

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

CHUKA, EMBU, ISEMBE & THARAKA CAMPUSES

SECOND YEAR EXAMINATION FOR THE AWARD OF DIPLOMA IN  
ACCOUNTANCY, DIPLOMA IN BUSINESS MANAGEMENT AND DIPLOMA IN  
PROCUREMENT & LOGISTICS MANAGEMENT

DIAC 0225: TAXATION

STREAMS: DIAC Y2S2

TIME: 2 HOURS

DAY/DATE: THURSDAY 8/08/2019

8.30 A.M - 10.30 A.M.

**INSTRUCTIONS:**

- Answer Question ONE and any other TWO Questions
- Do not write anything on the Question paper

1. (a) Explain the different kinds of taxes imposed in the republic of Kenya. [6 Marks]  
(b) A good tax system in a country should achieve equalization of income distribution, maintain economic growth and stability. Describe the six tax conditions to be fulfilled to achieve these objectives. [12 Marks]  
(c) Distinguish the following terms giving examples in each case.
  - (i) Tax evasion and tax avoidance. [4 Marks]
  - (ii) Income tax and corporate tax. [4 Marks]
  - (iii) Withholding tax and installment tax [4 Marks]
2. Atati is an employee of Makandi manufacturing company where he works as sales manager. The following are detailed information relating to his employment and other necessary data during the year ended 31<sup>st</sup> December 2018.
  - ✓ Basic salary Kshs.119,000 p.m
  - ✓ House allowance Kshs.62,000 p.m
  - ✓ Travelling allowance Kshs.27,000 p.m
  - ✓ Annual leave allowance Ksh.10,000
  - ✓ Medical expenses paid for his wife Kshs.320,000 to Nairobi hospital from medical scheme for managers and Kshs.120,000 from scheme of all employees.
  - ✓ Employer has provided a car to him for use both official and domestic functions 3500 cc

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- ✓ His wife earned Kshs.4,800,000 during the year for goods supplied to Chuka University and tax withheld was Kshs.430,000.
- ✓ He is provided with a house hired by employer which employer pays Kshs.40,000 per month.
- ✓ Water is provided from employers bore hole free of charge.
- ✓ He used Kshs.102,000 for travelling for business activities of the company.
- ✓ He contributes Kshs.9,000 to a registered pension fund recognized by KRA.
- ✓ Retained tax at source Kshs.360,000.

**Required:**

- (a) Taxable income of Atati for the year ended 31<sup>st</sup> December 2018. [12 Marks]  
 (b) Tax liability for same period. [8 Marks]

3. (a) Maguna’s Investment Ltd is a trading company in Chuka. The company has provided the following statement for the year ended 31<sup>st</sup> December 2018.

<b>Particulars</b>	<b>Kshs.</b>	<b>Particulars</b>	<b>Kshs.</b>
Salaries & Wages	350,000	Gross profit	1,200,000
Auditing fees	12,000	Dividends received	40,000
Bank interest	15,000	Discount received	15,000
General repairs	34,000		
General expenses	45,000		
Rent & Rates	240,000		
Bad debts	24,000		
Depreciation	58,000		
Water & Electricity	60,000		
Legal fees	16,000		
Postage & telephone	42,000		
Net Profit	<u>359,000</u>		
	<u>1,255,000</u>		<u>1,255,000</u>

**Additional Information**

**1. General repairs includes: -**

- Major toilets alterations 25,000
- Repairs of motor vehicles 9,000
- 34,000

**2. General expenses includes: -**

- Fines in respect of breach of law 10,000
- Corporate tax period 15,000
- General administration expenses 20,000
- 45,000

**3. Legal fees includes: -**

- Tax appeals & tribunal costs 8,000
- Cost of collecting bad debt 8,000
- 16,000

4. Installment tax paid during the year  
Kshs.272,200

5. Bad debts includes:

• Bad debts incurred	14,000
• Increase provision for bad debts	<u>10,000</u>
	<u>24,000</u>

**Required:**

- (i) Adjusted profits and loss account showing taxable profits for the year ended 31<sup>st</sup> December 2018. [12 Marks]
- (ii) Corporate tax payable. [3 Marks]
- (b) Under income tax act, explain the provisions of treatment of wise income. [5 Marks]
4. (a) Describe the following deductions as specified in the first and second schedule of income tax cap 470.
- (i) Investment allowance. [7 Marks]
- (ii) Wear & tear allowance. [7 Marks]
- (b) Highlight any three demerits and merits of VAT. [6 Marks]
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