

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

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

DIAC 0225: TAXATION

STREAMS: DIAC

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 08/8/2018

8.30 A.M. – 10.30 A.M.

INSTRUCTIONS: Answer question ONE and any other TWO questions

QUESTION ONE

- (a) Discuss any five principles of taxation showing the importance of each principles in taxation system [10 marks]
- (b) Mwaburi is an employee of Zena ltd as a construction site engineer. The following is a summary of his income from employment with Achievers (K) ltd and other income earned in 2012
1. Mwaburi's monthly basic salary is sh 189,000
 2. He is entitled to site visit allowances based on 5% of basic pay per annum which he received on 15th December 2012 in lumpsum
 3. He lives in a company house which he pays nothing
 4. The education fee for his two children amounting to sh. 40,000 was paid by the company during the year
 5. He earned interest income of sh. 212, 000 during the year from her savings in Kenya Women Finance Trust Bank
 6. He drives an 1800cc company car privately & on official duties which was purchased for sh. 2.4 million
 7. The company contributed for him sh. 20,000 p.m. to a registered pension scheme

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- 8. Dividend from achievers workers cooperative society sh. 40,000
- 9. Interest from credit bank, sh 30,000
- 10. Profit from a supermarket business in Kisumu ksh. 600,000
- 11. P.A.Y.E deducted by his employer and forwarded to Kenya Revenue Authority (KRA) in 2012 amounted to sh 495,000

Required:

- (i) Compute the total taxable income of Mwamburi for the year ended 31 December, 2012 [12 marks]
- (ii) Determine tax payable by Mwaburi on his income in 2012 [5 marks]
- (iii) Explain how this tax is paid in Kenya [3 marks]

QUESTION TWO

- (a) Discuss the five most important purposes of taxation in Kenya. Use practical examples of taxes from the Kenyan tax system to illustrate your point [5 marks]
- (b) Redcrosses Traders Limited presents to you the following information for the year 2015, profit and loss account

	Shs	Shs
Gross profit (you have agreed on its computation)		802,000
Profit on sale of fixed assets		30,000
		832,000
Less: Operating expenses:		
Wages and salaries	210,000	
Wife's drawings	50,000	
Audit accounting legal fees	70,000	
Travelling expenses	115,000	
Motor expenses	105,000	
Repairs machinery	70,000	
Depreciation	215,000	
Rates and water	48,000	
Insurance	20,000	
Electricity	70,000	
Telephone	12,000	
Postage and stationary	4,100	
Leaking roof repairs	15,000	
Bank charges and interest	18,000	
Rent	50,000	(1,072,800)
Net loss for the period		<u>(240,800)</u>

Notes:

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- 1) Included in the motor expenses in an amount of shs 36,000 in respect of car used privately by the family. They further estimate that the private mileage is 35% of travelling
- 2) The family lives behind their shop and the estimated private use of the building is shs 20,000
- 3) The family took goods worth shs 15,000 for private use. This was treated as a business expense
- 4) Private use of the telephone is 22% of the total expense
- 5) The agreed wearand tear deduction for the year is shs 107,000

Required:

Compute the adjusted profit or loss for income tax purposes in respect of redcrosses traders ltd [15marks]

QUESTION THREE

- (a) Using illustrations, differentiate backward and forward shifting of taxes [4 marks]
- (b) Distinguish between tax evasion and tax avoidance [4 marks]
- (c) During the four months ended 30 April 2017 a company had the following transactions:

Month	Purchases (ksh)	Sales (ksh)
January	5,570,000	8,840,000
February	6,070,000	9,210,050
March	2,490,000	2,750,000
April	8,193,200	11,280,000

The sales and purchases are inclusive of VAT where applicable

Additional information:

- 20% of monthly sales and purchases relate to exempt goods respectively
- 5% of monthly sales represent goods that were zero rated in December 2016

(The VAT standard rate is 16% where applicable)

Required:

The VAT accounts for the four months period ended 30 April 2017 [12 marks]

QUESTION FOUR

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- (a) Describe five disallowable expenses in business taxation [10 marks]
- (b) XYZ ltd constructed a factory to manufacture shoes in Kisumu at a cost of sh. 12 million. Machinery installed therein cost sh. 10 million. The building and machinery were brought to use on 1st Jan 2014. The investment allowance approved for Kisumu was 60%. The machinery qualified for wear and tear under class I

Required:

Compute capital allowances for the company for theyear 2014 [10 marks]
