

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF ARTS AND
BACHELOR OF EDUCATION**

BUST 422: TAXATION

STREAM:

TIME: 2 HOURS

DAY/DATE: FRIDAY 10/08/2018

8.30 A.M – 10.30 A.M

INSTRUCTION:

- **Answer question one and any other two questions.**
1. (a) Explain the meaning of the term tax and why a government levies taxes to its citizens. [10marks]
 - (b) Highlight eight principles of an optimal tax system. [8marks]
 - (c) Indirect taxes are preferred to direct taxes. Giving reasons, explain this statement. [6marks]
 - (d) Differentiate between the following terminologies as used in taxation;
 - (i) Proportional tax and progressive tax. [2marks]
 - (ii) Tax impact and tax incidence [2marks]
 - (iii) Tax avoidance and tax evasion [2marks]
 2. Mr. Kipsang is a marketing manager for Mzurie ltd. His income for the year ended 31st Dec 2017 are as below.
 - (i) He receives a basic salary of ksh 36,000 per month
 - (ii) He paid house allowance of ksh 18,000 per month
 - (iii) He is provided with a company car 2000cc that he uses for his personal duties.

- (iv) He is provided with a residential house by his employer
- (v) He is [provided with furniture which cost ksh 300,000
- (vi) His employer contributes ksh 5,000 per month to an unregistered provident fund on his behalf.
- (vii) He wife was sick and the employer paid her medical bills of ksh 250,000 from a medical scheme for senior managers only.
- (viii) He is also a farmer and his net farming income amounted to ksh 200,000

Required :

- (a) Compute the taxable income of Mr. Kipsang for the year ended 31/12/2017.

[14marks]

- (b) Compute his tax liability if any. [6marks]

3. Ms Jane a sole trader provided following information related to her business:

Statement of income

For the year ended 31/12/2017

<u>Income</u>	Ksh '000'	Ksh'000'
Gross profit		30,000
Discount received		2,000
Bad debt recovered (specific)		1,000
Sale of motor vehicle		1,400
Dividends from LCD company		500
Dowry (daughter)		800
Lottery winning		<u>600</u>
		36,300
 <u>Expenses</u>		
Salaries and wages	6,000	
Donations	400	
Water and electricity	300	
Postage and stationery	1,500	
Rent and rates	1,100	
Gifts to in-laws	1,000	
Debts collection	500	
Depreciation	3,000	
Office expenses	2,500	
Repairs to business	300	
		<u>(16,600)</u>
		19,700
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Required :

- (a) Compute the adjusted taxable income for Ms Jane [15marks]
 (b) Highlight any five kinds of taxes. [5marks]

4. The following information relates to KK Ltd is a manufacturing company located in Meru.

<u>Balances as at January 2014</u>	ksh
Industrial building (net investment deduction)	2,000,000
Telephones	14,000
Tax machines	160,000
Computers	80,000
Land rovers	2,270,000
Spare parts	1,020,000
Combined harvester	2,025,000
Furniture & fittings	450,000
Machinery	1,060,000
Tractors	5,510,000
Motor vehicle	1,310,000
<u>Additions during the year</u>	
Engine head for radiator	1,000,000
New building installed in new building	700,000
Saloon car	2,000,000
<u>Disposal during the year</u>	ksh
Tractor	150,000
Furniture	50,000
Computers	160,000

Required :

- (i) Compute the total capital allowances for the year ended 31st Dec 2014. [10marks]
- (ii) Other than taxes, how else can the government raise revenue? Explain. [10marks]

