



MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

P.O. Box 972-60200 – Meru-Kenya.

Tel: +254(0) 799 529 958, +254(0) 799 529 959, +254 (0)712 524 293

Website: www.must.ac.ke Email: info@mucst.ac.ke

UNIVERSITY EXAMINATIONS 2024/2025

SECOND YEAR SECOND SEMESTER EXAMINATION FOR DEGREE OF BACHELOR
OF BUSINESS ADMINISTRATION AND THIRD YEAR FIRST SEMESTER
BACHELOR OF PURCHASING SUPPLIES MANAGEMENT

BFC 3276: INTRODUCTION TO TAXATION

DATE: DECEMBER 2024

TIME: 2 HOURS

INSTRUCTIONS: Answer Question ONE and any other TWO questions.

QUESTION ONE (30 MARKS)

- a) Describe any five canons of taxation (5marks)
- b) Differentiate between:
 - i. Sales tax and VAT (2 Marks)
 - ii. Import duty and Excise duty (2 Marks)
 - iii. Progressive tax and regressive tax (2 Marks)
- c) Tax can be shifted forwards, backward and both of the either sides. Discuss using an illustration. (5Marks)
- d) The raising of revenue is not the only purpose for which taxes are levied. Discuss other purposes for levying taxes (4 Marks)
- e) Mr. Mwiti an employee of Mascan Company Ltd received income in year 2023 as follows:
 - Basic salary of Sh. 100,000 p.m.
 - He was provided with a company house to which he contributed 6% of his basic pay as rent. The market rental value of the house was Sh.20,000 per month.
 - A company car of 2000 cc was provided or his personal use whose initial cost was sh.1,500,000



- A house servant whose salary of Sh. 6,000 per month was paid by the company.
- Furniture was also provided at cost of Sh.300,000
- The company paid his telephone bills averaging Sh.5,000 p.m.
- He was granted free company products valued at Sh.3,300 p.m.
- He paid life premium amounting to Sh. 60,000 during the year for policies on self and family
- His wife is employed by Kianjai Co Ltd as a financial analyst at a basic salary Sh. 60,000 per month. Mr. Mwititi owns 25% of the ordinary share capital of Kianjai Co. Ltd.
- The following additional income accrued to his wife during year:
 - i. She earned a profit of Sh. 400,000 from a supermarket business registered by her name but managed by her daughter. This profit was after deducting Sh. 120,000 paid as salary to the daughter during the year. The daughter was below eighteen years of age as at 31st December 2023.
 - ii. She owns residential houses inherited from her father. The rental income received for the year amounted to Sh. 480,000

Required:

Calculate Mr and Mrs Mwititi's taxable income for year 2023

(10 marks)

QUESTION TWO (20 MARKS)

Watu, Wote and Wema are former school mates who were doing business together. The business is not registered but they registered themselves as equals in it. They keep proper books of account and have been able to provide the following profit and loss account for the year ended 31 December 2022

Profit and Loss Account

	Sh		Sh
Establishment expenses	800,000	Gross profit	1,908,00
Rent of business premises owned by all of them jointly	180,000	Sundry receipts	80,000
Interest expense	80,000	Interest income	72,000
Stationery and printing	120,000	Profit on sale of shares	200,000
Light and heating	40,000	Gross income from	340,000
General farm expenses	294,000		800,000

Repair of premises	40,000	farming	120,000
Depreciation	300,000	Lottery winnings	
Interest on partner's capital : Watu	80,000	Dividend (gross)	
Wema	120,000		
Salary to Wote	160,000		
Commission to partners: Watu	96,000		
Wote	96,000		
Wema	96,000		
Bad debts	240,000		
Gifts, present and charity	40,000		
Donation to child welfare	200,000		
Interest on loan taken to pay	20,000		
Income tax	120,000		
Legal charges	<u>398 000</u>		
Net profit	<u>3 520 000</u>		<u>3 520 000</u>

Additional information:

- Capital allowances have been agreed as follows: Wear and Tear allowances sh.180,000; farm works deductions sh. 120,000
- The partners had borrowed sh.400,000 with a hope of investing it on fixed securities to earn more income interest rates nevertheless declined. Interest of sh.80,000 and interest income of sh.72,000 relate to the loan
- Legal charges. include sh.40,000 paid to finish a case in the customs department
- In 2022 the partners brought forward losses amounting to sh.800,000 from this business

Required:

- Compute taxable income derived from the partnership. (14 marks)
- Show allocation among partners (3 marks)
- Calculate the tax liability for each partner (3 marks)

QUESTION THREE (20 MARKS)

- What are capital allowances and why are they important? (4 Marks)
- Mr. J K purchased industrial buildings from Mr. J.P in August 2022 at a cost of sh. 10 million. The buildings were constructed by Mr. J.P at a total cost of sh. 8 million which comprised of;

	Sh.
	000
Factory building	4,000
Administration offices	800
Show room	400
Canteen	1,200
Store	<u>1 600</u>
Total Cost	<u>8 000</u>

The buildings were put into use by Mr. J.P in April 2023.

