PAN AFRICA CHRISTIAN UNIVERSITY

BACHELORS OF COMMERCE

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE: BCM 301

COURSE TITLE: PRINCIPLES OF TAXATION

ROYSAMBU CAMPUS

EXAM DATE:

TIME:

INSTRUCTIONS

- This examination script consists of **six (6)** questions.
- Answer Question one and ANY three Questions.
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

- Answer Question one and ANY three Questions.

QUESTION ONE

a) Using relevant examples, explain any for canons of taxation in Kenya (6marks)
b) The taxable income of company X residing in Kenya is Sh800,000. Determine:
   i) Its tax payable (1mark)
   ii) The amounts and dates the tax is payable (2marks)
   iii) The consequences of not paying the tax payable on time (1mark)

QUESTION TWO

a) Describe how the following items are treated in taxation:
   i) General bad debts of a company (2marks)
   ii) Salaries of partners in partnership (2marks)
   iii) Dividends received by an individual (2marks)
b) Explain when the Pay As You Earn (PAYE) should be paid and the consequences of not paying on time (4marks)

QUESTION THREE

a) Distinguish between qualified and non-qualified dividends (2marks)
b) Explain any four factors affecting taxable capacity of a country (8marks)

QUESTION FOUR

Omondi, Onyango and Kimani are partners operating a wholesale shop in Kisumu. They share profits and losses in the ratio 2:2:1 respectively. During the year ended 31 December 2018, the partners reported a loss of Sh.8,325,000 after deducting the following:

		Sh.
Interest on capital:	Omondi	406,000
	Onyango	406,000
	Kimani	609,000
Motor vehicle running expenses		532,000
Office expenses		420,000
Repairs and maintenance		168,000
Water and electricity		238,000
Salaries and wages		3,689,000
Subscriptions to a trade association		224,000
Depreciation		960,000
Purchase of lorry		2,329,250

Additional information:

1. Office expenses included cost of office cabinet of Sh.192,500.
2. The partnership received Sh.910,000 being insurance recovery for stocks which were destroyed by fire in 2004. This was omitted in arriving at the reported loss above.

3. Motor vehicle running expenses included Sh.21,000 per month related to personal travel by the partners.
4. Included in repairs and maintenance is Sh.140,000 paid for purchase of office cabinet during the year.
5. Salaries and wages included partners salaries as follows: Omodi sh700,000, Onyango sh735,000, Kimani sh1,008,000.
7. The partners had other incomes as follows: Omodi sh391,230, Onyango sh831,600, Kimani sh(495,000).
9. Capital allowances have been agreed with the Commissioner at Sh.906,000.

Required:

(a) The taxable profit/(loss) for the partnership business for the year 2005. (4 marks)
(b) Show the allocation of the profit/(loss) among the partners. (3 marks)
(c) Compute tax payable by each partner. (3 marks)

QUESTION FIVE

Given below were the purchases and sales made by Pent Limited during the month of December 2018.

December	1	Purchased 400 units at Sh.5,600 per unit
	1	Sold 40 units at sh.7,200 per unit
	5	Sold 80 units at Sh.7,200 per unit
	10	Sold 200 units at Sh.7,200 per unit
	20	Purchased 300 units at Sh.6,400 per unit
	25	Sold 80 units at sh.7,200 per unit
	31	Sold 200 units at Sh.8,000 per unit

There was no inventory at the beginning of the month but 100 units were in stock at the end of the month. The prices were inclusive of VAT at the standard rate of 16%.
Required:

a) Determine the Value Added Tax liability (8marks)
b) On what date is Value Added Tax due payable? (2 marks)

QUESTION SIX

Mr. John is employed by Manu Distributors Ltd. During the year of income 2018, he presented to you the following information:

1. Mr. John earned a basic salary of sh.60,000 per month (P.A.Y.E Sh.16,000 per month)
2. He contributes 20% of his basic salary to an approved pension scheme.
3. He received an end of the year bonus payable to executive staff: sh.20,000
4. Mr. John is housed by his employer, in a house where the employer pays rent of Sh.5,000 per month. The house is fully furnished at a cost of sh250,000.

5. His employer pays on his behalf life insurance premium at sh.2,000 per month.
6. Interest received by Mr. John from Post Office Savings Bank during the year was Sh.12,000
7. Mr. John also own rental houses whose income was Sh.95,000 during the year.

Required:

(a) Calculate the total taxable and tax payable income for Mr. John for the year of income 2018. (6 marks)

(b) State the tax position of Mrs. John. (3 marks)

(c) Comment on any information that you did not use in computation of Mr. John's taxable income (1 marks)