



# **GRETSA UNIVERSITY - THIKA**

## **UNIVERSITY EXAMINATIONS JANUARY – APRIL 2017 SEMESTER**

### **BACHELOR OF COMMERCE**

**COURSE CODE: BCAC 400**

**COURSE TITLE: TAXATION THEORY AND PRACTICE**

**DATE: 5 APRIL 2017**

**TIME: 8.00 AM – 11.00 AM**

---

#### **INSTRUCTIONS TO CANDIDATES**

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

**CAUTION:** All exam rooms are under CCTV surveillance during the examination period.

## SECTION A

### QUESTION ONE

(a) Central Bank of Kenya (CBK) Governor Patrick Njoroge forecasts the economy will this year feel shocks emanating from the prolonged drought, US president Donald Trump policies and Brexit negotiations. Though Njoroge predicts a 5.7 per cent growth in 2017 compared to 5.9 per cent in last year, he is optimistic of a positive performance in the first quarter of the year. The prediction comes amid biting drought ravaging the country, which the governor said had spiked food inflation having contributed 1.5 per cent to overall inflation in December 2016. The dry spell will also have an impact on the agriculture sector which is the country's backbone, affecting rain-fed sub-sectors to further stymie growth. Long rains are expected in April. Njoroge, who spoke a day after the CBK Monetary Policy Committee (MPC) decided to suspend the Kenya Bank's Reference Rate (KBRR), said inflation was expected to increase during the year. However it is possible to check the level of inflation in a country through use of tax system.

#### Required:

- i) Discuss four other objectives of tax in the Economy **(8 marks)**
- ii) Other than tax, discuss four ways in which the Government can raise revenue **(8 marks)**

(b) Economic Partnership Agreement (EPA) was signed by some of the East African countries late last year. It is an agreement that allowed African country custom free access to the European market and in return the Country would open 80% of its market to European imports. Discuss five repercussions that could arise to the African countries which have entered into such an agreement. **(10 Marks)**

(c) Mugo is a real estate residential owner. During the month of January 2017, he collected kshs 189,000 from his rental properties. The repairs done on the building to increase the existing rent was kshs 5,000. Rates and electricity for the building was kshs 4,000 and 10,000 respectively. He paid kshs 4,000 as taxes on the property income and incurred a legal cost of kshs 12,000 on the lease which was for over 110 years.

#### Required:

- i) Compute the rental taxable income **(4 marks)**
- ii) Compute tax thereof **(3 marks)**
- iii) List three effects of an increased tax system in Kenya **(3 marks)**
- (d) Discuss the two terms as used in tax Capacity **(4 Marks)**

**(40 Marks)**

## SECTION B

### QUESTION TWO

A. Bendet Producers is a firm that deals with a wide range of consumable products. The firm had a written down value of its machine on 1<sup>st</sup> of January 2016 as follows

Class 1: kshs 120,000, Class 11: kshs 240,000, Class 111: kshs 390,000 and finally Class iv: kshs 50,000

The firm acquired a 4ton lorry in February the same year valued at kshs 210,000 and 10 bicycles for each of their sales men valued at kshs 9,000 each

A combined harvester costing kshs 120,000 was bought to assist in harvesting the firm's raw materials on 3<sup>rd</sup> March

On April, the firms two accountant got a Computer each worth kshs 35,000 and a mobile phone valued at kshs 15,000 to assist in communication with the firms various stakeholders

A car was bought for delivering small customer deliveries valued at kshs 70,000.

Later the firm sold a 2 ton lorry for kshs 110,000 and a computer for kshs 10,000

Required:

Compute the firms wear and tear deduction for the year **(8 marks)**

B. Using a diagram discuss progressive, regressive, digressive and proportional forms of taxation **(12 marks)**

### QUESTION THREE

A. Amina and Halima are partnership in a business. During the year ended 31<sup>st</sup> December 2015 they made a net profit of kshs 256,000. This was after the following adjustments had been made

1, Depreciation was kshs 12,000 while goodwill had been amortized at kshs 5,000

2, profit on disposal of motor vehicles was kshs 20,000

3, the firms specific provision on bad debts were kshs 240,000 out of which general was kshs 80,000

4, The capital deduction were agreed at kshs 50,000 for the year

5, wages were kshs 110,000 of which the partners wages were kshs 40,000 which was shared equally

- 6, the firm had acquired and put up neon signs and billboards at a cost of 10% of the total advertising cost which was kshs 100,000
- 7, The business paid for lease agreements that were for 120 years at a cost of kshs 30,000
- 8, The partners had treated the purchase of a machine worth kshs 90,000 as an expense and written off the cost in the Income statement of the firm
- 9, the expenses included kshs 50,000 which was the cost of education of Amina' s children
- 10, the partners had structural alteration done valued at kshs 75,000. The aim was to make the premises appealing to customers.
- 11, a loss from previous trading period had been carried down of kshs 25,000
- 12, Partners commission, interest on income had been decided at kshs 50,000 each which the partners shared on the ratio of 3:2

Required:

- i) Compute the partnership taxable income (10 Marks)
- ii) Prepare an allocation schedule for the partners taxable income (2 marks)
- B. Discuss four principles of an optimum tax system (8 Marks)

#### QUESTION FOUR

A. "Failure to plan is planning to fail" discuss this statement in the concept of Budgeting .  
(10 Marks)

B.

- i) Amos is employed by Bidco limited. The firm has decided to offer him a house upon which it undertakes to pay rent on account of Amos kshs 40,000. Amos is an ordinary employee and his employment benefits are kshs 150,000. The market rate of similar houses in the area is going for kshs 60,000

Required: Compute the house benefit Amos derives from employment (3 Marks).

- ii) Amos was given a loan of kshs 240,000 at an interest of 3% by his employer. The market rate is 16%. Determine the low interest benefit (2 marks)
- C. Explain any five disallowable taxes for a Company (5 marks)

## **QUESTION FIVE**

- A. Tax is a compulsory contribution levied on the Citizens of a Country. Discuss five advantages of a direct form of tax (10 Marks)
- B. Discuss five factors that affect the ability of an Organisation to shift taxes (10 Marks)