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: ROYSAMBU

DEPARTMENT: BUSINESS STUDIES

COURSE CODE: BUA4123|BCM301

COURSE TITLE: PRINCIPLES OF TAXATION

EXAM DATE: TUESDAY 6th AUGUST 2019

DURATION: 2 HOURS

TIME: 2:00PM-4:00PM

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
- A**ny other three (3)** questions in Section B.

- ALL PAC University's examination rules and regulations apply

SECTION A: COMPULSORY

QUESTION ONE: (compulsory) 30 marks

(a) Explain the following characteristics of a taxation system:

i. Progressive (2 marks)
ii. Proportional (2 marks)
iii. Regressive (2 marks)

(b) Discuss the mechanism of inflation control using tax mechanism in a government's fiscal policy. (6 marks)

(c) Describe the significance of the effects of taxation with regard to:

i. Production function of a country (3 marks)
ii. Resource distribution in a state (3 marks)

(d) Describe **four** considerations that influence the tax policy of a developing country. (8 marks)

(e) State four principles of a good taxation system. (4 marks)

SECTION B: Attempt any *three* questions from this section.

QUESTION TWO (10 marks)

(a) Distinguish the following forms of taxes:

i. Pay As You Earn Tax and Corporation Tax. (4 marks)
ii. Customs duty and Excise duty. (4 marks)

(b) Carol received a supermarket voucher of KeS 3,000 from her employer for exemplary service at the end of the year. Milcah also received the same amount from his uncle as a Christmas token.

Required:

Explain the rationale of taxing both Carol and Milcah on these incomes. (2 marks)

QUESTION THREE (10 marks)

a) Distinguish the terms tax avoidance and tax evasion. (4 marks)
b) Describe the mechanism of avoidance of tax by a corporate entity. (4 marks)
c) State **two** methods that may be adopted to adjust the accounts of a business entity for income tax purposes. (2 marks)

QUESTION FOUR (10 marks)

(a) With regards to corporation tax, state:

i. Two items treated as tax deduction allowable. (2 marks)

ii. Three items treated as tax non-deduction allowable. (3 marks)

(b) Kisasi Ltd was incorporated on April 4, 2017. It opened a bank account on May 5, 2017 and commenced business on June 2, 2018. Its first accounts were compiled on August 31, 2018 and annually thereafter.

Required:

Prepare the schedule of accounting periods for taxation purposes for the company. (5 marks)

QUESTION FIVE (10 marks)

(a) Define the term incidence of a tax as applied in taxation. (2 marks)

(b) Bob Mashua retired from the civil service on 30th June 2017. He was engaged by Dew Springs Ltd as a director with effect from January 1, 2018. At retirement he had two dependant children. His wife was a salaried employee of Wapeni Cookies Ltd. Her salary was KeS 30,000 p.m at P.A.Y.E rate of KeS 3,500 p.m deducted by employer.

Bob received the following benefits from his employment during the year ended December 31, 2017:

Government:

(i) Pension KeS 10,000 p.m (P.A Y.E KeS 2400 p.m.)

(ii) KeS 42,000 being refund from NSSF contributions made before he was engaged on permanent and pensionable terms by Dew Springs Ltd, KeS. 2000 represents interest earned.

Dew Springs Ltd:

(i) Basic salary, KeS 45,000 p.m. (P.A.Y.E, KeS. 6,050 p.m. is deducted by employer)

(ii) Leave allowance paid on 31 December 2017, KeS.15,000 p.a

Others:

i. Excess over expenditure from his farming activities in the year, KeS 10,000
ii. Rent paid for the year KeS. 78,000

Other additional information.

Assume tax is charged as follows:

(i) On the first KeS 121,968 @ 10%
(ii) On the next KeS 114,912 @ 15%
(iii) On the next KeS 114,912 @ 20%
(iv) On the next KeS 114,912 @ 25%
(v) Any extra amount thereafter @ 30%.
(vi) Personal relief is KeS 13944 p.a.

Required:

Prepare a tax schedule for Mr. Mashua for the year ended 30th June 2018. (8 marks).

QUESTION SIX (10 marks)

(a) The Director General of Sodo Revenue Authority in the Republic of Sodo is facing a challenge of tax evasion from the landlords. As a tax consultant, you have been approached by the Office of the Director General to advise on ways to curb this vice.

(i) State **three** reasons that may have lead to tax evasion by the landlords in Sodo. (3 marks)

(ii) Explain **three** measures that the Director General of SRA needs to put in place to reduce the level of tax evasion. (3 marks)

(b) List **four** principle provisions in the Customs and Excise Duty Act, Cap 472 laws of Kenya. (4 marks)