PAN AFRICA CHRISTIAN UNIVERSITY

BACHELORS OF COMMERCE

END OF TERM EXAMINATION

DEPARTMENT: BUSINESS

COURSE CODE: BCM 301

COURSE TITLE: PRINCIPLES OF TAXATION

EXAM DATE: THURSDAY

TIME: 8.00AM – 11AM

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.

QUESTION ONE

a) Using relevant examples, explain any three factors affecting the taxable capacity of Kenyans (6marks)

b) The budgeted profit for the year of XYZ a non-resident company is Ksh1,200,000. Its last year's tax liability was ksh150,000. Determine:
   i) The amount of tax payable at the beginning of the year (2mark)
   ii) The amounts and dates the tax is payable (2marks)

QUESTION TWO

a) With a reason, describe how each of the following items is treated for taxation purposes:
   i) Renovation of a company building (2marks)
   ii) Interest on capital of partners in partnership (2marks)
   iii) Dividends received from a cooperative society (2marks)
   iv) Interest on post office savings account (2marks)
   v) Renewal of 100 years lease of a company's premises (2marks)

QUESTION THREE

a) Using two relevant examples, explain any two ways in which impact of tax and incidence of tax differ (4marks)

b) James is an employee of MATU Co. which remits an equal amount of his PAYE on a monthly basis. During the previous financial year, a total amount of sh408,000 was remitted. Determine:
   i) The amount and date of remitting this tax (2marks)
   ii) Compute the amount of penalty incase of late payment (2marks)
   iii) Calculate the interest if the tax is paid after two months (2marks)

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 2019, 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
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 2018. 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.
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.

Determine:

a) The adjusted partnership profit/loss for the year ended 31 December 2019 (4 marks)
b) The taxable income for each partner (3 marks)
c) The 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 2019.

December	1	Purchased 300 units at Sh.4,800 per unit
	1	Sold 32 units at sh.6,400 per unit
	5	Sold 60 units at Sh.6,900 per unit
	10	Sold 400 units at Sh.9,600 per unit
	20	Purchased 200 units at Sh.7,800 per unit
	25	Sold 60 units at sh.6,300 per unit
	31	Sold 100 units at Sh.7,000 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 exclusive of VAT at the standard rate of 16%.
Required:

Determine

a) The Value Added Tax liability (7marks)
b) The date of remitting Value Added Tax due (1 marks)
c) The amount of penalties for late remitting of tax (2 marks)

QUESTION SIX

Mr. John is employed by Manu Distributors Ltd. During the year of income 2019, 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 income for Mr. John for the year of income 2019 (6 marks)

(b) Compute the tax liability of Mr. John. (3 marks)

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