



# MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY  
EXAMINATIONS 2018/2019  
ACADEMIC YEAR  
SUPPLEMENTARY/SPECIAL  
EXAMINATIONS**

**SCHOOL OF BUSINESS AND  
ECONOMICS  
BACHELOR OF BUSINESS  
MANAGEMENT**

**COURSE CODE: BBM 303  
COURSE TITLE: TAXATION I**

**DATE: APRIL 2019**

**TIME**

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## **INSTRUCTIONS TO CANDIDATES**

Question **ONE** is compulsory  
Answer any other **THREE** questions

*This paper consists of 5 printed pages. Please  
turn over.*

The following information is available for tax application:-

<u>Graduated rates;</u>	<u>Rates;</u>
Upto 121,968	10%
121,969 - 236,880	15%
236,881 - 351,792	20%
351,793 - 466,704	25%
466,705 and above	30%

### Motor vehicles prescribed rates:

#### Saloons:

Upto 1200cc	2,160£
1201 - 1500cc	2,520£
1501 - 1750cc	3,480£
1751 - 2000cc	4,320£
2001 - 3000cc	8,640£

#### Pick ups:

Upto 1750cc	2,160£
Over 1750cc	2,520£

Land rovers/ cruisers: 4,320£

## **ANSWER QUESTION ONE AND THREE OTHER QUESTIONS**

### QUESTION ONE

- a) Mr. David is a tax manager with Otieno and Kalu associates, a firm of certified public accountants (CPAs). During the year of income ended 31<sup>st</sup> December 2010 he reported the following:

1. Basic salary per month sh 75,000/- (PAYE sh14, 000 per month).
2. He is provided with a motor vehicle of 2500cc by the employer. The motor vehicle was leased from Magari leasing co ltd. For sh 22,500 per month. As at 1<sup>st</sup> January 2010, the vehicle was valued at sh 400,000 after deducting depreciation of sh.150, 000.
3. He was housed by the employer in a fully furnished house (cost of furniture sh 180,000) until 30<sup>th</sup> September 2010. During this period he contributed 10% of his basic pay as rent.
4. On 30<sup>th</sup> September 2010, he obtained a mortgage from nyumba building society ltd. For sh 3,000,000 at an interest rate of 20% p.a.
5. The employer paid his life assurance premium amounting to sh 100,000 during the year.
6. He is a member of a registered retirement benefit scheme to which he contributed sh 15,000 per month while the employer contributes the same amount.
7. His wife owns residential property. During the year they reported the following:
  - a) Rental income, sh 400,000 per annum.
  - b) Municipal rates, sh 8,000
  - c) Property insurance, sh 12,000
  - d) Repairs and renovation before letting sh. 80,000
  - e) Construction of fire exit as per municipal regulations sh. 30,000

Required:

- a) Mr. David's taxable income for the year end 31<sup>st</sup> December 2010  
**(10mks)**
- b) Mr. David's Tax liability for year end 31<sup>st</sup> December 2010  
**(10mks)**
- c) Identify and comment on any information not used in calculation  
**(5mks)**

## QUESTION TWO.

- a)** Name and discuss five benefits of a value added tax (VAT) in the context of the principles of good tax system. **(10mks)**
- b)** The following purchases and sales were made by BIDCO Ltd. (VAT No. DX 7800) during the first two weeks of June 2005. Prices shown are inclusive of VAT at the standard rate of 20%.

### Purchases;

-June 1<sup>st</sup>- 100 units at 1,400/- each  
each  
-June 2<sup>nd</sup> - Nil  
1,800/- each  
-June 5<sup>th</sup> - Nil  
1,800/- each  
-June 7<sup>th</sup> - 75 units at 1,600/- each.  
-June 10<sup>th</sup> - Nil  
1,800/- each  
-June 12<sup>th</sup>- Nil  
2,000/- each

### Sales;

10 units at 1,800/-  
20 units at  
50 units at  
Nil  
20 units at  
50 units at

There were no opening stocks at the beginning of the month. The physical inventory confirmed that there were 25 units in stock as at 13<sup>th</sup> June 2005.

### Required:-

Compute the amount of VAT payable by BIDCO Ltd.  
**(5mks)**

## QUESTION THREE

Explain the distinguishing factors for the following;

- a)** Resident company and resident person  
**(5mks)**

- b) Tax evasion and tax avoidance  
(5mks)**
- c) Regressive tax and digressive tax  
(5mks)**

#### QUESTION FOUR

Mr. Shah provided the following information for the year ended 31<sup>st</sup> December 2000:

- He was employed as a full time director of Latex Ltd. At a salary of sh 80,000 per month (PAYE sh 31,200 per month was deducted)
- Free goods worth sh 30,000 were received in the company for personal use
- He enjoyed free medical treatment under the medical scheme operated by the company which was assessed at sh 50,000 in the year
- Mr. shah and his wife operates a company fully owned by them whose taxable income has been agreed at sh 200,000 after charging wife's salary of sh 120,000 (PAYE sh 22,000)
- Latex Ltd provided him with free housing from 1<sup>st</sup> August 2000 prior to which he lived in his own house
- His wife also works as a nurse in a private hospital where she earns sh 20,000 per month (PAYE sh 4,000). Rent from property owned was sh 30,000 per month from August 2000. Repairs and painting costs were sh 11,500 before letting. The house had a mortgage of sh 2,000,000 and sh 600,000 was paid on it of which sh 330,000 was capital

Required:

- a) Total taxable income of Mr. shah  
(10mks)**
- b) Tax payable by Mr. shah  
(5mks)**

## QUESTION FIVE

**a)** Explain farm deductions. What constitutes farm deductions?

**(5mks)**

**b)** Mr. Mona, a farmer constructed a farmhouse in January 2004 for sh. 6,000,000 and incurred the following additional expenditure: -

2 <sup>nd</sup> January 2004	Cattle dip-----
1,000,000	
30 <sup>th</sup> June 2004	Irrigation system-----
1,500,000	
30 <sup>th</sup> September 2004	Labour quarters-----
2,400,000	
30 <sup>th</sup> October 2004	Milking machinery-----
1,120,000	

Mona sold the farm on 2<sup>nd</sup> January 2005 to his brother Mr. Pole also a farmer and sale agreement contained the following particulars: -

Farmhouse-----	6,700,000
Cattle dip-----	1,200,000
Labour quarters-----	2,800,000
Irrigation systems-----	1,200,000
Milking machinery-----	980,000

Required; -

Show Farmworks deduction due to Mr. Mona and Mr. Pole for the year 2004, 2005 and 2006.

**(10mks)**