KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2011/2012

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE (AGRIBUSINESS MANAGEMENT AND TRADE)

KBT 106: AGRIBUSINESS TAXATION

DATE: Friday, 30th March, 2012 TIME: 11.00 a.m. – 1.00 p.m.

INSTRUCTIONS: Answer Question ONE and any other TWO Questions

1. a) Define tax and discuss its main features
   b) Briefly discuss public revenue (4 marks)
   c) Write concise notes on tax powers and rights to revenue in Kenya (6 Marks)
   d) Distinguish between the following; (5 Marks)
      i) Regressive and Digressive taxes
      ii) Impact and Incidence of a tax (2 Marks)
   e) Explain benefit theory in agribusiness taxation (2 Marks)
   f) Define Value added Tax (VAT) and explain its advantages and disadvantages as a tax in agribusiness (5 Marks)
   g) Discuss Custom and Excise duties (9 Marks)
2. a) Examine the essentials of an optimum tax system (7 Marks)
   b) Discuss the effects of taxation on agribusiness development (9 Marks)
3. Mr. Martin Kiprono is employed by Farmpack Ltd. as a salesman. He has provided you with the following information relating to his income for the year ended 31st December 2009; (6 Marks)
   a) His monthly basic salary is Sh. 60,000 (PAYE Sh. 15,000 per month).
   b) He is also entitled to a commission based on 5% of all extra sales he makes above Sh. 200,000 per month. His sales for the months of March, June, August and October 2009 amounted to Sh. 250,000, Sh. 300,000, Sh. 220,000 and Sh. 215,000 respectively.
   c) He lives in a company house and pays a nominal rent of Sh. 8,000 per month. The market rental value of the house is Sh. 45,000 per month.
   d) The company reimburses him for all out-of- pocket expenses incurred on the official use of his car. In the year 2009, the amount reimbursed was Sh. 90,000. He had purchased the car in the year 2006 at cost of Sh. 800,000. The car has an engine capacity of 1600cc.
   e) The education fee for his two children amounting to Sh. 200,000 was paid by the company during the year. This amount was charged to the company's income statement.
   f) He earned a net interest income of Sh. 150,000 during the year from his investments in housing development bonds.

Required:

i) Compute the total taxable income of Martin Kiprono for the year ended 31st December 2009. (10 Marks)

ii) Determine his tax liability from the income computed in (i) above. (5 Marks)

4. Veg. Exporters has provided you an Income Statement for the Year ended 31st December 2009

	Sh.	Sh.
Gross profit:	5,292,000	
Other incomes:		
Dividend from a subsidiary company	200,000	
Interest from foreign bank accounts	4,000	
Discount received	28,000	
Refund of VAT	12,000	
Gain on sale of motor vehicle	14,000	258,000
		5,550,000
Expenditure:		
Salaries and wages	800,000	
NHIF contribution	30,000	
Subscription to a trade association	50,000	
Hire purchase interest	15,000	
Bad debts written off	60,000	
General expenses	80,000	
Depreciation	25,000	
Legal expenses	40,000	
Insurance premiums	124,000	
Rent	66,000	
Electricity	34,000	
Purchase of furniture	26,000	(1,350,000)
		4,200,000

Additional information:

- Capital allowances were agreed with the Revenue Authority at Sh.75,000
- Included in bad debts is a loan of Sh. 15,000 due from a former employee of the company who was dismissed in October 2009.
- Legal expenses include Sh. 20,000 incurred in defending a manager against a traffic offence.
- Insurance premiums include Sh. 24,000 paid to the National Hospital Insurance Fund (NHIF) as a penalty for late submission of contribution.
- The company paid stamp duty of Sh. 6,000 relating to a piece of land purchased in August 2009. This payment is included in the rent expense for the year ended 31st December 2009.

Required:

i) Compute the adjusted taxable profit or loss of Veg. Exporters for the year ended 31st December 2009. (12 Marks)

ii) Calculate the tax liability (if any) of the company for the year ended 31st December 2009. (3 Marks)