**MAASAI MARA UNIVERSITY**

**REGULAR UNIVERSITY EXAMINATIONS**

**2016/2017 ACADEMIC YEAR**

***THIRD* YEAR *SECOND* SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF SCIENCE IN AGRICULTURAL ECONOMICS**

**COURSE CODE: ARE 314**

**COURSETITLE:** **TAXATION THEORY AND PRACTICE**

**DATE: TIME:**

**INSTRUCTIONS TO CANDIDATES**

Question **ONE** is compulsory

Answer any other **THREE** questions

***This paper consists of 6 printed pages. Please turn over***

**QUESTION ONE**

a) The income of a married woman living together with her husband is deemed to be the income of the husband for tax purposes. Discuss any three income sources that are exempted from this rule . **(3 Marks)**

b) write short notes on the following ;

1. Notice of objection to an assessment.
2. Refund of tax overpaid. **(4 Marks)**

**c)** Discuss any five reasons why the government impose taxes on individuals and business organizations**? (5 marks)**

d)Discuss the four main principles of a good tax system **(8 marks)**

e) Write short notes in respect of deductions of firm works **(6 Marks)**

**QUESTION TWO**

**a)** Discuss the tax position of designated Primary Co-operative Societies

**(4 Marks )**

b) The following income statement was prepared by Kenya Moja Co-operative Society Ltd, a district-based farmer’s co-operative society, for the year ended 31 December 2015:

**Sh.‘000’ Sh.‘000’**

Turnover 9,000

Profit from canteen operations 2,000

**Interest income:**

Co-operative Bank Ltd (net) 600

Treasury bills (net) 375

Members’ loans (gross) 1,750

Co-operative Insurance Company(CIC) Ltd (net) 40 2,765

Rental Income 1,900

**Total Income** **15,665**

**Expenditure**

Cost of sales 3,600

Staff costs 2,700

Depreciation 500

Corporation Tax (for year 2014) 1,400

Insurance premium 300

Dividend to members 2,100

Honoraria to management committee 200

Other operating expenses 800 (11,600)

**Net Profit 4,065**

**Additional Information**

1. Staff costs include court fines amounting to Sh. 100,000 and legal fees incurred in relation to:

Sh.

1. Preparation of scheme of service for staff 90,000
2. Drafting of the society’s by-laws 60,000

2. Other operating expenses include Sh. 150,000 incurred to the preparation of the strategic plan for the co-operative society

**Required:**

1. Corporation tax payable by Kenya Moja Co-operative Society Ltd, for the year ended 31 December 2015. **(6 Marks)**
2. State the date(s) when the tax computed in (c ) (i) above would be payable **(3 Marks)**
3. Comment on your treatment of interest income received by the co-operative society for the year ended 31 Dec 2015.  **(2 Marks)**

**QUESTION THREE**

a) Discuss the relevance of the following terminologies in the context of taxation of farming transactions:

1. Hobby farming
2. Trading receipt **(4 Marks)**

b) Hapana Mchezo Farm enterprise is a dairy farming entity owned by Mr. John Pombe.The following income statement relates to Hapana Mchezo Farm enterprise for the year ended 31 December 2015:

**Sh. Sh.**

Sales 2,740,000

Gross Profit 560,000

**Expenses**

Administrative Expense 40,000

Salaries & wages 80,000

Traveling & Marketing

expenses 15,000

Stationery expense 7,800

Telephone expense 9,800

Accountancy charges 5,000

Rent expense 36,000

Water & electricity expenses 2,800

License fees 1,000

Depreciation 21,000

Bank charges 1,000

Interest on bank loan 3,000 (222,400)

**Net profit 337,600**

**Additional Information:**

1. License fees include Sh. 700 incurred to register a trademark owned by the farm.

2. A third of the rent expense relates to grocery store owned and managed by Mrs. John Pombe, the wife of John Pombe

3. Salaries & wages include the following:

**Sh.**

Wages paid to workers of the grocery 20,000

Entertainment allowance paid to Mrs. John Pombe 8,000

4. Included in the farm sales is Sh. 60,000 being sales realized by the grocery store during the year ended 31 December 2011

5. Extract from the property, plant and equipment movement schedule were as follows

**Fixed Asset**

**Computers MotorVehicles Furniture &Fittings**

**Sh. Sh. Sh.**

Cost: January 2008 14,000 50,000 16,000

Auditions 24,000 80,000 2,000

Depreciation for theyear8,000 6,000 7,000

6. Before the close of the year on 31 December 2011, all motor vehicles were traded in at a value of Sh. 150,000 in part exchange for a new tractor costing Sh. 480,000. The balance due for the tractor was to be repaid over a period of 24 months commencing 1 January 2012.

7. The balances on the wear & tear schedule for capital allowance purpose were as follows

**Class II Class III Class IV**

Sh. Sh. Sh.

Balance as at 1 January 2011 12,000 40,000 14,000

8. A farm house costing Sh. 240,000 was constructed during year 2008 and utilized from 1 October 2011.

**Required:**

a) Capital allowances due to Hapana Machezo Farm Enterprise for the year ended 31 December 2011**. (6 Marks)**

b) Taxable profit or loss of Hapana Machezo Farm Enterprise for the year ended 31 December 2011**. (5 Marks)**

**QUESTION FOUR**

(a) The income of a married woman living with her husband is deemed to be the income of the husband for the purposes of ascertaining his total income chargeable to tax. However, under certain circumstances, employment income of a married woman may be assessed separately. State the circumstances under which tax assessed on the husband may be collected from the wife. **(5 marks)**

(c) The following information relates to Mr. Mokami and his wife for the year ended 31 December 2016.

1. He was employed by Lipa Ltd as a sales manager on the following terms:

1. Basic pay per annum Sh. 900,000 (annual PAYE Sh. 250,000)
2. Annual bonus of Sh. 25,000
3. Monthly commission equal to 2% of monthly basic pay
4. Annual medical allowance (non-discriminatory scheme) of Sh. 180,000 paid on reimbursement basis. During the year, he was reimbursed Sh. 120,000 for medical cost incurred on self and family
5. Free lunch valued at Sh. 35,000 per annum

2. He obtained a loan from the employer amounting to Sh. 400,000 on 1st December 2016.

The interest on the loan was specified by the employer as 5% per annum. Assume a prescribed interest rate of 8% per annum for the month of December 2016.

3. He paid life premium amounting to Sh. 72,000 during the year for policies on self and family.

4. His wife is employed by Mauzo Ltd as a financial analyst at a basic salary Sh. 60,000 per month. Mr. Mokami owns 25% of the ordinary share capital of Mauzo Ltd.

5. The following additional income accrued to his wife during the year:

She earned a profit of Sh. 400,000 from a supermarket business registered by her name but managed by her daughter. This profit was after deducting Sh. 120,000 paid as salary to the daughter during the year. The daughter was below eighteen years of age as at 31 December 2016.

She owns residential houses inherited from her father. The rental income received for the year amounted to Sh. 480,000.

**Required**:

(i) The taxable incomes of Mr. Mokami and his wife for the year ended 31 December 2016. **( 7Marks)**

(ii) Briefly comment on the procedure for the filing of the wife’s income tax returns **(3 Marks)**

**QUESTION FIVE**

Discuss any seven tax planning strategies that can be employed by individuals in order to reduce the impact of a tax**. (15 marks)**