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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: 15<sup>TH</sup> AUGUST 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

Monthly taxable pay (shillings)	Rates of tax % in each shilling	Annual taxable pay (shillings)	Rates of tax% In each shilling
1-10164	10%	1-121968	10%
10165-19740	15%	121969-236880	15%
19741-29316	20%	236881-351792	20%
29317-38892	25%	351793-466704	25%
Excess over 38892	30%	Excess over 466704	30%
Personal Relief	(sh. 1,162 per annum)	Personal Relief	(sh.13,944 Per annum)

- a.) What is VAT? (3 Marks)
- b.) Briefly explain your understanding of Tax. (3 Marks)
- c.) State five sources of taxable income in Kenya. (5 Marks)
- d.) Distinguish Wealth Tax from Income tax. (4 Marks)
- e.) Explain your understanding of `` Excise Duty``. (3 Marks)
- f.) State the taxing authority in Kenya? (2 Marks)
- g.) Joshua Trenk is employed by Fitina Ltd as a marketing manager. He has provided the following information relating to his income and that of his wife for the year ended 31<sup>st</sup> 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 Joshua Trenk for the year ended 31<sup>st</sup> December 2022. (8 Marks)
- ii. Calculate net tax payable. (2 Marks)

**QUESTION TWO (20 MARKS)**

- a) Outline four types of taxes. (4 Marks)
- b) Explain 6 factors that affect taxable capacity in Kenya. (6 Marks)
- c) X, who is a registered trader delivered goods to Y on 21<sup>st</sup> June 2023. He issued an Invoice for the goods on 10<sup>th</sup> July 2023. Y paid for the goods on 3<sup>rd</sup> August 2023. When should X pay the VAT on those goods to the commissioner of VAT? (4 Marks)
- d) You are given the following information:
  - Gifts to family Kshs 10,000
  - Donations to Temple construction Kshs 30,000
  - Bank charges and fees Kshs 50,000
  - Homestead maintenance Kshs 15,000
  - Factory cleaning Kshs 20,000
  - Office stationery Kshs 40,000

**Required:** Determine business expenses and non-business expenses. (6 Marks)

**QUESTION THREE (20 MARKS)**

Abdi(A), Ben(B) and Cosma (C) are in partnership, trading as XYZ 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.
			100,000
Depreciation			
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 FOUR (20 MARKS)**

- a) Outline circumstances in Kenya where Personal Identification Number (PIN) is required. (6 Marks)

- b) Outline 5 reasons why the government needs tax to be paid by persons. (5 Marks)
- c) Lord Keynes and Adams Smith are some of the prominent contributors to taxation issues overtime. Scholars have planned to hold a workshop in South Africa to deliberate over whether tax systems in Africa are optimal. Explain to one of the would be facilitators from Kenya on the main principles of An Optimal Tax System (9 Marks)

**QUESTION FIVE (20 MARKS)**

- a) Dr Joy Trenk is a medical practitioner who is dully VAT registered and had the following details for the month of January 2023:

Sales	shs 1,000,000
Purchases	shs 700,000

Assuming the above figures are VAT exclusive and the VAT rate is 16%, show her VAT position for the month of January. (5

Marks)

- b) Outline 6 kinds of taxes in Kenya. (6 Marks)
- c) State five disadvantages of direct taxes. (5 Marks)
- d) Briefly explain the importance of `` Incidence of a Tax``. (4 Marks)