

**University Examinations 2011/2012**

SECOND YEAR, SECOND SEMESTER EXAMINATIONS FOR THE DEGREE OF  
BACHELOR OF COMMERCE

**HBC 2123: INTRODUCTION TO TAXATION**

**DATE: APRIL 2012**

**TIME: 2 HOURS**

**INSTRUCTIONS:** *Answer questions **one** and any other **two** questions*

**QUESTION ONE (30 MARKS)**

- a. Explain the meaning of tax shifting and its effects. (6 Marks)
- b. Suppose a company buys raw materials from suppliers at sh. 10 per unit and processing, it sells the product sh.20 per unit. Assume that a tax of 20% is imposed on every unit sold; demonstrate how the tax can be shifted. (5 Marks)
- c. Discuss the meaning of tax base with examples (5 Marks)
- d. What is tax burden? Highlight any four aspects of tax burden. (4 Marks)
- e. Explain four functions which affect taxable capacity (4 Marks)
- f. Taxation is the process of imposing compulsory contribution on the private to meet the expenses which are incurred for a common good. In the light of the above statement, discuss the role of taxation in achieving budgetary objectives. (6 Marks)

**QUESTION TWO (20 MARKS)**

- a. Distinguish between a single tax system and multiple tax system. (5 Marks)
- b. Why should a country like Kenya prefer a multiple tax system over a single tax system? (3 Marks)
- c. Mrs Rangera works with Kinga Ltd and has provided you with following information for the year ended 31 December 2009.
  - i. Pension from previous employment sh. 20,000 per month.
  - ii. Salary sh.120,000 per month ( PAYE sh. 42,00 per month)
  - iii. Mrs, Rangera and her husband own a company whose taxable income was agreed at sh. 500,000 after charging husbands salary of sh. 250,000 per month (PAYE sh. 60,000 per month)
  - iv. Kinga Ltd provided a company house to Mrs Rangera in south B where rent of similar houses was sh. 20,000 per month.
  - v. Mrs Rangera works overtime and her income averages sh.10, 000 per month.
  - vi. Mrs Rangera enjoyed medical benefit of sh. 160, 00 during the year. She is a senior manager and the company has medical cover for all its employees.

- vii. She obtained free consumables from the company as christmas gift worth sh. 30,000 during the year.
- viii. Mrs Rangera owns rental property at Momarock Estate and receives sh.50, 000 as rental income per month. During the year, she incurred sh. 60,000 in renovations, repairs and painting before letting the property. She had obtained a mortgage loan from housing finance company amounting to sh. 3,000,000. She paid sh. 900,000 during the year of which sh.500, 000 was principle.

Mrs Rangera owns 20% of the shares of Kinga Ltd.

**Required:**

- a. The taxable income for Mr and Mrs Rangera for the year 2009. (8 Marks)
- b. Tax payable on the income computed above. (4 Marks)

**QUESTION THREE (20 MARKS)**

Write short notes on the following:

- a. Personal relief (3 Marks)
- b. Insurance relief (2 Marks)
- c. Withholding tax (4 Marks)
- d. Set-offs (3 Marks)
- e. Installment tax (4 Marks)
- f. Double taxation relief (4 Marks)

**QUESTION FOUR (20 MARKS)**

- a. Define capital allowance and state the main four groups of assets eligible (4 Marks)
- b. The following expenses appeared n the profit and los account of John Mwaniki A sole trader for the year of income 2004.

	<u>sh.</u>
Electricity and Water	12,000
Repairs and replacement	25,300
Bad and doubtful debts	3,800
Salaries and wages	14,000
Depreciation	29,500
Income tax paid	18,000
Legal expenses	9,000
Postage expenses	3,600
General expenses	12,000

Rent and rates 50,000

The following further information was also given.

- i. Bad and doubtful debts included a general provision of sh. 2,000.
- ii. Analysis of repairs and replacement

	<u>Sh.</u>
Repairs of motor vehicles	5,000
Repairs of machines	2,300
Purchase of a new machine	<u>18,000</u>
Total	<u>25,000</u>

- iii. John Mwangi gives a flat above the premises. The rent is apportionable 3/10 flat 7/10 the business premises. Similarly electricity and water expenses is apportionable 2/3 flat and 1/3 business premises.
- iv. Analysis of legal expenses.

	<u>Sh.</u>
Bad debts collection	2,000
Staff contract and work permits	6,000
Parking meter fines	<u>1,000</u>
Total	<u>9,000</u>

	<u>SH.</u>
Donations	2,000
Entertainment	4,000
Audit fee	<u>6,000</u>
Total	<u>12,000</u>

**Required:**

From the above information, classify the expense as under showing clearly respective balances.

- i. Deduction allowed (8 Marks)
- ii. Deductions not allowed (8 Marks)

NB: Show your work notes: