAGEMENT**

**HSM 2427: TAXATION**

**DATE: December 2013 TIME: 2 HOURS**

**INSTRUCTIONS:**

**ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS IN SECTION B**

**SECTION A (30 MARKS)**

**QUESTION ONE**

1. “A worthwhile tax system in a modern economy should be multiple tax system”. Explain the need for a multiple tax system. (8marks)
2. Write short notes on the following
3. Tax incidence and tax impact
4. Progressive and proportionate tax
5. Tax avoidance and tax evasion (12marks)
6. Explain any five major canons of an optimal tax system (10marks)

**SECTION B**

**QUESTION TWO**

Mr. Okilate retired from teaching in 2008 and was employed by Dandos Ltd, a private company as an accountant from 1st January 2009. He is married and has two children. His wife was a salaried employee of the company throughout the year ended 31st December 2009. She was paid salary of shs 6,000 per month (PAYE shs. 500 p.m). Okitale received the following amounts and benefits during the year ending 31st December 2009.

1. Pension from previous employment sh 3,000 p.m
2. Salary at sh 8,000 p.m (PAYE 720)
3. Housing

He was housed by the company in rented premises and the company deducted 10% of his basic salary to cover part of the rent. The premises are rented at sh. 9,000 p.m

1. Salary bonus sh 5,000
2. Re-imbursement of school fees for children sh 15,000
3. Medical expenses paid by his employer of shs 13,000. The company has a medical scheme which covers only the senior employees
4. Insurance – the employer paid 5% of his basic annual salary to Kenya Assurance Company Ltd for his life insurance policies
5. Dividend – shs 13,600 net. He holds 2% of the shares in the company
6. Income from other sources included
7. Rent –the following is the rent schedule

A shs shs

Gross rent 55,000

Expenses

Repair 1,000

Interest on mortgage 24,000

Bad debts - specific 2,500

* General 1,460

Legal fees – Rent collection 4,000

Land rent and rates 3,500 36,460

18,540

1. Interest

Post office 3,000

Middle Africa Finance A/c (net) 9,000

Tax reserve certificate 2,500

14,500

1. The excess of income over expenditure from farming was shs 15,000 for the years. Mr. Okilate had a few cows and grew maize and cassava in 3 acre farm at his home. 50% of the produce from his farm is consumed by his family. He did not claim any capital deduction

Required:

Calculate Mr. Okilate’s tax liability for the year of income 2010 showing the date due (20marks)

**QUESTION THREE**

A B and C are partners trading under the name ABC agencies. They share profits and losses in the ratio of 4:3:3. Given below is the profit and loss account of the partnership as at 31st December 2010

Salaries and wages 280,000 Gross profit 2,300,000

Rent rates and taxes 150,000 miscellaneous receipts 150,000

Office expenses 204,000 Discounts 80,000

Printing and stationery 64,000 Rent from property 132,000

Instalments tax paid 45,000 Profit on sale of shares 100,000

Advertising 73,000 Interest on deposits 120,000

Interest on capital

A 60,000

B 70,000

C 80,000

Legal charges 82,000

Commission to partners

A 45,000

C 35,000

Depreciation 92,000

Bad debts 68,000

General expenses 99,000

Donation to famine relief 100,000

General reserve 120,000

Local taxes on property 12,000

Electricity 46,000

Showroom expenses 117,000

Net profit 1,040,000

2,882,000 2,882,000

The partners have provided the following information in support of the accounts

1. It has been the practice to value the stocks at the cost price however the closing stock (at 31st December 2010 – shs 180,000) has been valued at market price which is less by 10% of its cost price
2. Salaries and wage include salaries amounting to shs 40,000 paid t B
3. Advertising includes shs 10,000 spent on advertising campaign to introduce a new product in the market.
4. Legal charges include a sum of shs. 12,000 paid as a fine and penalty
5. Capital allowances have been agreed with the commissioner of income tax at sh 90,000
6. Mr. A’s other income includes sh 120,000 from rent. He has brought forward business loss of 135,000 from the assessment of the year of income 2009 of the partnership.
7. Mr. B has got no other income
8. Mr. C has income of shs 200,000 from beti winnings. He has brought forward business loss of shs. 135,000 from assessment of the year of income for 2009 partnership

Required:

1. Compute the total taxable income from the partnership business (12marks)
2. Allocate the profits amongst the partners (4marks)
3. Calculate the taxable income of each partner for the year of income 2010

(4marks)

**QUESTION FOUR**

PQY is a ltd company. Its P&L account for the year ending 31st December 2012 is as follows

Profit and Loss Account

Salaries and wages 350,000 Gross profit 1,200,000

Audit fees 12,000 Dividend received 40,000

Bank interest and charges 15,000 Discounts received 15,000

General expenses 45,000

General repairs 34,000

Rent and rate 240,000

Bad debts 24,000

Depreciation 58,000

Water and electricity 60,000

Legal expenses 16,000

Postage and telephone 42,000

Net profit 359,000

1,255,000 1,255,000

1. Additional information

General repairs include:

Alteration to toilets 25,000

Repairs of motor vehicles 9,000

34,000

1. General expenses consists of

Fines in respect of breach of law 10,000

Corporation tax paid 15,000

General administration 20,000

45,000

1. Legal expenses consists of

Staff contracts 8,000

Cost of collective bad debts 8,000

16,000

1. Bad debts analysis

Bad debts incurred 8,000

Increased in price for bad debts

General 10,000

Specific 6,000

24,000

Required:

Compute the adjusted profit of the company liable to corporation tax for year 2010, the tax payable and how they are payable (20marks)

**QUESTION FIVE**

1. Explain any other sources of revenue to the government apart from taxes

(8marks)

1. For the year ended 31st December 2010, Mr. Kimilu had the following transactions

Sales at standard rate 16% 1,600,000

Sales at zero rate 400,000

Plant sold in Kenya 100,000

Plant sold overseas 50,000

Exempt sales 800,000

Purchases at standard rate 16% 600,000

Purchases at zero rate 100,000

Wages 900,000

Required:

Calculate the amount of output which Mr Kimilu will be required to account for and how much input tax can be deducted there from for the year ended 31st December 2010 (12marks)