



# **GRETSA UNIVERSITY - THIKA**

## **UNIVERSITY EXAMINATIONS MAY - AUGUST 2018 SEMESTER**

### **BACHELOR OF COMMERCE**

**COURSE CODE: BCAC 400**

**COURSE TITLE: TAXATION THEORY AND PRACTICE**

**DATE: 9 AUGUST 2018**

**TIME: 8.00 AM – 11.00 AM**

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#### **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

a) “As the sugar craze hit the country this week, it was no news for the port city of Mombasa which has been beset with myriad seizures, legal battles and destructions of the essential commodity. In the last one year, the Kenya Revenue Authority (KRA) has destroyed huge consignments of contraband sugar and blocked many more from entering the Kenyan market over tax disputes. Security officials have been accused of colluding with importers to ship in sugar through small ports on the Indian Ocean, and without paying duty”  
Required: discuss five implication of the smuggled contaminated sugar in the Kenya economy **[10 marks]**

b) To eradicate the dumping of goods in the Kenyan market the government aims at introducing a higher tax on the imports. Discuss four effects of the increased tax **[8 marks]**

c) Tax shifting refers to the transfer of a tax burden from the point of impact to the final consumer who bears the burden of the tax. Explain five factors that limit the ability of a tax payer to transfer tax **[10 marks]**

d) Amos is a technical manager in Bestel limited. He earns the following monthly benefits from his employment. A basic salary of kshs 67,000, allowances kshs 34,000, medical cover kshs 20,000, company car of 1700cc which costs kshs 600,000.  
Additional information

1. The medical cover is only given to managers in that firm
2. The Commissioner of income tax prescribed benefit derived from a 1700 cc car is kshs 56,000
3. The employer paid for him kshs 40,000 during the month of July 2018 as his educational fees. The amount was taxed on account of the employer
4. He contributes kshs 15,000 p/m to a registered pension scheme
5. He contributes kshs 1,800 p/m to the National Health insurance fund
6. He is a member of the Law Society of Kenya and contributes kshs 36,000 per annum

### Required:

- i) Calculate his taxable employment benefit **[10 marks]**
- ii) Explain any employment benefit indicated above which does not constitute a taxable benefit **[2 marks]**

## SECTION B: ANSWER ANY THREE QUESTIONS

### Question Two

- a) XYZ limited has been operating a business based in Thika town. The firm acquired a building worth kshs 2,000,000 and installed thereof machinery valued at kshs 500,000 on 1<sup>st</sup> January 2017. The written down values of the machinery the firm had as of 1<sup>st</sup> January 2017 were Class 1 kshs 400,000, Class 11 kshs 330,000, Class 111 kshs 196,000 and Class iv kshs 90,000.

The firm acquired the following machinery in the course of the year

	kshs
Combined harvester –	140,000
Computers	99,000
4ton lorry	210,000
2ton lorry	102,000
Shelves	66,000

The items that were disposed of the same year included worn out furniture valued at kshs 6,000 and computers which were sold at kshs 12,000.

Required: compute the capital deduction in regards to XYZ limited [12 marks]

- b) Discuss the components of a return of income [8 marks]

### Question three

- a) To eradicate the dumping of goods in the Kenyan market the government aims at introducing a higher tax on the imports. Discuss five objectives of taxation [10 marks]
- b) Explain the two reasons why capital deductions are allowed [4 marks]
- c) Discuss three principles of an optimum tax system [6 marks]

### Question Four

- a) Using examples discuss the advantages of indirect form taxes [10 marks]
- b) Before undertaking any development projects the government prepares plans and budgets of a given activity. Explain five purposes of budgeting [10 marks]

### Question five

a) Amos and Josh are partners and have reported a net profit of kshs 197,000 for the year ended 30<sup>th</sup> of July 2018. This is after making the following deductions

1. Advertising kshs 70,000 (thereof cost of Neon signs kshs 21,000)
2. Depreciation kshs 22,000
3. Cost of a motor car kshs 111,000
4. Wages kshs 200,000 ( partners salary kshs 90,000)
5. Interest of capital kshs 80,000
6. Interest on drawings kshs 50,000

#### Additional information

The partners earn an equal salary, interest on capital is at a ratio of 60 :40 between Amos and Josh whileas interest on drawings is on account of Josh. The partners share profit and loss on equal bases

Required:

- i) Compute the partnership taxable income **[6 marks]**
  - ii) Appropriation of the partners taxable income among the partners **[4 marks]**
- b) Calculate the tax each partner is expected to pay **[10 marks]**