

**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

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**University Examinations 2016/2017**

FIRST YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF MASTER IN BUSINESS ADMINISTRATION

**BFA 5226: TAX ACCOUNTING**

**DATE: DECEMBER 2016 TIME: 3HOURS**

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

**QUESTION ONE (15 MARKS)**

1. Distinguish between a single tax system and multiple tax system (2marks)
2. Why would a country (Kenya) prefer a multiple tax system over a single tax system?

(3marks)

1. Discuss the argument for and against direct taxes (3marks)
2. A manufacturer buys raw produce from the farmers at sh. 150 per unit. After processing he sells the product at sh. 200 per unit. Assuming that a tax of 10% is imposed on every unit of the produce sold. Show how tax can be shifted in the following scenarios.
3. If the manufacturer bears the whole tax
4. If the manufacturer transfers the whole tax to the consumers
5. If the manufacturers could transfer the whole burden to farmers.

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1. If the manufacturer could transfer partly to the consumers and partly to the farmers (4marks)
2. Explain with examples the following concepts of taxation
3. The direct burden

ii. The indirect burden

iii. The real burden (3marks)

**QUESTION TWO (15 MARKS)**

1. Discuss the housing benefit section 5 in the context of gains or profits from employment or service rendered (5marks)
2. What are some of the benefits excluded from employment income for income tax purposes? (5marks)
3. With relevant decided cases explain the meaning of gifts by employer to the employee

(5marks)

**QUESTION THREE (15 MARKS)**

1. Comment on whether the following individuals and companies were residents of Kenya for tax purposes for the year ended 31 Dec.2013. Justify your comment in each case
2. Mr. Omweri has a permanent home in Kenya. He works for a company based in USA Chicago where he lives. He came to Kenya for a one month holiday on 1 September 2013 but had not returned to the USA by 31 December 2013 (1 mark)
3. Makutano ltd. Is registered in Singapore where its headquarters are based. The company opened a branch in Kenya on 1 march 2013 (1 mark)
4. Mrs. Kanja a Kenyan citizen is married to a citizen of Canada. She was employed in Kenya until 31 August 2013 when she resigned to join her husband in Canada

(1mark)

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1. Ziwa ltd. was registered in Kenya where the company operated until 15 July 2013. The company thereafter relocated its operations to kampala,Uganda

(1 mark)

1. Salama and salimini are in partnership trading as SASA enterprises and sharing profit and losses in the ratio of 3:2 respectively. They have presented the following profit and loss account for the year ended 31.12.2014

Income: Sh.

Sales revenue 7,882,000

Proceeds from sale of fixed assets 200,000

Refund of VAT 42,250

Interest on profit bank savings a/c 9,000

Dividend (net) 42,800

Total 8,176,050

Expenditure:

Cost of sales 1,591,500

NHIF contributions 108,750

NSSF contributions 170,000

Lorry maintenance expenses 1,005,750

Salary to partners 800,000

House hold expenses (salama) 96,250

Repairs and maintenance (building) 75,000

Advertising 156,750

Insurance premiums 125,000

Interest on loan 200,000

Subscriptions to trade associations 40,000

Donations 20,000

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Legal expenses 98,000

Income tax 240,000

General expenses 86,650

Bad debts 61,750

Water and electricity 81,000

Depreciation 19,500

Total 4,975,900

Additional information:

1. Included in sales revenue were goods valied at sh. 150,000 consumed by partners these goods had cost sh. 80,000 which was included in cost of sales
2. Insurance premiums include sh. 70,000 incurred on the life insurance policy of salama
3. Bad debts comprise sh.

Increase in general provisions 20,000

Increase in specific provisions 41,750

61,750

1. Interest on loan and legal expenses relate to a mortgage acquired by salimini for purchase of less house
2. Salaries to partners comprise

Sh.

Salama 500,000

Salimini 300,000

800,000

1. NSSF and NHIF contribution relate to employees of the firm.

**Required**:

* + 1. The adjusted partners profit or loss for the year ended 31 December 2014 (9 marks)
    2. An allocation of the adjusted profit or loss between the partner

(2 marks)

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**QUESTION FOUR (15 MARKS)**

1. Discuss the role of KRA in the economy of Kenya (5 marks)
2. Discuss the source of information to the commissioner of domestic taxes regarding chargeable incomes (5 marks)
3. Discuss the kinds of assessment in the administration of income tax (5 marks)

**QUESTION FIVE**

1. Give a detailed explanation as to why VAT replaced sales tax (5 marks)
2. A manufacturing company acquires raw materials for sh 1,000,000 on which VAT is levied at 16% at each stage of the chain 25% conversion costs are incurred and 30% mark up is made. Calculate the VAT paid to Kenya revenue authority (5 marks)
3. Who qualifies for registration for VAT? Discuss some of the types of registrations

(5 marks)

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