## **CHUKA**



## **UNIVERSITY**

## **UNIVERSITY EXAMINATIONS**

# 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	1500000
Gross profit	1 500 000

Other income:

Interest <u>170 000</u> Operating profit <u>1 670 000</u>

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 14 000

(1 629 800)

Net profit 40 200 ====== Additional information: 1. Repairs include a new chair of ksh. 55,000 and extension of veranda ksh 95000 2. Sundry expense include entertainment of CEO friends at ksh 80000 & subscription of sh.7000 to sports club 3. 10% of internet and telephone relate to private use 4. Motor vehicle expenses include 6% for private use 5. CEO contributes 5% of relevant expenditure of the house he got from employer. General bad debts provision amounted to ksh 10000 6. required: (i) Compute adjusted profit/loss for taxation [14 marks] (ii) Determine the tax liability [2 marks] Differentiate between forward and Backward and shifting of taxes. [4 marks] **QUESTION TWO** Explain three disallowable expenditures under employment income. [6 marks] Mr. Kahame was employed as a court clerk in the judiciary. The offer provided for (i) Basic pay ksh. 24000 per month Commuter allowance ksh 10000 per month (ii) Medical allowance ksh 2800 per month (iii) Fuel allowance of ksh 15000 per month (iv) He contributes ksh 2000 to unregistered pension scheme (v) (vi) He has obtained a life cover of ksh 1500 per month He contributes ksh 1500 to the sacco (vii) He is given meals worth ksh 8000 per month (viii) Required: Determine his monthly taxable income. [8 marks] Determine his net tax liability [6 marks] **QUESTION THREE** 

(c)

(a)

(b)

(a)

(b)

(a)

Explain three cannons of taxation.

[6 marks]

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

Revenue items	Kshs
Sale of water	420 000
Sale of commercial building	1 800 000

Expenditure

Purchase of water treatment chemicals

Electricity expenses

Royalties

Cost of drilling borehole

Cost of imported equipment

legal fees

20 000

40 000

1 000 000

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 firms 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]

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