DIAC 0225

CHUKA   **UNIVERSITY**

UNIVERSITY EXAMINATIONS

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

DIAC 0225: TAXATION

STREAMS: DPLM, DIBM   **TIME: 2 HOURS**

DAY/DATE: TUESDAY05/12/2017   **8.30 A.M. – 10.30 A.M.**

INSTRUCTIONS:

QUESTION ONE

(i)   Give your understanding of the term taxes. Why do governments levy taxes on its

       citizen?   [10 marks]

(ii)   Highlight any five principles of an optimal tax system.   [5 marks]

(iii) Explain the advantages of indirect taxes over direct taxes.   [5 marks]

(iv)   Differentiate between the following terminologies as used in taxation;

       (a)   Tax avoidance and tax evasion   [2 marks]

       (b)   Tax impact and tax incidence   [2 marks]

       (c)   Progressive tax and regressive tax   [2 marks]

(v)   Explain your understanding of the term payment in lieu of leave.   [2 marks]

(vi)   The second schedule of the income tax Act grants allowances with respect to capital

       expenditure. State any two examples of such allowances.   [2 marks]

QUESTION TWO

Engineer Kamau is the manager of Sasini ltd. during the year ended 31st December 2016, the
following details were provided in relation to his employment and personal incomes:

    (1)   Basic salary ksh. 102, 000 per month

    (2)   House allowance ksh. 60,000 per month

    (3)   One month salary in lieu of leave

(4)   Travelling allowances of sh. 28000 per month in which he used ksh. 206,000 during the year for official duties and the rest for personal tour to coast.

(5)   Contribution to retirement fund are paid by the employer and himself at kshs. 10,000 and kshs 5000 per month respectively. The fund is registered with the commissioner of KRA.

(6)   His wife was sick and admitted to Nairobi hospital where the employer paid the cost of ksh. 1, 300,000 from the medical schemes. The first ksh. 300,000 was paid from the managers medical scheme and the balance from all employees medical scheme.

(7)   He is provided with a house which the employer hired him. He pays a house rent of sh. 5000

(8)   He received a loan from the company of sh. 250,000 at 12% interest rate per annum. The current market rate is 16%

(9)   He is provided with a company car Toyota prado of 2500 cc

(10)   His wife does part time teaching and during the year, she received sh. 600,000 after taxes being deducted at source of ksh. 120,000

(11)   He went to South Africa for a tour and purchased a suit for wearing in the office of sh. 12000 &engineer'slabcoat for sh. 8000.

(12)   The employer paid telephone bills of sh. 100,000 during the year on his behalf.

Required:

(i)   Calculate the taxable income of engineer Kamau for the year ended 31 Dec 2016.

[15 marks]

(ii)   Compute his tax liability if any.   [5 marks]

QUESTION THREE

I and S are in a partnership trade. They share profits in the ratio of 3:2 respectively. They have presented the income statement of 31st Dec 2016.

Income	Sh.	Sh.
Sales revenue	6,882,000	
Proceed on sale of asset	190,000	

Refund by VAT	41,250	
Interest on post office savings account	8750	
Dividends (net)	<u>42,800</u>	<u>7,164,800</u>

Expenses		
Cost of sales	1,591,500	
NHIF	108,750	
NSSF	170,000	
Motor vehicle maintenance expenses	1,005,750	
Salaries to partners	800,000	
Household expenses (J)	96,500	
Repair and maintenance for building	75,000	
Advertising	156,750	
Insurance premiums	125,000	
Interest on loans	200,000	
Subscriptions to trade association	40,000	
Donations	20,000	
Legal expenses	98,000	
Income tax	240,000	
General expenses	86,650	
Bad debts	61,750	
Water and electricity	81,000	
Depreciation	<u>19,500</u>	<u>4,975,900</u>
		<u>2,188,900</u>

Additional information:

(1)   Included in the sales revenue were goods valued at kshs. 150,000 consumed by partners. The goods had a cost of ksh. 80,000 which was included in the cost of sales.

(2)   Insurance premiums include kshs. 70,000 incurred on life insurance policy of S.

(3)   Bad debts comprise increase in general provisions kshs 20,000 and increase in specific provisions of kshs. 41,750.

(4)   Interest on loans and general expenses relate to mortgage acquired by partner J for purchase of residential house.

(5)   Salaries to the partners; J kshs. 500,000 and S kshs. 300,000

(6)   National security saving fund and national hospital insurance fund relate to the employees of the firm.

Required:

(i)   Adjusted partnership profit or loss for the year ended 31stDecember 2016.

[15 marks]

(ii)   The allocation of the profit or loss between the partners and the tax payable by each partner.   [5 marks]

QUESTION FOUR

(i)   Explain other ways in which a government can raise its revenue apart from taxes.

[5marks]

(ii)   ABC ltd started operations in 2015. The written down values as at 1/1/2015 are;

Class I; kshs 1,600,000

Class II; kshs 1,200,000

Class III; kshs 2,000,000

Class IV; kshs 1,000,000

During the year, the company acquired the following:

(1)   Jan 2015, lorry of 2.9 tones for ksh. 800,000 a tractor for kshs. 500,000 and a lorry 3.8 tones second hand for kshs 900,000

(2)   In March 2015, the proprietor converted own vehicle into company use a Toyota NZE valued at khs. 840,000 (The vehicle was entirely used by the general manager)

(3)   In April 2015, a computer which was purchased in 2011 at kshs 180,000 was traded in with a modern type of computer valued at kshs. 270,000. The traded in value of the old computer was kshs. 100,000

(4) In July 2015, the company purchased a Toyota Prado for kshs 1.2 million which was used for tax purpose during the year.

(5) October 2015, the proprietor purchased a bicycle for business use by the wife at kshs 8000 and a Toyota vitz for kshs 480,000 which was used by the secretary.

(6) In Nov. 2015, a lorry which was purchased in 2014 was stolen. The insurance compensated the company kshs. 600,000. A Subaru impreza purchased in 2010 for kshs. 3 million was disposed off during the year for kshs. 1.2 million.

Required:

Compute the actual allowance for the year 2015. [15 marks]