**CHUKA UNIVERSITY**

# UNIVERSITY EXAMINATIONS

## RESITS/SPECIAL EXAMINATIONS

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

**DIAC 0225: TAXATION**

**STREAMS:** **TIME: 2 HOURS**

**DAY/DATE: TUESDAY 29/8/2023** **8.30 A.M. – 10.30 A.M.**

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**QUESTION ONE**

(a) It is only the National government that may impose taxes in Kenya. Justify (5 marks)

(b) Discuss five factors that influence the taxable capacity of a country (5 marks)

(c) With the use of relevant examples, differentiate between tax evasion and tax avoidance. (4 marks)

(d) Joseph is an employee of XYZ as a manager. The following details relate to his employment during the year of income ended 31st December, 2021

- Basic salary sh.240000 per month (sh. 36000 PAYE p.m.)
- House allowance sh.60000
- One month salary pay in lieu of leave
- Monthly entertainment allowance of sh.30000 in which he used sh.96000 during the year to entertain visitors in his office and the balance for his family.
- He earned interest income of sh.150000 during the year from his savings in Kenya Post office
- His wife works as a part-timer worker in a nearby hotel and during the year, she earned sh.980000 gross salary and tax at source was sh.90000

- Benefits from a medical scheme of sh.20000 and sh.300000 for all employees and for top managers respectively during the year.
- Provided with a company car of 2500cc whose initial cost was sh.2500000
- He is provided with a cook and a security guard where the company pays monthly salary of sh.15000 and sh.20000 respectively
- During the year, he received a loan of sh.3000000 from the company at an interest rate of 7% p.a when the prevailing market interest rate was 12% p.a.
- He was paid sh.250000 at the end of the year for being voted as the employer of the year.

**Required;**

(i) Compute the total taxable income for Joseph for the year ended 31/12/2021(10mks)

(ii) Compute tax payable by him if any (6 marks)

**QUESTION TWO**

(a) Explain the items which may be included in the qualifying expenditure for purposes of industrial building deductions. (8 marks)

(b) Chuka food Processing Company Ltd. was established in 2021. During the year of income 2021. The following expenditure was incurred on the purchase of assets for use in the processing business.

| | **Ksh.** |
|---|---|
| Land | 5,000,000 |
| Processing plant | 4,000,000 |
| Administrative offices | 750,000 |
| Show room | 400,000 |
| Stores (for finished goods) | 250,000 |
| Labour quarters | 450,000 |

| | |
|---|---|
| Go down | 600,000 |
| Recreation facility for staff | 300,000 |
| Sports pavilion | 200,000 |
| Bridge across a stream | 350,000 |
| Retail shop | 150,000 |
| | |
| Machinery installed in the building included: | |
| Processing machine | 125,000 |
| Installation costs | 100,000 |
| | |
| Other assets: | |
| Fork lift | 2,250,000 |
| Second hand imported lorry (20 tonnes and 10 years old) | 1500,000 |
| Tools and implements for repairing and maintaining company assets | 475,000 |
| 3 saloon cars (Sh. 750,000each) | 2,250,000 |
| Furniture and fittings | 60,000 |
| Computers | 150,000 |
| Scanner | 50,000 |
| Mobile telephones | 65,000 |

**Required**

The capital deductions for the years of income 2021. (12 marks)

**QUESTION THREE**

**(a)** Discuss any five canons of taxation (5 marks)

**(b)** State and explain any five types of taxes (5 marks)

**(c)** The following are summaries of the details of sales, purchases and petty cash books of XYZ limited as at 31st December, 2021

| **Sales Daybook** | **Amount(sh)** | **Purchases Daybook** | **Amount(sh)** | **Petty Cashbook** | **Amount(sh)** |
|---|---|---|---|---|---|
| **INV.1002** | 160,000 | Materials | 170,000 | Stationery | 6,800 |
| **INV.1003** | 24,000 | cleaning expenses | 36000 | Sundries | 5600 |
| **INV.1004** | 216,000 | Advertising | 64,400 | Motor expenses | 3000 |
| **INV.1005** | 56,000 | | | | |
| **TOTAL** | **577000** | | **270,400** | | **15,400** |

The above items are 16% VAT inclusive

**Required:** VAT account and vat payable/refundable if any. (10 marks)

**QUESTION FOUR**

(a) A and B are trading in a small size partnership sharing profits and losses in the ratio of 2:1 respectively. The partners provided the following income statement for the year ended 31st December, 2021.

| **Revenues** | Sh. | Sh. |
|---|---|---|
| Gross profits | | 2,530,000 |
| Discount received | | 124,000 |
| General bad-debts recovered | | 193,200 |
| Interest charged on drawings | | 224,000 |

| | | |
|---|---|---|
| Proceeds from sale of a motor vehicle | | 1,360,000 |
| | | **4,431,200** |
| **Expenses** | | |
| VAT paid | 448,000 | |
| Depreciation | 224,000 | |
| Allowance for general bad-debts | 49,600 | |
| Discount allowed | 48000 | |
| Purchase of a building | 2,400,000 | |
| Salaries and wages | 3,612,000 | |
| Bad-debts | 160,000 | |
| Legal fees | 952,000 | |
| Commission to A | 24,000 | **(7,917,600)** |
| Net Loss | | **(3,486.400)** |

Additional information

Salary and wages include partner's salary of sh.1,020,000 shared by the partners according to the profit-sharing ratio

Bad-debts include sh.16000 that relates to general bad-debts

The interest on drawings is to be apportioned to partners according to the profit and loss sharing ratio

Capital allowance was agreed at sh.400,000 with the commissioner

Legal fee comprises

| | |
|---|---|
| Partner A legal fees | 80,000 |
| Defending the firm's sales manager | 130,000 |

| | |
|---|---|
| Collection of partner's debts | 320,000 |
| Appeal against tax tribunal decision | 250,000 |
| Conveyance of parcel land | 172,000 |
| | **952000** |

Required:

(i) Prepare a statement of adjusted taxable profits or loss for the partnership for the year (8 marks)

(ii) Partner's statement of allocation of profit or loss (5 marks)

(iii) Taxable profit or loss for each of the partner if any (3 marks)

(iv) Tax liability for each of the partners if any (4 marks)

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