



# KISII UNIVERSITY

## KERICHO CAMPUS

FACULTY: COMMERCE

COURSE CODE: CIAF 0122

COURSE TITLE: TAXATION

*Instructions to candidate*

*Answer **four** questions*

*Question one is **compulsory***

*Marks for each question is shown*

*Time allowed 2hours*

### **QUESTION ONE 30 MARKS**

- I. Discuss any five roles of Kenya Revenue Authority in the economy (10 marks)
- II. An assessment is the determination or ascertainment of total chargeable income chargeable to tax and computation of tax thereon. Discuss any three forms of assessment (6marks)
- III. Name and briefly discuss principles of good tax system (8 marks)
- IV. Mr. Mosota was involved in the business of fish trading. His turnover in 2008 year of income was **Sh.600,000**. Advice him whether he should register for turnover tax and the amount of turn over tax payable. (6marks)

### **QUESTION TWO 20 MARKS**

- a) Distinction between a single and multiple tax system (5 marks)
- b) Explain the reasons why a country might prefer a multiple tax system over a single tax system (5 marks)
- c) A, B and C are in partnership, trading as X enterprises. They share profits and losses in the ratio of 2:2:1. In the year 2007, they reported a loss of Sh. 200,000 after charging the following items.

		<b>Sh.</b>
Depreciation		100,000
Salaries A		400,000
	B	300,000
	C	200,000
Interest on capital	A	100,000
	C	100,000
Commission	B	200,000
Stationery		50,000
Office expenses		100,000

#### **Required.**

Calculate the adjusted partnership profit/(loss) and its distribution among the partners

(10marks)

### **QUESTION THREE 20 MARKS**

- 1) Differentiate between qualifying and non-qualifying interest

(4marks)

- 2) Alex is employed by Zintac Ltd. as a salesman. He provided the following information relating to his income and that of his wife for the year ended 31 December 2007:
- i. His monthly basic salary is Sh. 60,000 (PAYE Sh. 15,000 per month).
  - ii. He is also entitled to a commission based on 5% of all extra sales he makes above Sh.200,000 per month. His sales for the months of March, June, August and October 2007 amounted to 250,000, Sh.300,000, Sh.220,000 and Sh.215,000 respectively.
  - iii. He lives in a company house and pays a nominal rent of Sh. 8,000 per month. The market rental value of the house is Sh. 45,000 per month.
  - iv. The company reimburses him for all out-of- pocket expenses incurred on the official use of his car. In the year 2007, the amount reimbursed was Sh. 90,000, he had purchased the car in the year 2004 at cost of Sh. 800,000. the car has an engine capacity of 1600cc.
  - v. The education fees for his two children amounting to Sh. 200,000 was paid by the company during the year. This amount was charged to the company's income statement.He earned a net interest income of Sh. 150,000 during the year from his investments in housing development bonds.
  - vi. He is contemplating purchasing a house for his residence in the near future. In the year 2007, he invested Sh. 100,000 in a registered home ownership savings plan and earned an interest income of Sh. 10,000.
  - vii. He has a life insurance policy for self and family for which he pays a total premium of Sh.45,000 per annum.
  - viii. He has a farm which generated a surplus of Sh. 120,000 during the year. A tax of Sh.15,000 had been deducted under presumptive tax regulations.
  - ix. His wife has invested in the shares of a quoted company. She received a dividend of Sh. 12,000 (net) from the shares in the year 2007.

**Required:**

- (i) Compute the total taxable income of Alex for the year ended 31 Dec 2007. (8 marks)
- (ii) Determine his tax liability from the income computed in (i) above. (8 marks)

**QUESTIN FOUR 20 MARKS**

XYZ Co. Ltd., a company dealing in hardware, prepares its accounts to 30 June each year. The following information relates to the year ended 30 June 2008.

**i) Written down value of assets brought forward for Income Tax purpose:**

	Class I	Class III	Class IV
	37½%	25%	12½%
	<b>Sh</b>	<b>Sh</b>	<b>Sh</b>
Written Down Value 30.6.2007	175,000	180,000	87,000

**ii) Disposals during the year:**

	Cost	Net Book	Sales Value proceeds
	<b>Sh</b>	<b>Sh</b>	<b>Sh</b>
Isuzu Lorry	280,000	175,000	260,000
Motor car (purchased in 1.3.2007)	2,160,000	1,015,000	800,000

**iii) Additions during the year**

	<b>Sh</b>
Mercedes Benz sports car for director	4,000,000
Second-hand Tractor	80,000

Trailer occasionally used by tractor	80,000
Shop fittings	60,000
Computer bought 1.3.2008	250,000
Telephone system bought 1.9.2007	72,000

iv) The office safe which cost Sh 30,000, in 2002 was traded-in for a more modern safe costing Sh 40,000. The old safe was valued at Sh 20,000 and the company paid the balance of Sh,20,000 to acquire the new safe. The net book value of the old safe was Sh 22,968 at 30.6.2008.

**Required**

Calculate the wear and tear deductions due to the company for the year 2006. (20 marks)

**QUESTION FIVE 20 MARKS**

(b) The management of Maendeleo Ltd., a registered supplier of vatable goods presented the following information relating to the company’s transactions for the six months ended 30 June 2007.

	<b>Purchases</b>	<b>Sales .</b>
	<b>Sh.</b>	<b>Sh.</b>
January	1,500,000	2,200,000
February	1,800,000	2,700,000
March	1,700,000	2,000,000
April	1,500,000	900,000
May	400,000	600,000
June	2,000,000	2,600,000

**The amounts stated above were inclusive of VAT at a rate of 16%.**

**Additional information:**

1. All purchases were made on cash basis while all sales were on credit basis. The cash due on credit sales was received in the month following the month of sale.
2. Ten per cent of the purchases made by the company in the month of April were returned to the suppliers in the same month.

**Required**

Determine the VAT payable or refundable for each of the six months from January to June 2007(20 marks)