

**SCHOOL OF BUSINESS AND ECONOMICS****DEPARTMENT OF COMMERCE****FINAL EXAM: JANUARY SEMESTER 2019****CODE: ACC 315 T****UNIT: TAXATION I****Time: 2.5 Hours, Instructions: Answer Question ONE and any other TWO questions****QUESTION.1**

- a. Explain the concept of specific sources of income and identify at least six sources (8 marks)
- b. Explain three ways by which compensation for termination of employment can be taxed. (6 marks)
- c. Mr. Moa is a retired director of a state corporation in Kenya. Upon his retirement he received a lump sum pension of Kshs 4,000,000 in January 2018 thereafter he is to receive Kshs 20,000 per month for the rest of his life. The pension annuity started in February 2019.

Required: Compute his tax liability for the year ended 2015 (6.5 marks)

- d. Explain the concept of residency with regard to individuals (3 marks)
- e. List five main reason that justify taxation (3 marks)
- f. Mention five nontaxable items for body corporates (2.5 marks)
- g. Discuss six cannons of a good tax system (6 marks)
- h. Explain in brief 5 capital deductions granted by Kenyan Government (5 marks)

QUESTION. 2

X and Y are in Partnership sharing profit and losses in the ratio of their capital. Interest on loan is at 14.5% p.a. and interest on drawing is at 2% per month while interest on capital is at 10% p.a. You are given the following information relating to year 2016.

	X Kshs	Y Kshs	Together Kshs
Profit for the year			1,245,370
Loan from X (September 2015)	1,000,000		
Salaries (per month)	45,000	35,000	
PAYEE on salaries (per month)	8,000	6,000	
Capital	4,500,000	3,500,000	
Depreciation charged			3,425,340
Drawings	95,000	85,000	
Commissions to partners (P.m.)	5,000	3,000	
Farming income (p.m.)	22,540	15,300	
Business Income p.a.	2,340,500	2,530,100	
Capital Deductions			100,500

Required:

- Partnership Income Statement Appropriation Account (5 marks)
- Partnership taxable income according to tax man (10 marks)
- Each Partner's taxable income (10 marks)
- Each Partner's tax liability (5 marks)

QUESTION. 3

- Explain the term residency with regards to individual tax payers. (5 marks)
- Explain housing benefit with regard to directors (5 marks)
- Explain fringe benefits (3 marks)
- You are given the following information relating to Mr. Mwai
 - Salary Kshs 200, 000 per month (PAYE 45,000)
 - Free car cost Kshs 1,400,000, CC ratings 3,000
 - Medical insurance cover Kshs 150,000 paid for his life and kids
 - Contributions to registered pension scheme Kshs 10,000 per month
 - Mortgage interest on his house in Kitengela he pays 25,000 per month started March 2016

- He continued to save to own a house in Karen at the rate of 8,000 per month
- He got meals at work at a value of Kshs 4,500 per month
- He got a monthly per diem for travel that amounted to Ksh 2,500
- He eventually got compensated for a job he left at Kshs 1,500,000. The Job did not specify amount he would get but the contract was for four years and got terminated half way.
- Employer pays his rent at the rate of Kshs 35,000 charges him 15,000
- He makes additional Kshs 22,000 for rental property per month before expenses which average 20% of rent received.

Required:

- a. Income tax computation for the year 2018 (10 marks)
- b. Tax liability for the year 2018 (7 marks)

QUESTION . 4

- a. Explain the tax position of a motor vehicle granted at work for an ordinary employee. (5 marks)
- b. Mention five strategies that KRA can use to meet revenue collection targets (10 marks)
- c. Discuss other sources of Government revenue a part from taxes. (5 marks)
- d. Explain six factors that affect taxable capacity of an individual. (5 marks)
- e. Differentiate between absolute and relative taxable capacity (5 marks)