Required:

Calculate the capital allowances claimable by Mr. J.K indicating clearly the residual amount
(10 marks)

c) Define the following terms:

- i. Impact of a tax (2 Marks)
- ii. Incidence of a tax (2 Marks)
- iii. Tax point for VAT purposes (2Marks)

QUESTION FOUR (20MARKS)

a) Explain the terms tax burden and its effects. (5Marks)

b) Calculate the tax payable by each of the following Companies

- i. Bidii company Ltd, reported a profit of Sh. 22,000,000 in 2022
- ii. Swift Kenya Ltd is a branch of Swift International Co. of USA. Swift Kenya Ltd reported a profit of Sh. 18, 000,000 in 2023.
- iii. Jaza company Ltd reported income in 2022 was follows:
 - Business income Sh. 13, 000,000
 - Rental income Sh. 18, 000,000
 - Farming loss sh. 3,800,000

(5 marks)

c) Write short notes on the following terms:

- (i) Personal relief
- (ii) Insurance relief
- (iii) Double taxation relief
- (iv) Set offs

QUESTION FIVE (20MARKS)

- a) Discuss the establishment of V.A.T and why it replaced sales tax. (5Marks)
- b) Distinguish between exempt and zero-rated supply for VAT purposes. (5Marks)
- c) What are the benefits of V.A.T on the context of a good tax system? (10Marks)

TAX BANDS

Monthly Gross Pay (KSH)	Annual Taxable Income (KSH)	Tax Rate
Up to 24,000	Up to 288,000	10%
24,001 - 32,333	288,001 - 388,000	25%
32,334 - 500,000	388,001 - 6,000,000	30%
500,001 - 800,000	6,000,001 - 9,600,000	32.5%
Above 800,000	Above 9,600,000	35%
Personal Relief is 2,400	Personal Relief is 28,800	

PRESCRIBED BENEFIT RATES OF MOTOR VEHICLES PROVIDED BY EMPLOYER

(i) Saloon, Hatch Backs and Estate

	Monthly Rates	Annual Rates
	Sh.	Sh
Up to - 1200cc	3,600	43,200
1201 - 1500cc	4,200	50,400
1501 - 1700cc	5,800	69,600
1751 -2000cc	7,200	86,400
2001 -3000cc	8,600	103,200
Over — 3000cc	14,400	172,800

(ii) Pick-ups, Panel Van (Unconverted)

Upto - 1750cc	3,600	43,200
Over— 1750cc	4,200	50,400

(iii) Land Rovers/Cruisers: 7,200 86,400

OR 2% of the initial capital cost of the vehicles each month, whichever is higher.

Investment allowance:	Rate of investment allowance	Residual value (per year on reducing balance)
Capital expenditure incurred on:		
(a) Buildings: <ul style="list-style-type: none"> • Hotel building • Building used for manufacture • Hospital building • Petroleum or gas storage facilities • Educational/hostels building • Commercial building 	50% in the first year of use 50% in the first year of use 50% in the first year of use 50% in the first year of use 10% per year on reducing balance 10% per year on reducing balance	25% 25% 25% 25%
(b) Machinery: <ul style="list-style-type: none"> • Machinery used for manufacture • Hospital equipment • Ships or aircraft • Motor vehicles and heavy earth moving equipment • Computer software, calculators, copiers and duplicating machines • Furniture and fittings • Telecommunication equipment • Film equipment by a local producer <ul style="list-style-type: none"> • Machinery used to undertake operations under prospecting rights and exploration under mining rights • Other machinery 	50% in the first year of use 50% in the first year of use 50% in the first year of use 25% per year on reducing balance 25% per year on reducing balance 10% per year on reducing balance 10% per year on reducing balance 25% per year on reducing balance 50% in the first year of use 10% per year on reducing balance	25% 25% 25% 25% 25%
(c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation	10% per year on reducing balance	
(d) Farm works	50% in the first year of use	25%