



# **MURANG'A UNIVERSITY OF TECHNOLOGY**

## **SCHOOL OF BUSINESS AND ECONOMIES**

DEPARTMENT OF COMMERCE

UNIVERSITY ORDINARY EXAMINATION

2021/2022 ACADEMIC YEAR

**THIRD YEAR FIRST SEMESTER EXAMINATION FOR, BACHELOR OF  
COMMERCE**

**BCA 300– PRINCIPLES OF TAXATION**

**DURATION: 2 HOURS**

### **Instructions to candidates:**

1. Answer question One and Any Other Two questions.
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.

**SECTION A: ANSWER ALL QUESTIONS IN THIS SECTION**

**QUESTION ONE (30 MARKS)**

- a) Discuss the purpose of levying taxes (5marks)
- b) Highlight the four main canons of taxation (4marks)
- c) State four disadvantages of direct taxes (4marks)
- d) Explain the conditions for being a resident individual (3marks)
- e) Expound on the three theories of taxation (3marks)
- f) Define tax (3marks)
- g) Mango is employed by an agriculture firm he earns a basic salary of Kshs 152,000 house allowance of Kshs 60000, can allowance of Kshs 25,000 ,HE heads a department and earns responsibility allowance of Kshs 30000 telephone allowance of Kshs 10000 and water and electricity allowance of Kshs 9000 .All the above is per month .He contributes 10% of basic to salary registered pension scheme .He also pays a premium of Kshs 14000 for his sons education policy per month compute this net pay per month (8marks)

**SECTION B – ANSWER ANY TWO QUESTIONS IN THIS SECTION**

**QUESTION TWO (20 MARKS)**

- a) Highlight the functions of Kenya revenue authority (3marks)
- b) XYZ ltd financial performance statement for the year ending 2020 was as follows.

Sales	300,000
Cost of goods	150,000
Gross profit	150,000
Gas on sale of machinery	1100
Interest on investment	600
Operating profit	151,700

Expenses	
Salaries of wages	7800
Rent and rates	1500
Bad and doubtful debts	3520
Repair and maintenance	2400
Sundry expenses	4430
Printing and stationery	2550
Professional expenses	1400
Telephone ,internet	700
Depreciation	500
Water and electricity	1400                      27,700
Profit before tax	124,000

Additional information.

- i. 10% of internet of telephone relates to private use by staff
- ii. Included in motor vehicle expense is 6% of fuel used to transport private goods of a CEO to upcountry.
- iii. The general provision decreases from 500 to 350 during the year

Compute the adjusted profit for tax purpose and tax there on (10marks)

- c) Discuss seven factors that affect tax shifting (7marks)

### QUESTION THREE (20 MARKS)

- a) State five characteristics of VAT (5marks)
- b) Under what circumstances would one be deregistered for VAT (5marks)
- c) Mbingu ltd imported goods for sales from the buyer whose landed value was 2,450,000. Duty was charged at 25% other charges included transport to the company premises Shs 110,000 and a commission of 5% of dutable value paid to the clearing agent.
  - i. Determine the amount of VAT payable (10marks)

### QUESTION FOUR (20 MARKS)

- a) Differentiate between tax avoidance tax avoidance and tax evasion (4marks)
- b) Highlight fix factors that affect taxable capacity (6marks)
- c) Discuss two categories of tax amnesty (4marks)
- d) Explain six mitigation measures to tax evasion ( 6marks)