



(The University of Choice)

**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

KISUMU CAMPUS

EXAMINATIONS

2015/2016 ACADEMIC YEAR

FIRST YEAR SECOND SEMESTER EXAMINATIONS

**FOR DIPLOMA
IN
BUSINESS MANAGEMENT**

COURSE CODE: DAB 102

COURSE TITLE: TAXATION

DATE: SEPTEMBER 2016 TIME: 2 HOURS

INSTRUCTIONS TO CANDIDATES

Answer question One and any other Two questions

Section A

Question One

Mr Otieno has been employed Zidco Limited for the whole of the year 2015. His income for the year ended 31st December 2015 is as follows:

- (i) Monthly salary of sh 80,000 from Zidco Limited. The company also remitted PAY withheld of sh 20,000 per month to the Kenya Revenue Authority (KRA)
- (ii) Mr Otieno earned a total gross income of sh 120,000 from MMUST as a part-time lecturer. MMUST withheld sh 36,000 as PAYE and remitted to KRA during the year.
- (iii) He received a dividend from his investment in BAT Ltd of shs 19,000 (net). A withholding tax of sh 1,000 remitted to KRA as final tax.
- (iv) He received interest from his fixed deposit at Barclays Bank of sh 9,000 (net). A withholding tax of sh 1,000 remitted to KRA as final tax.
- (v) Mr Otieno also runs a small shop which earned him a net income of sh 250,000 for the year.
- (vi) Tax rates applied to taxable income for 2016 tax (calendar) year are as follows:

Annual taxable income(Kes)	Tax rate (%)
On the first 121,968	10
On the next 114,912	15
On the next 114,912	20
On the next 114,912	25
On all income over 466,704	30

- (vii) Tax relief was sh 1,162 per month for an individual tax payer.

Required: Compute for Mr Otieno for the year ended 31st December 2016:

- (a) Taxable income (5 marks)
- (b) Tax Charge for the year (10 marks)
- (c) Tax paid for the year (3 marks)
- (d) Tax due as at 31st December 2015 (2 marks)

Question Two

Meru Forest and Furniture Limited provided the following profit and loss account for the year of income 2015:

	Shs	Shs
Gross Profit		2,004,000
Repairs of building and machinery	120,000	
Legal expenses	30,000	

Audit fees	45,000	
Directors fees	90,000	
Salaries	690,000	
Welfare expenses	60,000	
Postage and stationery	36,000	
Expenditure on scientific research	120,000	
Insurance	24,000	
General provision for bad debts	50,000	
Depreciation	70,000	
Donations to political parties	80,000	
Total Expenses		(1,415,000)
Net Profit		589,000

Additional information:

- (i) The assessor of income tax has agreed wear and tear deductions to be sh.120,000
- (ii) Repairs to buildings and machinery include sh 30,000 spent on additions to business premises
- (iii) Legal expenses includes sh10,000 paid for one of the managers of the company in relation to her personal business
- (iv) The scientific research was incurred for better quality of trees. The company plants its own trees to supply the timber for use in the furniture business
- (v) The company paid instalment tax of sh 40,000 in April, sh 50,000 in July and Sh 60,000 in October.

Required: Compute for Meru Forest Timber and Furniture Limited for the year 2015:

- (a) Income chargeable to tax for the year 2015 (10 marks)
- (b) Tax charge for the year 2015 (5 marks)
- (c) Tax due as at 31st December 2015 (5 marks)

Section B

Question Three

- (a) "A worthwhile tax system in a modern economy should be multiple tax system" Explain the need for a multiple tax system (10 marks)
- (b) Briefly explain the main sources of revenue to the government (10 marks)

Question Four

Write short notes on the following:

- (a) Direct and indirect taxes (5 marks)
- (b) Tax incidence and tax impact (5 marks)
- (c) Progressive and proportionate tax (5 marks)
- (d) Tax avoidance and tax evasion (5 marks)

Question Five

(a) Why does the Kenyan Government impose taxes on individuals and business organizations? (10 marks)

(b) List and briefly explain characteristics of a good tax system (10 marks)