



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

AUGUST - DECEMBER 2018 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CAC 313: PRINCIPLES OF TAXATION

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Date: DECEMBER 2018

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) Highlight four sources of revenue for a country **(4 marks)**
- b) Explain four principles of an optimal tax system **(8 marks)**
- c) State four advantages of indirect tax system **(4 marks)**
- d) Mrs Jane works with Unga Ltd. and has provided you with the following information for the year ended 31 December 2017,;
- i) Pension from previous employment Sh.60, 000 per month.
 - ii) Salary Sh.360, 000 per month (PAYE Shs.84, 000 per month)
 - iii) Mrs Jane and her husband own a company whose taxable income was agreed at Sh.1,500,000 after charging husband's salary of Sh.500,000 per month (PAYE Sh.120,000 per month).
 - iv) Unga Ltd. Provided a company house to Mrs Jane in Rongai, where rent of similar houses was Sh.60,000 per month.
 - v) Mrs Jane works over time and her overtime income averages Sh.30,000 per month.

- vi) Mrs Jane enjoyed medical benefit of Sh.320,000 during the year. She is a senior manager and the company has medical cover for all its employees.
- vii) She obtained free consumables from the company as a Christmas gift worth Sh.90,000 during the year
- viii) Mrs Jane owns rental property at Karen Estate and receives Sh.150,000 as rental income per month. During the year, she incurred Sh.180,000 in renovations, repairs and painting before letting the property. She had obtained a mortgage loan from Housing Finance Company amounting to Sh.3,000,000. She paid Sh.900,000 during the year of which Sh.500,000 was principal.
- ix) Mrs Jane owns 20% of the shares of Unga Ltd.

Required

- a) The taxable income for Mr and Mrs for year of income 2017 **(10 marks)**
- b) Tax payable on the income computed above. **(4 marks)**
- Q2. a) i) Define the term 'capital allowances'. **(2 marks)**
- ii) State four alternative purposes for which a building may be in use in order to qualify for capital deductions as an industrial building. **(4 marks)**
- b) The Apex Food Processing Industries Ltd. commenced business on 1 January 2016 and the following are the fixed assets of the company which it acquired prior to the commencement of the business:

	Sh.
Conveyer and sorter (installed in the building)	4,680,000
Packaging machine	3,487,500
Milling machine	3,870,000
Crashing machine	4,140,000
Fork lifts	1,935,000
Farm tractors	8,775,000
Lorry	2,700,000
Saloon car	877,500
Delivery van	2,025,000
Furniture, fittings and partitions	612,000
Land at cost	22,500,000

The building in use was constructed at a cost of Sh.15,300,000 but its value after construction was estimated at Sh.18,900,000 by a professional valuer. In year 2017, the company bought the following assets:

	Sh.
Tractor	3,982,500
Lorry	5,850,000
Toyota – Land Cruiser	3,037,500
Furniture	315,000
Partitions	612,000
Land	7,020,000
3 computers – year 2017 compliant	Sh 675,000

The following assets were disposed off in Year 2017:

	Sh.
Land	6,435,000
Fork- lifts	540,000
Saloon car	1,035,000

Further enquiry revealed that under repairs and maintenance Sh.414, 000 was paid for office partitions done in year 2017.

Required;

Compute the capital allowances for the company for the years 2016 and 2017
(14 marks)

Q3. a) Explain the economic effect of tax on production and on distribution
(10 marks)

- b) Explain the meaning of the terms as used in taxation;
- i) Year of income **(2 marks)**
 - ii) Resident person **(3 marks)**
 - iii) Whole-time Service Director **(3 marks)**
 - iv) Wife's Income **(2 marks)**

Q4. a) State five circumstances that may trigger PAYE audit **(5 marks)**

b) Mr Koecha farmer incurred the following capital expenditure in his farm for the year ended 31/12/2017;

	Sh
Extension of labour lines	450,000
Electric generator	480,000
Fenced paddocks	225,000
Extension to farm house	4,050,000
Gabion for soil erosion	300,000
Balanced of unclaimed farm work deductions b/d	375,000

Required:

Compute the farm work deductions for 2017 **(7 marks)**

c) Explain the taxation of each of the following income received by a resident person;

- i) Pension income (2 marks)
- ii) Interest on housing developments bonds (2 marks)
- iii) Dividends from co-operative societies (2 marks)
- iv) Royalties (2 marks)

END