



MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT
SCIENCES

SECOND YEAR FIRST SEMESTER EXAMINATION FOR DIPLOMA IN
ACCOUNTANCY

DACC 204 INTRODUCTION TO TAXATION

DATE: 6/12/2016

TIME: 2:00 – 4:00 PM

INSTRUCTIONS.

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Outline five sources of public revenue in your country. (5 marks)
- b) State four functions of the state. (4 marks)
- c) Explain three bases of classifying taxes. (4 marks)
- d) Explain the term employment as used in taxation. (5 marks)
- e) Mr. James Kol is a sales manager of Athi Ltd. The following information is Kol's employment income for the year 2015
 - i) He draws a basic salary of sh. 220,000 per month (PAYE sh. 75,000 p.m).
 - ii) He is housed in an apartment which the company pays rent of sh. 50,000 per month
 - iii) He is provided with a car of 2400cc. The initial cost of the car was sh. 1500,000.
 - iv) The company has also provided a cook and watchman. The company incurs expenditure of Ksh. 17,500 per month on each of them.
 - v) He contributes 20% of his basic salary per month towards registered pension scheme. The employer contributes a similar amount.
 - vi) Life insurance premium of 100,000 p.a paid by the employer.

Required

- a) Taxable income of James Kol for the year 2015
b) Tax payable (12 marks)

QUESTION TWO

- a) Explain five factors that may influence tax shifting. (10 marks)
b) Mawe and Kiwi have been trading as partners sharing profits and losses in the ratio 3:2 Respectively. The following is their income statement for the year ended 31 December 2015.

	Sh	Sh
Income		
Gross profit from trading		386,600
Development Net		24,000
Sub-letting rental income		<u>29,400</u>
		440,000
Less expenses		
Interest on capital-Mowe	22,000	
- Kiwi	12,000	
Goodwill written off	5,000	
Bad debts	26,000	
Audit insurance and legal expenses	39,000	
Depreciation	60,000	
General expenses	9,000	
Motor vehicle running expenses	36,000	
Partnership salaries - Kiwi	56,000	
Lose on sale of investment	12,7000	
Repairs and maintenance	7,200	
Salaries and wages	96,400	
Rent, water and electricity	28,300	
		<u>38,600</u>

Additional information

i)	Audit , insurance and legal includes:-	Sh
	-Audit fees	12,000
	-Partner's insurance	4,000
	- Legal fees- debt collection	2,500
	-Legal –partnership deed drafting	<u>11,500</u>
		<u>39,000</u>
ii)	General expenses include:-	
	- Penalty for breach of tax laws	4,000
	- Terminal benefits for an employee	3,000
	- Christmas gifts to partners' wives	<u>2,000</u>
		<u>9,000</u>
iii)	Repairs and renewals include:-	
	- Office partitions	2,400
	- office carpet	1,600
	- Replacement of computer	1,700
	- General repairs	<u>1,500</u>
		<u>7,200</u>
iv)	Bad debt includes:-	
	- General bad debts	-16,000
	- Specific bad debts	<u>-10,000</u>
		<u>26,000</u>

Required

- a) Calculate the adjusted partnership profit. (8 marks)
- b) Show the distribution of the taxable income amongst the partners. (2 marks)

QUESTION THREE

- a) Explain three reasons why government imposes taxes. (8 marks)
- b) Chimex Limited presented the following income statement for the year ended 31 December 2015.

		Shs.
Gross profit		2,000,000
Gain on sale of vehicle		200,000
Tax refund		<u>100,000</u>
		2,300,000
Less expenses		
General expenses	400,000	
Repairs and renewals	120,000	
Depreciation	100,000	
Donation	20,000	
Bad debts	80,000	
Director's fees	50,000	
Patents written off	25,000	
Rent, rates and insurance	300,000	
Legal and accountancy	415,000	
Interest on overdue tax	<u>25,000</u>	<u>1,900,000</u>
		<u>400,000</u>

Additional information

i) Repair and renewals		Sh.
Redecoration of an existing business		30,000
Renovation of new building		50,000
Partition and carpeting offices		<u>40,000</u>
		<u>120,000</u>
ii) Bad debts		
Specific bad debts		60,000
General bad debts		<u>20,000</u>
		<u>80,000</u>

iii) Legal and accountancy	
Staff service agreement	20,000
Audit fees	300,000
Legal fee – lease 100Years	40,000
Legal fee – plot acquisition	<u>55,000</u>
	<u>415,000</u>
iv) Capital allowances for 2015 have been agreed at sh. 300,000	

Required

- a) Adjusted taxable profit or loss for Chumox Limited for the year ended 31 December 2015.
- b) The tax thereon (if any) (12 marks)

QUESTION FOUR

- a) State five functions of Kenya Revenue Authority. (5 marks)
- b) Outline four types of dividends exempted from taxation. (8 marks)
- c) Explain residence in relations to a company. (3 marks)
- d) Explain four ways of determining housing benefits. (4 marks)

QUESITON FIVE

- a) Outline four characteristics of a good tax system. (8 marks)
- b) Explain three conditions to be met for passage to be non-taxable income (6 marks)
- c) Explain three advantages of direct taxes. (6 marks)