



# **PIONEER INTERNATIONAL UNIVERSITY**

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## **END OF SEMESTER EXAMINATION BACHELOR OF COMMERCE YEAR 2 SEMESTER 2**

**ACADEMIC YEAR: 2021/2022**

**UNIT NAME: INTRO TO TAXATION**

**SEMESTER: JAN-APRIL 2022**

**UNIT CODE: ACCT 2210**

**DATE: APRIL 2022**

**TIME: 2 HOURS**

*Instructions: Answer SECTION A (Compulsory) and Any Other Two Questions*

### **SECTION A (30Marks)**

#### **QUESTION ONE [30Marks]**

- a. Discuss the objectives of taxation and show how they are achieved by the government. [6 Marks]
- b. Discuss the canons of an optimum tax system. [6Marks]
- c. You have been invited by a group of CPA I and CPS I students to discuss the matters listed below:

#### **Required:**

In each of the cases provide explanatory notes and computations for use in your discussions with students.

- i. A manager who is on full-time employment where he draws sh.80,000 per month. He is housed by the employer in a rented house where rent payable to the landlord is Sh.720,000 per annum. [4 Marks]
- ii. The manager makes an annual contribution of Sh.84,000 to a registered pension fund. [3 Marks]
- iii. The manager is provided with a motor car whose purchase cost was Sh.1,200,000. [3 Marks]
- d. A high school boy aged 15 years inherits Sh.300,000 from his grandfather and wins Sh.100,000 in the national lottery. [4 Marks]
- e. A retired civil servant on an annual pension of Sh.180,000 per annum signed a service contract with effect from 1 January 2005. The contract was for three years at an annual salary of Sh.440,000. The contract was terminated by the employer on 31 December 2005. The employee was paid compensation amounting to Sh.560,000. [6 Marks]
- f. Distinguish between Allowable expenses and disallowable expenses as used in business income taxation giving an example in each case. [4 Marks]

### **SECTION B [40MARKS]**

#### **QUESTION TWO (20 MARKS)**

- a. Distinguish between forward and backward shifting of tax giving illustrations in each case [4Marks]
- b. Mr. Mbotela is employed by Jamii Bank Ltd. as an accountant. He has presented the following details to be used in the computation of his taxable income for the year ended 31 December 2005:
  1. He received a basic salary of Sh. 60,000 per month (PAYE Sh. 7,000). He also received an overtime allowance equivalent to 10% of his monthly pay.
  2. His employer paid his hospital bills averaging Sh. 4,000 per month.
  3. His employer provided him with the following
    - A car which was acquired at a cost of Sh. 300,000. This car has an engine capacity of 2000c.c.
    - A house. The employer deducted Sh. 2,500 from Mr. Mbotela's salary every month to cover rent for the house.

- A gardener and a night watchman.
4. He contributes Sh. 8,000 per month to a registered pension scheme while the employer contributes an equal amount.
  5. For the year ended 31 December 2005, the employer provided Mr. Mbotela with tea and snacks valued at Sh. 3,000.
  6. Mr. Mbotela attended a one-day seminar and received Sh. 2,500 from his employer as allowances. He donated 10% of this amount to a local childrens' home.
  7. He was nominated the employee of the year on 31 December 2005. This award carried a cash gift of Sh. 45,000.
  8. Mr. Mbotela operates a savings account with Post Bank Ltd. During the year ended 31 December 2005, the bank credited his account with Sh. 2,000 being interest on the balance in his account.
  9. In the month of November 2005, he received compensation from an insurance company amounting to Sh. 80,000. This was in relation to household furniture destroyed by fire.
  10. On 5 November 2005, he started offering part-time tax consultancy services. He made a profit of Sh. 70,000 from the consultancy before deducting operating expenses of Sh. 18,000 and Sh. 4,000 relating to the acquisition of furniture.
  11. His wife, Mrs. Mbotela, operates a grocery. She made a net-profit of Sh. 50,000 after deducting the following:

	<b>Sh.</b>
Rent of stall	10,000
Hire of van	22,000
School fees for children	108,000
Advertisement expenses	6,000

**Required:**

- (i) Mr. Mbotela's taxable income for the year ended 31 December 2005 (12 marks)
- (ii) Tax payable on the taxable income computed in (i) above. (4 marks)

**(Total: 20 marks)**

**QUESTION THREE (20 MARKS)**

Rotich, Mambo and Nora have been trading in partnership as Romano Enterprises sharing profits and losses in the ratio of 2:2:1 respectively. They have presented the following profit and loss account of the firm for the year ended 31 December 2011:

	<b>Sh.000</b>	<b>Sh.000</b>
Gross profit		24,800
Investment income (gross)		450
Miscellaneous income		<u>315</u>
		25,565

Deduct:

Depreciation	110	
Office expenses	1,568	
Legal fees	360	
Sundry	630	
Trade expenses	380	
Partners' salaries, interest on Capital and drawings	<u>13,350</u>	<u>(16,398)</u>
Net profit		<u>9,167</u>

**Additional information**

1. Investment income comprises:	<b>sh.000</b>	
Interest on bank deposits	210	
Dividend on shares in quoted companies	130	
Interest charged on partners' drawings: Rotich	50	
Mambo	40	
Nora	<u>20</u>	
		<u>450</u>
2. Miscellaneous income comprises:		<b>Sh.000</b>
Gain on sale of furniture and fittings		195
Insurance recoveries for stolen stock		<u>120</u>
		<u>315</u>
3. Office expenses comprise:		<b>Sh.000</b>
Advertisements on billboards		250
Rent		800
General expenses (allowable)		<u>518</u>
		<u>1,568</u>
4. Legal fees include sh.150,000 incurred on a successful defense of a partner in a private legal suit.		
5. Sundry expenses comprise:	<b>Sh.000</b>	
Donations to watoto orphanage	420	
Debt recovery charges	90	
Vehicle maintenance costs	<u>120</u>	
	<u>630</u>	

