



Riara School of Business
Nurturing business innovators

JANUARY-APRIL 2023 TRIMESTER
EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION

DAY PROGRAMME

RAC 201: INTRODUCTION TO TAXATION

DATE: APRIL 2023

TIME: 2 HOURS

INSTRUCTIONS

- i) **Answer question one and any other two**
 - ii) **Marks allocated to each question are shown at the end of the question**
 - iii) **Arrange your work neatly and indicate the questions answered in the Examination booklet**
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QUESTION ONE: COMPULSORY

- a) Discuss administration of tax in Kenya in view of Kenya Revenue Authority (KRA) **(6 marks)**
- b) Differentiate between canon of equity and canon of simplicity in taxation **(6 marks)**
- c) Explain the difference between impact and incidence of a tax **(6 marks)**
- d) Describe THREE sources of revenue for the national government of Kenya **(6 marks)**
- e) Discuss the administration of Value-Added Tax (VAT) in Kenya **(6 marks)**

(Total= 30 MARKS)

QUESTION TWO

- a) Differentiate between tax evasion and tax avoidance by citing TWO examples **(6 marks)**
- b) Mr. J. Banson is employed as a sales manager in Mint Holdings Ltd. the following details relate to his employment for the year ended 31 December 2022.

1. Basic salary of Sh. 60,000 per month (PAYE sh.9,000)
2. He received the following benefits from the employer:
 - A fully furnished house (cost of furniture sh. 3,00,000)
 - Free lunch valued at Sh. 3,600 per month.
 - A company car (1500 cc) whose purchase cost to the employer was sh. 800,000. Twenty five per cent of the car usage was estimated to be private purposes.
 - His tuition fees at a local college amounting to Sh. 65,000 per annum was paid by the employer.
 - A gardener and a watchman who were each paid Sh. 4,000 per month by the employer.
 - A monthly entertainment allowance of Sh. 10,000
 - An annual leave allowance calculated at 5% of his annual basic pay.
3. He contributes Sh. 200,000 per month to a registered provident fund.
4. His wife operates a shop which is registered in their joint names. She reported a profit of Sh. 120,000 for the year ended 31 December 2022 after deducting her annual salary of Sh. 60,000 and rent expense of Sh. 80,000 for the year.

Required: Compute the taxable income of Mr. J Banson for the year ended 31 December 2022

(14 marks)

(Total= 20 marks)

QUESTION THREE

- a) Total Engineering Limited Company employed Ms. Mary King (a Kenyan citizen) on 01/01/2022 as a full time employee before her services were terminated on 13/07/2022. A summary of her employment benefits is presented below.

	<u>Kshs.</u>
Air ticket paid by the company from Nairobi to Kakamega (her home)	8,000
Insurance Premium Paid by the company for her personal life policy	2,500
Payment in lieu of leave	35,000

Commission paid for meeting sales target	10,000
Gratuity in appreciation of her good work	60,000
Pension	145,000
Subsistence & traveling expenses while at home	15,000
Sick pay	40,000
Company payment on behalf of Mary to a registered a Provident fund	8,000
Award by the company for excellent work	30,000
Compensation from the company for loss of employment	140,000
Cost of two formal suites	10,000
Fees paid for a professional course on sales & marketing	50,000
Training cost paid by the company to a Government Training Agency	35,000
Transport expenses from home to place of work	13,000
Use of personal vehicle for official duty	55,000
Payment to employment agency for finding her the job	48,000

Required: Prepare a list of taxable employment benefits for the year 2022 as per the Income Tax Act (Cap 470). **(14 marks)**

- b) Discuss THREE conditions under which a Company qualifies for Residence in Kenya for purposes of taxation **(6 mark)**

(Total= 20 marks)

QUESTION FOUR

- a) The following expenses appeared in the profit & Loss account of a sole proprietor (Margaret) for the year ended 2022.

	<u>Kshs</u>
Salaries and wages	140,000
Electricity and water	12,000
Repairs and replacements	25,300
Bad and doubtful debts	3,800
Depreciation	29,500
Income Tax paid	18,000
Bad debts collection	2,000
Staff contracts and work permits	6,000
Parking fines	1,000
Postage and telephone	3,600
Donations to charity	2,000
Entertainment	4,000
Audit fees	6,000
Rent and rates	50,000

Additional information:

- i) The figure for bad debts includes a general provision of Kshs. 2,000

ii) Analysis of Repairs and replacements:-

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

iii) The proprietor lives in a flat above the business premises. The rent is apportioned 3/10 flat and 7/10 for the business. Similarly, electricity and water is apportioned 2/3 flat and 1/3 for the business premises.

Required: From the above information, prepare a summary of deductions allowed to be considered in determination of tax payable **(12 marks)**

b) Highlight any TWO offences under the Income Tax (Cap 470) **(4 marks)**

c) Describe input tax and output tax in the context of Value-Added-Tax (VAT) in Kenya **(4 marks)**

(Total= 20 marks)