



**Riara School of Business**  
*Nurturing business innovators*

**SEPTEMBER -DECEMBER 2023 TRIMESTER EXAMINATIONS  
DAY PROGRAMME  
EXAMINATION FOR BACHELOR OF BUSINESS ADMINISTRATION  
DAY PROGRAMME**

**RAC 201: PRINCIPLES OF TAXATION**

**DATE: 30<sup>TH</sup> DECEMBER 2023**  
**HOURS**

**TIME: 2**

**GENERAL INSTRUCTIONS:**

- i. Students are **NOT** permitted to write on the examination paper during reading time.
- ii. This is a closed book examination. Text book/Reference books/notes are not permitted.

**SPECIAL INSTRUCTIONS**

1. Write your REGISTRATION NO. Clearly on the answer booklet(s).
2. Answer Question One and ANY other TWO questions.
3. Questions in all sections should be answered in answer booklet(s)
4. PLEASE start the answer to EACH question on a NEW PAGE.
5. For the questions, write the number of the question on the answer booklet(s) in the order you answered.
6. Write on both sides of each leaf and indicate number of each question at the top of each page.
7. Write the answers in a paragraph form unless stated otherwise.
8. Marks allocated to each question are shown at the end of the question.
9. All rough work must be done on the answer booklet and crossed through!
10. Use supplementary pages only when you have exhausted those in this book.

11. Fasten the supplementary pages to the inside back cover of this booklet.

### QUESTION ONE: COMPULSORY (30 MARKS)

- a) Evaluate **FOUR** roles that taxation policies of a country play in achieving budgetary objectives. **(8 marks)**
- b) Jane Mamboleo who holds a dual citizenship, had been living in the USA since September 2010. She returned to the country on 17 December 2020 and opened a hardware shop on 2 January 2021. On 1 July 2021, she secured a formal employment with ABC Inc. a logistic company as a fleet manager.

She provided the following information relating to his income for the year ended 31 December 2021:

1. Basic salary Sh.180,000 per month (PAYE Sh.46,000 per month).
2. She was paid overtime amounting to Sh.30,000 per month and risk allowance of Sh.25,000 per month during the year.
3. The employer provided him with meals worth Sh.5,000 per month.
4. She received house allowance of Sh.60,000 per month.
5. Up to 30 September 2021, she used her personal car for official duties and the employer reimbursed a monthly mileage allowance of Sh.40,000.
6. On 1 October 2021, she was provided with a saloon car of 2400cc purchased by the company in year 2019 at a cost of Sh.2,000,000.
7. She was out of office on official duties for five days and received a per diem of Sh.6,000 from the employer.
8. The company paid school fees of Sh.80,000 for each of her three children during the year. This was included in the employer's books of accounts.
9. The employer bought a Sh.120,000 air ticket to facilitate Jane Mamboleo to visit the rest of his family in the USA during her annual leave.
10. With effect from 1 July 2021, she contributed Sh.15,000 (monthly) as pension contribution and Sh.92,000 for life insurance annual premium respectively.
11. She bought a residential house on 1 September 2021 through mortgage of Sh.6,000,000 provided by XM Bank Ltd. at an interest rate of 16% per annum. She moved into the house on 2 October 2021.
12. The net loss from the hardware shop during the year amounted to Sh.370,000.

This was after deducting the following:

Sh.

Salary (sales person)	1,050,000
VAT paid	180,000
Rent	680,000
Electricity	30,000
Furniture and fittings	250,000
Computers	300,000

Required:

- i. Determine total taxable income for Jane Mamboleo for the year ended 31 December 2021. **(10 marks)**
- ii. Compute tax payable (if any) from the income computed in (c) (i) above. **(2 marks)**
  - a) Explain **FOUR** advantages of direct taxes as opposed to indirect taxes **(10 marks)**

## QUESTION TWO

- a) Propose **TWO** measures that could be applied to curb tax evasion. **(4 marks)**
- b) Using examples explain **TWO** distinguishing features between tax evasion and tax avoidance **(6 marks)**
- c) Explain **FOUR** determinants of taxable capacity in your country **(10 marks)**

## QUESTION THREE

- a) Describe input tax and output tax in the context of Value-Added-Tax (VAT) in Kenya **(4 marks)**
- b) Evaluate the following principles of an optimal tax system **(10 marks)**
  - (i) Neutrality
  - (ii) Productivity
  - (iii) Elasticity or Buoyancy
  - (iv) Equity
  - (v) Flexibility
- c) The Revenue Authority is empowered to undertake different types of tax audit to ascertain the actual tax liability of the tax payers involved. The tax audit may be

triggered by general or specific details that come to the attention of the Commissioner. With reference to the above statement, suggest **FOUR** triggers of PAYE audit.

(6 marks)

#### QUESTION FOUR

- a) A, B and C are in partnership, trading as XM enterprises. They share profits and losses in the ratio 2:2:1. In the year 2022, 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

A, B and C are in partnership, trading as X enterprises. They share profits and losses in the ratio

2:2:1. In the year 2007, 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 adjusted partnership profit (loss) and its distribution among the partners

**(10 marks)**

X enterprises adjusted Business Income

	Sh	Sh	
Loss as per account			(200,000)
Add back: 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	1,400,000
		1,200,000	

b) Describe how the government can use fiscal policy to stimulate the economy and increase the level of activity within the economy during

(i) Economic depression

**(4 marks)**

(ii) High inflation.

**(4 marks)**

c) Explain the term taxation

**(2 marks)**