



GARISSA UNIVERSITY

**UNIVERSITY EXAMINATION 2017/2018 ACADEMIC YEAR TWO
FIRST SEMESTER EXAMINATION**

SCHOOL OF BUSINESS AND ECONOMICS

FOR THE DEGREE OF BACHELOR OF HUMAN RESOURCE MANAGEMENT

COURSE CODE: BHR 205

COURSE TITLE: TAXATION AND HRM

EXAMINATION DURATION: 3 HOURS

DATE: 04/12/17

TIME: 09.00-12.00 PM

INSTRUCTION TO CANDIDATES

- The examination has SIX (6) questions
- Question ONE (1) is COMPULSORY
- Choose any other THREE (3) questions from the remaining FIVE (5) questions
- Use sketch diagrams to illustrate your answer whenever necessary
- Do not carry mobile phones or any other written materials in examination room
- Do not write on this paper

This paper consists of FIVE (5) printed pages

please turn over



QUESTION ONE (COMPULSORY)

- (a) According to the Adam Smith's words "The Subjects of every state are to contribute towards the support of the government as nearly as possible, in the proportion to their respective ability that is, in the proportion to the revenue which they respectively enjoy under the protection of the state".

Describe the problems associated with this Adam's school of thought

[6 marks]

- (b) The taxable employment income from R.Juma was Ksh 486,000 in the year 2014. Using the following table tax rates, compute his gross tax liability.

[4 marks]

Annual income (Ksh)	Rate
On the first Ksh 121,968	10%
On the next ksh 114,912	15%
On the next ksh 114,912	20%
On the next ksh 114,912	25%
On all income over Ksh 466,704	30%

- (c) Highlight any three acts regarded as tax offences in view of income tax act.

[3 marks]

- (d) The directors of Total Engineering Company Limited presented the following profit and loss account for the year ended 31st December, 2015.

Revenues:

Sales	30,780,000
Interest on Government Securities	<u>50,000</u>
	30,830,000

Expenses:

Purchases	24,000,000
Wages	2,320,000
Carriage inward	370,000
Rent	300,000
Insurance	190,000
Trade expenses	100,000
Repairs: Building	300,000
Machinery	56,000



Advertising	254,000
Legal charges	80,000
Audit fees	70,000
Depreciation	3,017,000
Provision for doubtful debts	104,000
Debenture interest	600,000
Interim dividend	400,000
Proposed dividend	<u>731,300</u>
	<u>32,892,300</u>
Net loss	<u>2,062,300</u>

Additional information

- i. Purchases returns and sales returns were sh 500,000 and sh 700,000 respectively. These were left out while preparing trial balance.
- ii. Wages were sh 25,000 per month paid to a consultant who helps the company whenever there is a problem with the V.A.T department. V.A.T of sh 560,000 remains unpaid and the consultant promises to find a way of getting it written off. Full PAYE is deducted from his salary.
- iii. Trade expenses include an amount of sh 60,000 travel expenses to Korea for the director as part of the National Chamber of Commerce and Industry Promotion Tour.
- iv. Repairs to machinery include small loose tools written off by sh 10,000
- v. Bad debts which are specially bad are sh 74,000
- vi. Capital allowances have been agreed at sh 2,000,000

Required

- i. Taxable profits for the year of income 2015 [7 marks]
- ii. Tax payable for 2015 [5 marks]



QUESTION TWO

- (a) Name and briefly explain the main purposes of taxation to a government. [6 marks]
- (b) Discuss six principles of taxation. [9 marks]

QUESTION THREE

- (a) Describe P.A.Y.E system [3 marks]
- (b) Briefly explain four types 'employers' in view of P.A.Y.E system. [6 marks]
- (c) Mr. M. Odundo works for East African Motors Ltd as an Assistant Sales Manager. In 2014, his monthly salary was 56,500. Advise him on the P.A.Y.E amount payable in that year. [6 marks]

Use the following table:-

Annual Income (Ksh)	Rate
0 – 11,968	10%
121,969 – 236,880	15%
236,881 – 351,792	20%
351,793 – 466,704	25%
Over 466,704	30%

QUESTION FOUR

- (a) Describe three types of capital deductions allowed in view of income tax act. [6 marks]
- (b) Highlight the salient features of income from the use property. [4 marks]
- (c) Mr. Robert Ojara owns three rental houses in Nairobi. All the houses had been let out for the whole of 2013. Total rent of these houses in sh 20,000 per month. The following costs were incurred during the year.

	Ksh.
Rates paid to city commission	35,000
Watchmen's wages per month	3,000
Repairs to houses	12,000
Construction cost of a servant quarter	65,000
Mortgage interest	40,000



Required

- i. Calculate Mr. Robert Ojara's taxable rent income. [5 marks]

QUESTION FIVE

- (a) Enumerate the expenses which are allowed as a deduction in full as relates to dividends [3 marks]
 (b) Name and briefly explain four types of interests in relation income tax act. [6 marks]
 (c) ABC Bank Ltd has the following income from and income expenses

	Ksh.
Dividend	1,000,000
Other income	<u>2,000,000</u>
Total Income	<u>3,000,000</u>
Expenses	
Interest paid on deposits	500,000
Other expenses (allowable)	950,000
Wear and tear deductions	<u>50,000</u>
Total Expenses	<u>1,500,000</u>

Required

- i. Calculate the chargeable income to the Bank. [6 marks]

QUESTION SIX

- (a) Write brief roles on the following:-
 i. Benefit theory. [3 marks]
 ii. Cost of service theory. [3 marks]
 (b) Distinguish between Regressive Tax and Digressive Tax [4 marks]
 (c) Highlight the factors which govern the taxable capacity. [5 marks]

