

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DIPLOMA IN PROCUREMENT AND LOGISTICS MANAGEMENT

DIAC 0225: TAXATION

STREAMS: DIAC, DPLM, DIBM Y2S2

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 12/04/2023

11.30 A.M – 1.30 P.M

INSTRUCTIONS:

Answer question one and any other two questions

Do not write on the question paper

Use the tax rates provided at the back of the question paper

QUESTION ONE

- (a) Pay as you earn (PAYE) is one of the taxes in Kenya. Explain in detail whether or not PAYE satisfies the canons of taxation. [10 marks]
- (b) A multiple tax system has been advocated for as a solution to the tax crisis in Kenya today. Discuss the benefits that are likely to be derived from a multiple tax system. [10 marks]
- (c) Discuss the factors that determine the taxable capacity in an economy. [10 marks]

QUESTION TWO

Kamlesh Wachira commenced business on 1st January 2020. The profit and loss account for the year ended 31st December 2021 is as follows:

Profit and loss Account for the year ended 31st December 2021

	Ksh		Ksh
Clearing land and planting roses	16,240,000	Sales	24,850,000
Bad debts	200,000	Gain on sale of motor vehicle	90,000
Rent and rates	30,000	Dividends	30,000
Garbage collection fee	1,800	Interest income	20,000
Donations	20,000		
Repairs and renewals	52,000		
Loss on sale of investment	15,000		
Staff salaries and benefits	157,015		
Medical expenses – Mr. Wachira	8,759		
Insurance	27,081		
Legal and professional fees	139,650		
Depreciation	200,000		
Interest on overdraft	67,075		
Stationery and postage	21,670		
Irrigation systems	427,000		
Farm house	274,950		
Net profit	<u>7,108,000</u>		
	<u>24,990,000</u>		<u>24,990,000</u>

Notes:

1. Mr. Wachira is in the business of growing and exporting flowers.
2. The dividend income was received from Nyeri out growers limited, a private company.
3. Staff salaries and benefits include ksh 10,000 pension contributed to NSSF and ksh 5,600 contributed to NHIF.
4. Analysis of repairs and renewals is as follows:

	Ksh
Office partitions	40,000
Repair of copier	8,500
Repair of green house	<u>3,500</u>
	<u>52,000</u>

5. The farm house is occupied by the farm manager.
6. Analysis of legal and professional fees:

Ksh

Renewal of 10 year farm lease	5,000
Research on flower farming	87,500
Recovery of debt	27,150
Audit fees	<u>20,000</u>
	<u>139,650</u>

7. On 1st January 2006, the written down values of assets were as follows: Class 1 ksh 4,000,000, class II KSH 3,000,000, class III ksh 580,000 class IV ksh 1,200,000 nursery sheds ksh 600,000. Additional fixed assets were, tractor ksh 2,500,000, scanner ksh 1,000,000 and a green house ksh 1,500,000
8. Bad debts are made up as follows:

Ksh

Specific provision	75,000
General provision	175,000
Bad debt recoveries	<u>(50,000)</u>
	<u>200,000</u>

Compute the chargeable income for Mr. Kamlesh Wachira for the year of income 2021.

[20marks]

QUESTION THREE

Mr. Muratia is an employee of document limited, a firm dealing with computer repairs and maintenance. During the month of January, he earned the followed emoluments.

1. Basic salary ksh 75,000
2. Company car 2000cc, which was brought in the year 2000 for ksh 800,000
3. Housed in race course estate. The employer paid ksh 30,000 to the landlord.
4. A watchman and a house girl who are paid ksh 5,000 each per month.

5. Reimbursement of medical expenses ksh 10,000. The company has a medical scheme, which covers only the senior employees.
6. Pension contribution to a registered fund. The company contributed 5% of his basic salary and he contributed an equal amount from his salary.

Required:

- (a) The taxable employment income in the month of January 2021. [10 marks]
- (b) The PAYE due on the income computed in (a) above. [10 marks]

QUESTION FOUR

- (a) Explain any other three ways in which the Kenyan government can raise its revenue apart from taxes. [6 marks]
- (b) Mr. Joseph Kangi has been operating a business at Nakuru since the year 2020. Within the month of December 2021, he recorded the following transactions:
 - Sales at the standard rate amounted to ksh 60,000,000
 - Sales at the zero rate amounted to ksh 30,000,000
 - Exempt sales were ksh 36,000,000
 - Sales proceeds of fixed assets amounted to ksh 16,000,000
 - Purchases at the standard rate were ksh 40,000,000
 - Purchases at the zero rate were ksh 32,000,000
 - Paid audit fees ksh 460,000 including VAT
 - Paid ksh 1,150,000 for stationery including VAT.
 - Paid salaries and wages ksh 18,000,000.

Required:

Compute the VAT payable. Use the VAT rate of 16%. [14 marks]