



PAN AFRICA CHRISTIAN UNIVERSITY
SCHOOL OF LEADERSHIP, BUSINESS & TECHNOLOGY
END OF SEMESTER EXAMINATION FOR THE DEGREE OF
BACHELOR OF COMMERCE
BACHELOR OF BUSINESS LEADERSHIP
MAY-AUGUST 2019 SEMESTER

CAMPUS: VALLEY ROAD

DEPARTMENT: BUSINESS STUDIES

COURSE CODE: BUA4123 | BCM301

COURSE TITLE: TAXATION PRINCIPLES

EXAM DATE: MONDAY 5th AUGUST 2019

DURATION: 2 HOURS

TIME: 5:30PM-7:30PM

INSTRUCTIONS

- Read the instructions and questions carefully before you write the answers.
- Write your **STUDENT NUMBER** in the Answer Booklet given
- *Write clearly and legibly.*
- This exam script consists of **Six (6)** questions.
- Answer **question one (compulsory)** in **Section A** and
- **Any other three (3)** questions in Section B.
- *ALL PAC University's examination rules and regulations apply*

SECTION A (Compulsory)

QUESTION ONE.

- (a) The normal corporation tax in Kenya is 30% for resident firms and 37.5% for foreign ones; discuss THREE other instances and circumstances where the corporation tax can be charged at a different rate. t tax. (6 marks)
- (b) Outline the requirements which must be fulfilled before Value Added Tax (VAT) may become chargeable in respect of the supply of goods or services. (4 marks)
- (c) Explain FOUR advantages of direct tax as opposed to indirect tax. (8 marks)
- (d) Describe FIVE common kinds of tax levied by the Kenya government. (5 marks)
- (e) New KCC Ltd buys milk from dairy farmers at Ksh. 50 per litre and after processing sells it at Ksh. 60 per litre. Assuming that a tax of 20% is imposed on every litre of milk sold, demonstrate how the tax can be shifted. (7 marks)

SECTION B: (Answer three questions only)

QUESTION TWO.

- (f) Define the following terms.
 - (i) Tax. (2 marks)
 - (ii) Direct tax. (2 marks)
- (a) Mwenyeji is employed by an ICT company in Nairobi and earns a basic salary of Ksh. 50,000, house allowance of Ksh.22000, responsibility allowance of Ksh. 15000. In June 2019 Mwenyeji was named the employee of the month and was paid a bonus of Ksh. 25000. Using the current tax rates prepare Mwenjeji's pay-slip showing the tax charged and payable. (6 marks)

QUESTION THREE.

- (a) Differentiate between a progressive tax and a regressive tax. (3 marks)
- (b) A manufacturer acquires raw materials for Ksh. 100,000 on which VAT is levied at 16%. At each stage of the chain, (supplier of raw materials, manufacturer, wholesaler, and retailer) 25% conversion costs are incurred and 30% mark-up is made. Calculate in each stage the VAT charged and the final VAT receivable by Kenya Revenue Authority. (7 marks)

QUESTION FOUR.

- (a) Describe FIVE disadvantages of direct tax as compared to indirect tax. (5 marks)
- (b) Discuss TEN canons of an optimal tax system. (5 marks)

QUESTION FIVE.

- (a) With an example for each, explain the following terms.
- (i) Tax burden. (2 marks)
- (ii) Tax incidence. (2 marks)
- (b) Discuss the THREE alternative principles for equitable distribution of the tax burden. (6 marks)

QUESTION SIX.

- (a) Explain the term Taxable capacity. (2 marks)
- (b) Raising revenue is the foremost reason why the government levies taxes; Discuss other reasons why the government levies taxes. (8 marks)