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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: 19<sup>TH</sup> APRIL 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)

- What is iTax in Kenya? **(3 Marks)**
- Briefly explain the meaning of Tax **(3 Marks)**
- Outline justifications for the government collecting taxes **(5 Marks)**
- `` I am growing increasingly frustrated as I feel I cannot just go on paying taxes based on the current economic conditions`` quipped Joy a young lady in hustler business. You are required to comment on Joy`s exclamation while relying on the `` Ability to Pay Principle`` **(4 Marks)**
- Illustratively explain your understanding of `` withholding tax`` **(3 Marks)**
- In terms of tax classification, where does VAT fall? **(2 Marks)**
- Cosmas is employed by Fieck Ltd as sales 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)
    - You are required to compute the taxable income for Mr. Cosmas for the year ended 31<sup>st</sup> December 2022. **(8 Marks)**
    - 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) Distinguish between Input Vat and Output Vat (4 Marks)
- d) You are given the following information:
- Advertising expenses Kshs 10,000
  - Donations to Children`s home Kshs 30,000
  - Salaries and wages Kshs 50,000
  - Homestead maintenance Kshs 15,000
  - Workmen`s compensation policy Kshs 20,000
  - Redundacy costs for the year Kshs 40,000

Required: List and show total business expenses (6 Marks)

### **QUESTION THREE (20 MARKS)**

Abedineko(A), Basil(B) and Ceril (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.
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 partner (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 the facilitators from Kenya 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)