PAN AFRICA CHRISTIAN UNIVERSITY

BACHELOR OF COMMERCE

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE: BCM 301/BUA 4123

COURSE TITLE: PRINCIPLE OF TAXATION

EXAM DATE:

TIME:

INSTRUCTIONS

- Read all questions carefully before attempting.
- Question **One** in section **A** is **compulsory** and attempt any **THREE** questions from section **B**

SECTION A: COMPULSORY (10 MARKS)

QUESTION ONE

a) John Mutua is an employee of Vitah Traders. He was provided with a fully furnished house by the employer on 1 January 2023. The cost of the furniture was Sh.2,400,000 to the employer. What is the taxable furniture benefit due to John Mutua for the year 2023?

A. Sh.331,200

B. Sh.576,000

C. Sh.432,000

D. Sh.288,000 (1 Mark)

b) Michael Ng'etich borrowed a loan from a bank to construct his residential house. During the year 2023, he paid Sh.320,000 as interest to the bank. How much did he qualify for as mortgage interest deduction?

A. Sh.320,000

B. Sh.150,000

C. Sh.300,000

D. Sh.240,000 (1 Mark)

c) Explain two ways in which the Kenyan government collects tax revenue (4 Marks)

d) Discuss two roles of taxation in achieving budgetary objectives in Kenya (4 Marks)

SECTION B: ANSWER ANY THREE QUESTIONS

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QUESTION TWO

a) Using examples explain three factors that may influence tax shifting (6 Marks)
b) Discuss two ways in which individuals could engage in tax avoidance. (4 Marks)

QUESTION THREE

The income statement for Vacom Ltd. for the year ended 31 December 2023 was as shown below.

	Sh.	Sh.
Gross profit for the year		11,500,000
Less expenses:		
Depreciation	480,000	
Printing and stationery	160,000	
Legal expenses on income tax appeal	200,000	
Accountancy and bookkeeping fee	280,000	(1,120,000)
Net Profit		10,380,000

Determine the allowable expenses for tax purpose by Vacom Ltd. in the year ended 31 December 2023. 10 (Marks)

QUESTION FOUR

a) Discuss the role of Kenya Revenue Authority in the economic development of Kenya. (6 Marks)

b) Explain the advantages of direct tax in Kenya (4 Marks)

QUESTION FIVE

a) Discuss Five sources of income that are subject to tax in Kenya. (5 Marks)

b) Explain why should the Kenyan government levy taxes on its citizens? (5 Marks)

QUESTION SIX

John Musyoka is employed as a finance manager by Safari Real Estate Ltd.

He reported the following details of his income and that of his wife for the year ended 31 December 2023:

1. He was entitled to a basic salary of Sh.400,000 per month (PAYE of Sh.120,000 per month was deducted).

2. He was also entitled to an annual bonus of Sh.120,000 during the year. The bonus for the year 2023 was however not paid until February 2024.

3. The employer provided him with a motor vehicle of 2600cc that had cost the company Sh.3,200,000 in the year 2021. The vehicle was valued at Sh.2,500,000 at the beginning of the year 2023.

4. His annual mortgage repayment of Sh.820,000 inclusive of interest of Sh.180,000 was settled by the employer. The loan was obtained from Elite Bank on 1 January 2023 to purchase own residential house.

5. The following deductions were made from his salary during the year: Sh. Subscription to Jenga Golf club 66,000 Contribution to a registered pension scheme 180,000

6. He received a gross dividend of Sh.80,000 from his shares in Safari Real Estate Ltd. where the withholding tax was paid by the company.

Required

Compute the taxable income for John Musyoka for the year ended 31 December 2023. (10 Marks)

RATES OF TAX (For employment income including wife's employment, self-employment and professional income). Year of income 2023. Assume the following rates of tax applied throughout the year of income 2023:

Monthly taxable pay (Sh.)	Annual taxable pay (Sh.)	Rate of tax % in each
Sh. 1 - 24,000	**1 - 288,000**	**10%**
24,001 - 32,333	**288,001 - 388,000**	**25%**
32,334 - 500,000	**338,001 – 6,000,000**	**30%**
500,001 – 800,000	**6, 000, 001 – 9,600,000**	**32.5%**
Excess over 800,000	**Excess over - 9,600,000**	**35%**