



**MACHAKOS UNIVERSITY COLLEGE**  
**SCHOOL OF BUSINESS**  
**DIPLOMA IN ACCOUNTANCY**  
**May –August Semester 2014 Examinations**  
**TAXATION EXAM PAPER**

**DATE: 17<sup>TH</sup> JULY, 2014**

**TIME: TWO HOURS**

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**INSTRUCTIONS:**

**SECTION A: Question ONE –COMPULSORY**

**SECTION B: Answer any TWO questions**

1. All questions carry equal marks
2. Write your registration number on all sheets of the answer book used.
3. Use a new page for every question attempted and indicate the question number on the space provided on each page of the answer sheet

**SECTION A: QUESTION ONE –COMPULSORY**

**QUESTION ONE**

i) Define each of the following taxes and state its purpose

(a) Cess (b) Property rates (c) Stamp duty (d) Roads and maintenance levy.

(6 Marks)

ii) Explain the following canons of a good tax system;

(a) Equality (b) Economy (c) Productivity (d) Flexibility

(6Marks)

iii) Molo Co. Ltd., a company dealing in hardware, prepares its accounts to 30 June each year. The following information relates to the year ended 30 June 2011.

i) Written down value of assets brought forward for Income Tax purpose:

Class I	Class III	Class IV
37½%	25%	12½%

	<i>Shs</i>	<i>Shs</i>	<i>Shs</i>
Written Down Value 30.6.2011	175,000	180,000	87,000
ii) Disposals during the year:			
	Cost	Net Book Value	Sales proceeds
	Shs	Shs	Shs
Isuzu Lorry	280,000	175,000	260,000
Motor car (purchased in 1.3.2011)	1,160,000	1,015,000	800,000
iii) Additions during the year			
			Shs
Mercedes Benz sports car for director			4,000,000
Second-hand Tractor			80,000
Trailer occasionally used by tractor			80,000
Shop fittings			60,000
Computer bought 1.3.2011			250,000
Telephone system bought 1.9.2011			72,000
iv) The office safe which cost Shs 30,000, in 2002 was traded-in for a more modern safe costing Shs 40,000. The old safe was valued at Shs 20,000 and the company paid the balance of Shs,20,000 to acquire the new safe. The net book value of the old safe was Shs 22,968 at 30.6.2011.			

Required

Calculate the wear and tear deductions due to the company for the year 2011.

**Total: 18 marks)**

## **SECTION B: ANSWER ANY TWO QUESTIONS**

### **QUESTION TWO**

Jitegemee had the following purchases and sales for the month of March 2006 for a commodity taxable at the standard rate. The prices shown are inclusive VAT.

March

- 1 Purchased 200 units at Sh.2,800 per unit
- 2 Sold 20 units at Sh.3,600 per unit.
- 6 Purchased 150 units at Sh.3,200 per unit
- 10 Sold 40 units at Sh.3,600 per unit
- 15 Sold 100 units at Sh.3,600 per unit.
- 18 Sold 40 units at Sh.3,600 per unit.
- 23 Sold 100 units at Sh.4,000 per unit.

Opening stock at the beginning of the month was 15 units valued at Sh.2,600 per unit.

Required:

- (i) Units in stock on 24 march 2006 assuming the last transaction occurred on 23 March 2006.
- (ii) Purchases account
- (iii) Sales account
- (iv) Bank account
- (v) VAT account

(20 marks)

### QUESTION THREE

Mr. Hesabu has recently opened an Income Tax Consultancy office in Nairobi. He has been approached by his clients on the following matters.

M/S Watu; Wote; Wao; are three partners operating WWW Enterprise. In 2005, they made profits of Sh. 1,800,000. They share profits in terms of 3:3:4. Wao had overdrawn on his account and was charged Sh. 300,000 interest. Watu and Wote received interest of Sh. 250,000 each from the partnership. The interest is included in the above profits. Mr. Wote wishes to know how much tax he would pay. He has no other source of income.

**REQUIRED:**

- a) Compute taxable income derived from the partnership. (16 marks)
- b) Show allocation among partners. (4 marks)

### QUESTION FOUR

Mr Rutoh Kaburukuru an employee of Sina Makosa Co.Ltd received the following income in 2011;

Salary £28,000 p.a. Was also provided with a free house at Mlango Kubwa leased by the company at Kshs 15000 p.m. He contributed 3% of his basic pay towards the house.

A company car of 2500cc was also provided, the company paid for his electricity, water, telephone valued at £1200; £800 and £710 respectively.

He also contributed from his salary: Kshs 7000 towards the company's registered retirement fund.

**Required:** Compute the taxable income for the year. (20 marks)

## QUESTION FIVE

S. Barasa is a sales manager with Timau Millers Ltd. The following information to his income for the year ended 31<sup>st</sup> December 2011:

1. Basic pay Sh. 960,000 per annum (PAYE Sh. 120,000 per annum)
2. He provided with house leased by the employer at Sh. 50,000 per month. He contributes 3% of his basic pay towards the house rent.
3. On 1 July 2011, he was provided with a loan by the employer amounting to Sh. 4,200,000 at an interest rate of 4% per annum to enable him to purchase a residential house. He moved to the new house 1 August 2011.
4. He is a member of a registered pension scheme. During the year, he contributed Sh. 180,000 to the scheme while the employer contributed an equal amount.
5. He operates a canteen which is located within the employer's premises. The employer deducts Sh. 2500 per month as rent for the canteen, although the market rental value is Sh. 8,000 per month. The canteen reported a taxable profit of Sh. 120,000 for the year ended 31 December 2011.
6. He is provided with a motor vehicle (2000cc) for both official and private use. On average, three quarters of the motor vehicle usage is for official purposes. The motor vehicle cost Sh. 1,600,000 in year 2008 but was valued at 1,000,000 as at 31 December 2011.
7. During the year the employer paid the following bills for him (from the company's books)
  - School fees (expensed) -80,000
  - Telephone Bills -30,000
  - Grocery Bills -12,000
  - Watchman Wages-36,000
8. During the year, the employer contributed Sh. 20,000 for him to Mali Golf Club.
9. He is married with three children. The life insurance premium for himself and family amounting to Sh.22, 000 per annum were paid by the employer during the year.
10. He also owns a farm which reported a loss of Sh. 80,000 for the year ended 31 December 2011. He estimates that five per cent of the farm output is consumed by his family.

### Required:

- (i) The taxable income of S. Barasa for the year ended 31 December 2011 (15 Marks)
- (ii) Tax payable (if any) from the income computed in c (i) above (5 Marks)