PAN AFRICA CHRISTIAN UNIVERSITY

BACHELOR OF COMMERCE / BACHELOR OF BUSINESS LEADERSHIP

END TERM EXAMINATION – ONLINE

DEPARTMENT: BUSINESS STUDIES

COURSE CODE: CAC 403

COURSE TITLE: ADVANCED TAXATION

Time: 3 HOURS

Instructions

•Read all questions carefully before attempting.

•Question ONE is COMPULSORY.

•Answer ANY THREE questions out of the remaining FIVE

QUESTION ONE (Compulsory)

a. Outline any TWO canons of taxation **(2 marks)**

b. Highlight any TWO alternative principles that may be applied in the equitable distribution of the tax burden **(2 marks)**

c. State the FOUR deductions made when ascertaining the income of insurance companies. **(2 marks)**

d. Explain any TWO reasons why it is important for Governments to collect taxes **(4 marks)**

QUESTION TWO

a. The table below shows income tax rates used for taxation purposes in a certain year

Monthly taxable income (KES)	**Rate of tax in % per month**
1 – 12,298	10 %
12,299 – 23,885	15%
23,886 – 35,472	20 %
35,473 – 47,059	25%
Over 47,059	30%

In that year, Boke earned a basic salary of KES 28,900 per month. In addition, he was given a house allowance of KES 8,000, KES 630 and KES 2,400 for medical and commuter allowances respectively. He claimed a personal relief of KES 1,408 per month.

Required

i. His taxable income **(2 marks)**

ii. His tax per month (PAYE) **(5 marks)**

iii. He also gave KES 2,800 and KES 1,200 towards NHIF and co-operative shares respectively. Find his net pay. **(3 marks)**

QUESTION THREE

a. A, B and C are in partnership, trading as X enterprises. They share profits and losses in the ratio of 2:2:1. In the year 2019, 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

Required

Calculate the:

i. Adjusted partnership profit/(loss) **(7 marks)**

ii. It's distribution among the partners **(3 marks)**

QUESTION FOUR

a. Define the term Capital gains **(2 marks)**

b. With reference to the Income Tax Act (Cap 470), explain the tax treatment of the following incomes received by a company:

i. Interest **(2 marks)**

ii. Rent **(2 marks)**

iii. Dividend **(4 marks)**

QUESTION FIVE

a. Distinguish between capital expenditure and revenue expenditure **(2 marks)**

b. Outline the THREE main purposes that the scheme of capital allowances serves **(3 marks)**

c. Highlight the FIVE capital allowances available in Kenya **(5 marks)**

QUESTION SIX

a. The following Income statement relates to Kiwanda Union Co-op Society Ltd.

Kiwanda Union Co-op Society Ltd

Year 2020 Income Statement

		SH'000'	SH'000'
Gross profit			**32,000**
Less expenses			
	Salaries and wages	4,400	
	Director's fees	1,000	
	Rent and rates	1,200	
	Travel and entertainment	400	
	Donations	1000	
	Legal fees-bank overdraft	1,600	
	Income tax paid	2,400	
	Bad debts reserve	800	
	Provision for leave passages	500	
	Loss on sale of investment	300	
	Furniture and fittings	1,000	
	General expenses	2,200	
	Tax Consultation fees	140	
	Depreciation	2,000	**(18,940)**
Surplus income			**13,060**

Note: The company has declared 90% or adjusted surplus as dividends and bonus

Required

Compute the:

i. Adjusted surplus **(8 marks)**

ii. Tax payable by the cooperative **(2 marks)**