



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING AND FINANCE

UNIVERSITY EXAMINATION FOR:

DIPLOMA IN ACCOUNTANCY

BAC 2208: TAXATION

END OF SEMESTER EXAMINATION

SERIES: AUGUST 2019

TIME: 2 HOURS

DATE: Pick Date Aug 2019

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of **FIVE** questions. Attempt question ONE (Compulsory) and any other TWO questions.

Do not write on the question paper.

Question ONE

- a). Joel Kivu is a general manager with Ukweli Ltd. He has provided you with the following information on his income for the year ended 31 December 2007
1. He is paid a basic salary of Sh.75,000 per month (PAYE Sh.15,000 per month).
 2. He is housed by the employer in a house leased at Sh 30,000 per month. The house was furnished by the employer at a cost of Sh 200,000. his private telephone charges averaging Sh1,800 per month are also paid by the employer.
 3. He is a member of a golf club where the employer contributes Sh 5,000 per month for him.
 4. He holds a life assurance policy with Maisha Assurance Company Ltd. The employer paid the premiums on the policy for year 2007 amounting to Sh 48,000.
 5. He is a member of a registered collective investment scheme. During the year, he earned an income of ksh.40,000 from the scheme. The scheme invests in shares and fixed deposit accounts.
 6. He separated with his wife on 1 October 2007. With effect from 31 October 2007, he has been paying alimony of sh20,000 per month to his wife as required by a court order.
 7. He is provided with a motor vehicle (2000cc) by the employer which was purchased on 1 January 2006 at a cost of Sh1,500,000.
 8. He contributed Sh 25,000 per month towards a registered pension scheme.
 9. On 1 December 2007, his monthly salary was increased by ten per cent backdated to 1 July 2007.

10. He owns a pig-rearing farm in Limuru. The farm reported revenue of Sh 1,800,000 for the year ended 31 December 2007 before deducting the following costs:

	Sh
Salary to farm manager	300,000
Wages to farm labourers	160,000
Construction of pig stays	48,000
Purchase of a plastic water tank	22,000
Purchase of pig feed	410,000
Cost of renovating the farmhouse	<u>130,000</u>
	<u>1,070,000</u>

Required:

- (i) Taxable income of Mr. Joel Kivu for the year ended 31 December 2007. **(10 Marks)**
(ii) Tax liability from the income computed in a (i) above. **(5 Marks)**
(iii) Briefly highlight the various sources of taxable income **(5 Marks)**
- b). Discuss the pre-requisite for an optimal tax system **(10 Marks)**

Question TWO

- (a) Discuss the treatment of tax deficits under the Income Tax Act **(10 marks)**
- (b) Distinguish the following terms
- i) Impact of a tax and Incidence of tax **(5 marks)**
 - ii) Forward and Back ward shifting of tax **(5 marks)**

QUESTION THREE

- (a) Comment on whether the following individuals and companies were residents of Kenya for tax purposes for the year ended 31 December 2010. Justify your comment in each case.
- (i) Mr. Abraham Masha has a permanent home in Kenya. He works for a company based in the United Kingdom (UK) where he lives. He came to Kenya for a one month holiday on 1 September 2010 but had not returned to the UK by 31 December 2010. **(1 mark)**
 - (ii) DACC Ltd. is registered in South Africa where its headquarters are based. The company opened a branch in Kenya on 1 March 2010. **(1 mark)**
 - (iii) Mrs. Alice Menza, a Kenyan citizen, is married to a citizen of Canada. She was employed in Kenya until 31 August 2010 when she resigned to join her husband in Canada **(1 mark)**
 - (iv) Elegance Ltd. Was registered in Kenya where the company operated until 15 July 2010. The company thereafter relocated its operations to Kampala, Uganda. **(1 mark)**
- (b) Discuss the treatment of tax deficits under the Income Tax Act **(10 Marks)**
- (c) Differentiate between Low interest benefit and fringe benefit **(6 Marks)**

Question FOUR

(a) John Otieno is a general manager with ABZ Ltd. He has provided you with the following information on his income for the year ended 31 December 2018

1. He is paid a basic salary of Sh.75,000 per month (PAYE Sh.15,000 per month).
2. He is housed by the employer in a house leased at Sh 30,000 per month. The house was furnished by the employer at a cost of Sh 200,000. his private telephone charges averaging Sh1,800 per month are also paid by the employer.
3. He is a member of a golf club where the employer contributes Sh 5,000 per month for him.
4. He holds a life assurance policy with Maisha Assurance Company Ltd. The employer paid the premiums on the policy for year 2007 amounting to Sh 48,000.
5. He is a member of a registered collective investment scheme. During the year, he earned an income of Sh.40,000 from the scheme. The scheme invests in shares and fixed deposit accounts.
6. He separated with his wife on 1 October 2018. With effect from 31 October 2018, he has been paying alimony of sh20,000 per month to his wife as required by a court order.
7. He is provided with a motor vehicle (2000cc) by the employer which was purchased on 1 January 2018 at a cost of Sh1,500,000.
8. He contributed Sh 25,000 per month towards a registered pension scheme.
9. On 1 December 2018, his monthly salary was increased by ten per cent backdated to 1 July 2018.
10. He owns a pig-rearing farm in Limuru. The farm reported revenue of Sh 1,800,000 for the year ended 31 December 2018 before deducting the following costs:

	Sh
Salary to farm manager	300,000
Wages to farm labourers	160,000
Construction of pig stays	48,000
Purchase of a plastic water tank	22,000
Purchase of pig feed	410,000
Cost of renovating the farmhouse	<u>130,000</u>
	<u>1,070,000</u>

Required:

- (i) Taxable income of Mr. John Otieno for the year ended 31 December 2018. **(14 Marks)**
- (ii) Tax liability from the income computed in b (i) above. **(6 Marks)**

Question FIVE

- i. (a) Explain the tax position of the income of a deceased person. **(2 Marks)**
(b) What is set-off tax? **(2 Marks)**
- ii Discuss the role of taxation in achieving budgetary objectives **(16 Marks)**