

CHUKA



UNIVERSITY

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**EXAMINATION FOR THE AWARD OF
DIPLOMA IN PROCUREMENT AND LOGISTICS MANAGEMENT**

DIAC 0225: TAXATION**STREAMS: DPLM, DIBM, DPLM****TIME: 2 HOURS****DAY/DATE: MONDAY 10/12/2018****2.30 PM – 4.30 PM****INSTRUCTIONS:****Answer Question One and any other Two****QUESTION ONE**

- (a) Explain five purposes of taxation. [10 marks]
- (b) Ushuru Ltd produced the following statement of financial performance for the year ended 2017.

Sales		3 000 000
Cost of sales		<u>1500000</u>
Gross profit		1 500 000
Other income:		
Interest		<u>170 000</u>
Operating profit		1 670 000
Expenses:		
Salaries & wages	780 000	
Rent & rates	150 000	
Bad debts	350 000	
Repair & maintenance	240 000	
Sundry expense	44 300	
Printing & stationery	25 500	
Motor vehicle expense	14 000	
Telephone internet	7 000	
Depreciation	5 000	
Water & electricity	<u>14 000</u>	

(1 629 800)

- (b) The following revenue and expenditure items were extracted from books of Yala swamp ltd.

<u>Revenue items</u>	Kshs
Sale of water	420 000
Sale of commercial building	1 800 000
<u>Expenditure</u>	
Purchase of water treatment chemicals	20 000
Electricity expenses	50 000
Royalties	40 000
Cost of drilling borehole	1 000 000
Cost of imported equipment	100 000
legal fees	20000

Additional information

The cost of imported borehole & equipment includes import duty of 20%. All transactions are quoted VAT inclusive (16%)

Required:

- (a) Show the input and output VAT account [10 marks]
 (b) How much VAT is paid and when [4 marks]

QUESTION FOUR

- (a) Explain three capital allowances granted by the tax Act. [6 marks]
- (b) A firm's list of assets at Net book values is as follows
- (i) lorries over 3 tonnes - ksh 11 000 000
 - (ii) Delivery vans under 3 tonnes – ksh 5000 000
 - (iii) Computers – ksh 500 000
 - (iv) Furniture – ksh 300 000

You are further provided with the following information

- (i) 2 additional delivery vans of ksh 1000 000 were added during the year
- (ii) A Computer that had cost ksh 60000 was disposed. At the time of disposal, it had a net book value of ksh 30 000
- (iii) Additional ksh 40 000 furniture was added
- (iv) A lorry with a net book value of 1 000 000/= was disposed during the year

Required:

Compute the capital allowances due to this firm. [14 marks]