

CHUKA



UNIVERSITY

**UNIVERSITY EXAMINATIONS
CHUKA /EMBU/THARAKA**

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

DIAC 0225: TAXATION

STREAMS: Y2S1

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 4/12/2019

11.30 A.M – 1.30 P.M

INSTRUCTIONS

Answer question one and any other two questions

Do not write anything on the question paper

1. (a) It is only the government authorized to tax its people. Discuss. [18 marks]
(b) Explain the different kinds of taxes imposed in the republic of Kenya. [6 marks]
(c) Imposition of tax is not only to raise revenues for the government but also to ensure growth of economy, discourages tax evasion from tax payers and encourages investments. Discuss any six conditions tax systems in a country needs to adopt to fulfil these objectives. [12 marks]
(d) Under the income tax act cap 470 under first and second schedule explain what constitutes wear and tear allowance. [4 marks]
2. Dr Omosakhuru is a medical professional in medicine and surgery, employed at Kasarani hospital . The following are the details relating to his employment P.A.Y.E during the year ended 31st December 2018.
 - Basic salary ksh 127,000 pm
 - travelling allowance ksh 22,000 p.m
 - House allowance ksh 60,000
 - Annual leave allowance ksh 10,000

- Entertainment allowance ksh 12,000 p.m of which ksh 52,000 was used for visitors entertainment in his official duty.
- The hospital paid for his wife medical bills at Nairobi hospital ksh 250,000 from medical scheme for senior doctors only and ksh 65,000 from medical scheme of all employees.
- Provided with a car for official and domestic use of 3500 cc
- His wife did part time contract job at Thika technical where she was paid ksh 6,000,000 after withheld tax of 250,000.
- The employer has hired a house for him in which the hospital pays rent ksh 30,000 pm. The house is provided free borehole water.
- with held tax at source ksh 820,000.
- contribution to registered and unregistered pension funds ksh 10,000 and 8,000 pm respectively.

Required :

- (a) Taxable income for the year ended 31st December 2018. [12 marks]
- (b) Tax liability for the same period. [8 marks]

3. The following are purchases and sales of Gesima investments plc registered VAT no A00288177G. During the half month of November 2019 the following were the transactions.

Date	Purchases		Sales	
	Units	Price/unit	Units	Price/unit
Nov 1 st	200	2800	20	3,600
Nov 3			40	3,00
Nov 6			100	3,600
Nov 8	150	3,200		
Nov 11			40	3,600
Nov 14			100	4,000
	350		300	

Assuming there were no opening stocks. On 15th November 2019 the stocking done confirmed there were 50 units in stock

. The above prices are VAT inclusive at a rate of 18% .

Required :

(a) VAT account of Gesima investments. [12 marks]

(b) What is indirect tax? Highlight the six advantages indirect tax. [8 marks]

4. Mosobeti ltd has provided the following income statement for the year ended 30th September 2019.

Particulars	Ksh	Particulars	Ksh
Opening stock	524,000	Sales	10,584,000
Purchases	4,692,000	Closing stocks	761,000
Manufacturing exp	2,563,000		
Salaries and wages	252,000		
Supplies consumed	466,000		
General expenses	85,000		
Interest on loan	364,000		
Commission & brokerage	90,000		
Directors fees	55,000		
Auditors fees	70,000		
Taxes	43,000		
Bad debts reserve	296,000		
Depreciation	648,000		
Managing director salary	126,000		
Reserves	750,000		
Provisions for individuals	300,000		
Profits	21,000		
	<u>11,345,000</u>		<u>11,345,000</u>
	=====		=====

Additional information are ;

- (i) Salaries and wages include ksh 20,000 contributed as donations to children home.
- (ii) General expenses includes ksh 15,000 for donations to a church building ksh 10,000 to NGO pressure group for human rights.
- (iii) Taxes is for VAT paid.
- (iv) Bad debts reserves includes ksh 180 for actual bad debts.
- (v) Capital allowance allowed by commissioner ksh 5,224,131.

Required:

- (i) Adjusted income statement showing the taxable profits for the year ended 30th June 2019. [12 marks]
 - (ii) Tax liability of the company. [3 marks]
 - (b) Explain the context of the term residence as far as income tax act cap 470 is concerned. [5 marks]
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