



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS JANUARY – APRIL 2021 SEMESTER

DIPLOMA IN BUSINESS MANAGEMENT

COURSE CODE: DBAC 017

COURSE TITLE: PRINCIPLES OF TAXATION

DATE: 10 MAY 2021

TIME: 3:00 PM – 6:00

PM

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: COMPULSORY

QUESTION ONE

You are the tax consultant and agent of Mr Suleiman Kombo who has been an employee of Vankar Electronics Ltd for the last five years. In regard to the year ended 31st December 2020, he presented the following information to you

- a) His basic salary was Ksh. 120,000 per month (K.sh 48,000 PAYE is deducted monthly)
- b) He was provided with lunch by employer from 1st August 2020 of K.sh 4,800 per month
- c) He was provided with a fully furnished house fitted with water and electricity. The employer paid a monthly rent of K.sh 45,000. He was deducted 10% of his basic salary for rent. The cost of the furniture was K.sh 300,000 while the monthly electricity and water bills was K.sh 1,500 and K.sh 2,800 respectively
- d) The company paid for him, 135,000 as school fees for his son. This amount was not included in the company's income statement for the year
- e) He enjoyed free medical treatment under a medical scheme operated by the company for all employees. His medical expenses were assessed at K.sh 215,750 during the year
- f) He contributed 10% of his basic monthly pay towards a registered pension scheme while the employer contributed 15% of his basic pay towards the same scheme
- g) On 1st August 2020 the employer provided him with the following
- h) A land Rover which was acquired at a cost of 1.8m with engine capacity of 3000cc.
- i) A gardener and a night watchman whose monthly salaries were K.sh 12,500 and K.sh 15,000 respectively.

- a. He invested in real estate and earned a net rental income of 372,050 after deducting the following expenditure

Caretaker's wages	K.sh 120,000
Fencing	40,000
Loan repayment	320,000
Insurance, Rent & Rates	48,000
Partitions	60,000
Capital allowances	22,000
Gross rental withholding tax paid	68,200

He received net dividends of 152,500 from Maziwa Co-operative Society during the year

Other information

- a. Monthly Individual tax bands (2020) rate of tax
- b. First Ksh 24,000 10%

c. Next Ksh 16,666.67	15%
d. Next Ksh 16,666.67	20%
e. Over Ksh 57,333.33	25%
f. Monthly Personal Tax Relief	2,400

Required:

- a) Total taxable income for Mr Suleiman Kombo for the year ended 31st December 2020 **[15 Marks]**
- b) Tax payable (if any) from the income computed in (i) above **[5 Marks]**
- c) Comment on any information not used in your computations under (ii) above **[5 Marks]**
- d) In relation to taxable capacity and determination of taxable income, discuss the tax position of a partnership
- e) Define a budget and discuss the three types of budgets

SECTION B: ANSWER ANY THREE QUESTIONS

QUESTION TWO

Lady Osman operated a beauty shop in which she bought from various suppliers and sold to a wide client base an assortment of beauty products. During the month ended 31st January 2021, Osman's transactions were as follows:

- a. Bought beauty goods worth K.sh 609,000 Vat inclusive from Kariobangi Enterprises
- b. Bought taxable goods worth K.sh 425,500, Vat exclusive from Best Lady enterprises
- c. The monthly Z-report indicated sales amounting to K.sh 1,834,250 inclusive

Required:

- a) Compute Lady Osman's VAT liability for the month of January 2021 **[15 Marks]**
- b) Advise Lady Osman on the tax payment procedures of the liability computed in (a) above pointing out the dangers of failure to comply by the due dates **[5 Marks]**

QUESTION THREE

- a) Specify the rules relating to payment of tax under the Pay As You Earn in Kenya **[5 Marks]**
- b) In regard to taxation, differentiate between the following terms
- a. Resident and non-resident persons **[3 Marks]**
- b. Digressive and progressive taxes **[3 Marks]**
- c. Direct and indirect tax **[3 Marks]**

- d.** Tax payer and tax liability [3 Marks]
- e.** Incidence and impact of a tax [3 Marks]

QUESTION FOUR

- a)** In relation allowable deductions, discuss the term ‘Capital Deduction’. [5 Marks]
- b)** Discuss the following constituent parts of capital deductions
 - a.** Wear and tear [3 Marks]
 - b.** Investment deduction [3 Marks]
 - c.** Farm works deduction [3 Marks]
 - d.** Shipping investment deduction [3 Marks]
 - e.** Industrial building deduction [3 Marks]

QUESTION FIVE

- a)** Discuss any five canons of an optimal tax system [10 Marks]
- b)** Outline five specified sources of income of a resident person in Kenya [10 Marks]