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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FIRST YEAR, FOURTH SEMESTER EXAMINATION
FOR THE DIPLOMA IN ACCOUNTING
DAC 1507: TAXATION

Date: 13TH DECEMBER 2023
Time: 11:30AM-1:30PM

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

Individual income tax rates for Kenya

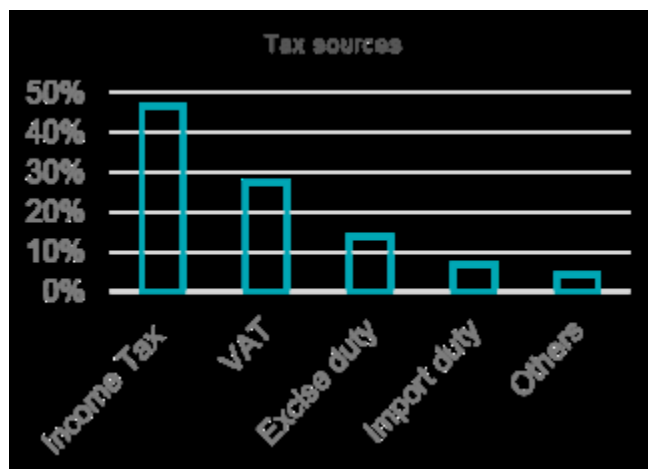
Tax Band	Monthly Income	Tax Rate
	Kshs	%
First	24, 000	10%
Next	8,333	25%
Next	467,667	30%
Next	300,000	32.5%
Above	800,000	35%

Personal relief: 2,400/= p.m
28,800/= p.a

Kenya Finance Bill 2023/24 Effective 1st July 2023

QUESTION ONE (30 MARKS)

- a.) A senior planning officer at the Ministry of Finance has prepared the following bar graph showing income tax, vat, excise duty, import duty as the main four sources of tax to the government of Kenya (Finance Bill 2023/2024).



Note: Income Tax – 48% ; Vat - 29% ; Excise duty – 13% ; Import Duty 8% ; Others – 2%

Required: Outline five specific components of ``others`` (5 Marks)

- b.) There are many key terms in taxation as an area of interest. As a student of tax, explain to an ordinary Kenyan the difference between a Tax Authority and a Tax Payer (5 Marks)

c.) Briefly explain application of these principles in taxation: The Benefit Principle, The Ability to Pay Principle and The Cost of Service Principle **(5 Marks)**

d.) Mrs Joyce Wakubhona was employed as sales manager at the Standard Media Ltd effective 1st November 2023. Her earnings details for the first month were as follows:

Details	Kshs
Basic pay	500,000
Monthly house allowance	50,000
Transport allowance	50,000
Entertainment allowance	200,000
Communication allowance (airtime, data bundles etc)	50,000

Required: Determine the gross tax of the sales manager **(5 Marks)**

e.) The following statistics represent budget allocations of Kenya for the year 2023/23:

Kenya Budget Allocations Finance Bill 2023/24

Education	- 36%
Energy, infrastructure, ICT	- 25%
Public Administration	- 16%
Governance, Justice, Law & Order	-12%
National Security	- <u>11%</u>
Total	<u>100%</u>

Required: Based on the above statistics, explain the importance of tax revenue in Kenya **(5 Marks)**

f) Outline reasons why governments fail to collect adequate tax revenue **(5 Marks)**

QUESTION TWO (20 MARKS)

a.) Distinguish the terms iTax and Tax as used in Kenya? **(4 Marks)**

b.) Explain five disadvantages of direct taxes **(5 Marks)**

c.) Maurice Mukinginyi is employed by Tajiri Ltd as sales manager. He has provided the following information relating to his income and that of his wife for the year ended 31st December 2022:

- Basic monthly pay shs 60,000
- He was entitled to entertainment allowance of shs 5,000. He lives in a company house and pays a nominal rent of shs 8,000. The market rental value of house is shs 45,000 per month.
- The company reimburses him of all expenses incurred on the official use of his car. During the year, he was reimbursed shs 90,000. He had purchased the car in 2015 at a cost of shs 800,000. It has an engine capacity of 1,600 cc.
- The education fees of his children amounted to shs 200,000 was paid by the employer. This amount was charged to the company income statement.
- He contributed shs 7,000 pm to the registered home ownership savings plan
- The employer paid his life insurance premium amounting to shs 8000 per month
- His wife had invested in shares of a quoted company and received a dividend of shs 12,000 (net withholding tax)

i.) You are required to compute the taxable income for Mr. Mukinginyi for the year ended 31st December 2022. **(8 Marks)**

ii.) Calculate net tax payable **(3 Marks)**

QUESTION THREE (20 MARKS)

- a.) Explain 6 factors that affect taxable capacity in Kenya (6 Marks)
- d.) In determining taxable profits of a limited company, there expenses that are allowable and others not. You are required to distinguish between allowable and non-allowable expenses (4 Marks)

c.) You are given the following information on payments made by a company:

- Advertising expenses Kshs 10,000
- Donations to Children`s home Kshs 30,000
- Salaries and wages Kshs 50,000
- Major expenses to renovate office Kshs 200,000
- Homestead maintenance Kshs 15,000
- Telephone expenses Kshs 30,000
- Workmen`s compensation policy Kshs 20,000
- Redundancy costs for the year Kshs 40,000

Required: Clearly show allowable and disallowable expenses with their totals (10 Marks)

QUESTION FOUR (20 MARKS)

Ayub(A), Ben(B) and Ceasar (C) are in partnership, trading as ABC enterprises. They share profits and losses in the ratio 2:2:1. In the year 2022, they reported a loss of Sh 200,000 after charging the following items.

			Sh.
Depreciation			100,000
Salaries	A	400,000	
	B	300,000	
	C	200,000	
Interest on capital	A	100,000	
	C	100,000	
Commission	B	200,000	
Stationery		50,000	
Office expenses		100,000	

- i) Calculate the adjusted partnership profit (loss) (9 Marks)
- ii) Clearly show the distribution of the profit(loss) among the partners (7 Marks)
- iii) Indicate Partners` Taxable Income from Partnership (4 Marks)

QUESTION FIVE (20 MARKS)

- a.) The most prominent contributors to taxation as a subject are Lord Keynes and Adams Smith overtime. A workshop for tax payers has been arranged for revenue staff of the 47 counties in Kenya. Explain to one of the would be facilitators on the main principles of An Optimal Tax System for purposes of enhancing tax revenue collection in the country (10 Marks)
- b.) Discuss the advantages of KRA iTax online system (10 Marks)