MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

………… YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 304: FUNDAMENTALS OF TAXATION

DATE: **TIME:**

INSTRUCTIONS: Attempt Question One and any other Two Questions

QUESTION ONE (30 MARKS)

a) Explain the characteristics of public goods .

b) Explain the meaning of the following terms as used in V.A.T(Value Added Tax):

i. Value added

ii. Output Tax

iii. Input Tax.

iv. Taxable Person

v. Exempt goods and Services.

c) John earned the following incomes in the year 2003:

Basic salary ksh.30,000 per month , Medical allowance Ksh. 25,000 per month, House allowance ksh.15,000 per month. He was provided with a car of an engine capacity of 1700cc , which had cost ksh.2,500,000. He made a pension contribution of 10% of his basic salary to a pension scheme that was not registered. His Employer contributed a similar amount. He paid insurance premium of ksh.20,000 per month towards his life insurance policy. He had a house mortgage and paid an interest of ksh.25,000 per month.

Required:

i. Calculate his taxable income for the year of income.

ii. Calculate the tax payable by John for that year.

QUESTION TWO (20 MARKS)

a) Briefly explain any one theory of taxation.

b) Explain the rationale for taxation in a country.

c) Explain the canons of a good tax system.

QUESTION THREE (20 MARKS)

a) Explain any 5 deductions against business income.

b) Mutua carried on a business and made a Net profit of ksh. 40,000. His expenses were as follows:

Salaries ksh. 200,000

Stationery ksh.100,000

Electricity ksh.50,000

Bad debts written off Ksh. 80,000

Donations Ksh.50,000

Purchase of a computer Ksh.30,000

Purchase of a car Ksh. 250,000

School fees for children Ksh.120,000

The provision for bad debts comprised of 60% specific. Gain on sale of a fixed asset ksh.25,000. He paid a salary to himself of ksh.100,000 in the year and wife Ksh.35,000. He purchased office furniture of ksh.100,000.

Required: Calculate the adjusted taxable profit.

QUESTION FOUR (20 MARKS)

a) A, B and C are in partnership sharing profits and losses in the ratio of 3:2:1 respectively. In a certain year of income , the partnership business made a profit of ksh. 200,000.This was after charging the following expenses:

i.	Salaries to	A 20,000
		B 30,000
ii.	Commission to	C 50,000
iii.	Interest on capital	A 20,000
		B 40,000
		C 20,000
iv.	Interest on drawings	A 5,000
		B 10,000
		C 15,000
v.	School fees for their children	A 4,000
		B 5,000
		C 7,000

The business had made late tax returns and was fined Ksh.10,000 which they paid accordingly. They had also assisted a friend of them with Ksh.15,000 to take care of a medical bill.

Required: calculate the adjusted partnership profit or loss.

b) Explain the treatment of the following with regard to taxation of partnerships:

- Salaries to partners
- Salaries to partners' wives.
- Interest on drawings.
- Interest on partners' capitals
- Bonus paid to partners.

QUESTION FIVE (20 MARKS)

a) Distinguish between depreciation and capital deductions.

b) Explain 2 deductions allowed against the tax payable by an individual.

c) Explain the difference between medical allowance and medical benefit.

d) Differentiate between zero rated goods and Exempt goods with examples where necessary.

e) Give four examples of VAT records.

f) Give Four examples of privileged bodies and institutions with zero rated status on imports and purchases.