



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.

