



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) Distinguish between forward and backward shifting of a tax

(4 Marks)

(b). Hassan is employed by XYZ Ltd. as a salesman. He provided the following information relating to his income and that of his wife for the year ended 31 December 2016:

1. His monthly basic salary is Sh. 60,000 (PAYE Sh. 15,000 per month).
2. He is also entitled to a commission based on 5% of all extra sales he makes above Sh.200,000 per month. His sales for the months of March, June, August and October 2016 amounted to 250,000, Sh.300,000, Sh.220,000 and Sh.215,000 respectively.
3. He lives in a company house and pays a nominal rent of Sh. 8,000 per month. The market rental value of the house is Sh. 45,000 per month.
4. The company reimburses him for all out-of- pocket expenses incurred on the official use of his car. In the year 2007, the amount reimbursed was Sh. 90,000, he had purchased the car in the year 2004 at cost of Sh. 800,000. the car has an engine capacity of 1600cc.
5. The education fees for his two children amounting to Sh. 200,000 was paid by the company during the year. This amount was charged to the company's income statement.
6. He earned a net interest income of Sh. 150,000 during the year from his investments in housing

development bonds.

7. He is contemplating purchasing a house for his residence in the near future. In the year 2007, he invested Sh. 100,000 in a registered home ownership savings plan and earned an interest income of Sh. 10,000.
8. He has a life insurance policy for self and family for which he pays a total premium of Sh.45,000 per annum.
9. He has a farm which generated a surplus of Sh. 120,000 during the year. A tax of Sh. 15,000 had been deducted under presumptive tax regulations.
10. His wife has invested in the shares of a quoted company. She received a dividend of Sh. 12,000 (net) from the shares in the year 2007.

Required:

- (i) Compute the total taxable income of Alex Kipkoech for the year ended 31 December 2016. **(10 Marks)**
- (ii) Determine his tax liability from the income computed in (i) above. **(6 Marks)**
- (c). Define a direct tax and explain some of its benefits **(10 Marks)**

Question TWO

Some items of income are subject to tax and others are not. The Act has listed the income upon which tax is charged, discuss the non taxable income. **(10 Marks)**

Question THREE

- (a) Discuss the principles of a good tax system. **(16 Marks)**
- (b) Briefly explain the extent to which the following taxes can be shifted. **(4 Marks)**
 - (i) Income tax
 - (ii) Customs duty

Question FOUR

Mrs. Ongera works with Anga Ltd. and has provided you with the following information for the year ended 31 December 2007.

Pension from previous employment Sh.20,000 per month.

Salary sh.120,000 per month (P.A.Y.E Sh.42,000 per month)

Mrs. Ongera and her husband own a company whose taxable income was agreed at Sh.500,000 after charging husband's salary of Sh.250,000 per month (P.A.Y.E sh.60,000 per month).

Anga Ltd. provided a company house to Mrs. Ongera in South B where rent of similar houses was Sh.20,000 per month.

Mrs. Ongera works over-time and her over-time income averages Sh.10,000 per month.

Mrs. Ongera enjoyed medical benefit of Sh.160,000 during the year. She is a senior manager and the company has medical cover for all its employees.

She obtained free consumables from the company as a Christmas gift worth Sh.30,000 during the year.

Mrs. Ongera owns rental property at Komarock Estate and receives Sh.50,000 as rental income per month. During the year, She incurred Sh.60,000 in renovations, repairs and painting before letting the property. She had obtained a mortgage loan from Housing Finance Company amounting to Sh 3,000,000. She paid Sh 900,000

during the year of which Sh 500,000 was principal. Mrs. Ongera owns 20% ofk the shares of Anga Ltd.

Required:

- (i) The taxable income for Mr and Mrs Ongera for the year of income 2007. **(12 Marks)**
- (ii) Tax payable on the income computed above. **(4 Marks)**
- (iii) Mrs. Ongera did not fill her self-assessment return form for 2007. State the penalties due, if any. **(4 Marks)**

Question FIVE

- (a) Define the term —fiscal policy **(2 Marks)**
- (b) State six objectives of fiscal policies with specific reference to the needs of developing countries. **(12 Marks)**