

# MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)  
University Examinations for 2015/2016 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

SECOND SEMESTER EXAMINATION FOR DIPLOMA IN SECRETARIAL STUDIES

TAXATION

Date: 4/8/2016

Time: 8.30-10.30AM

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## INSTRUCTIONS

*Answer any four questions*

*Show your workings*

1. a) Highlight eight contents of a return of income of an individual taxpayer. (8 marks)
- b) The following details relate to the transactions of Kibao Traders for the month of June to November 2015.

	Sales (Kshs.)	Purchases (Kshs.)
June	7,920	2,700
July	6,480	4,320
August	7,200	4,080
September	2,160	3,600
October	720	1,840
November	6,240	4,800

The amounts above are stated inclusive of VAT at a rate of 16%.

### Additional information

- i) All sales were made on credit basis with the cash due to received in the month following the month of sale while on all purchases were on cash basis.

- ii) 15% of the purchases made in the month of September were returned to the supplier in the same month.
- iii) Included in the sales of October was Kshs 480,000 for which the debtor was declared bankrupt in November 2015.

Prepare a VAT account for the six months of 2015. (12 marks)

- 2. a) Outline four duties of a VAT registered person. (8 marks)
- b) Faika Ltd provided the following details for the month of December 2015

	Kshs.
Sales	1,800,000
Purchases	725,000
Issued debit notes	250,000
Electricity bills	62,500
Received credit notes	24,200
Fuel and oil for motor car	58,200
Audit services	32,480
Stationery	45,000

Prepare a VAT account for the month of December 2015. (12 marks)

- 3. a) Explain two circumstances that would lead to each of the following situation:
  - i) A notice of assessment
  - ii) An objection to an assessment. (8 marks)
- b) On 31<sup>st</sup> December 2014, Kaku Ltd had the following assets.

	Kshs.
Staff quarters brought to use on 1 <sup>st</sup> January 2014	520,000
Class II	100,000

During the year 2015, the following transactions took place.

- i) Constructed an extension at a cost of Kshs. 1,400,000
- ii) Installed a second hand machinery that cost Kshs. 620,000 into the extension building.
- iii) Constructed
  - A go down Kshs. 950,000
  - Administration block Kshs 750,000
- iv) Acquired the following assets
  - a saloon car Kshs. 1,300,000
  - Printers Kshs. 30,000
  - Trailers Kshs. 750,000
  - Conveyor belts Kshs. 2,500,000
  - Caterpillar Kshs. 4,000,000
  - Office carpets Kshs. 30,000
- v) Disposal of assets
  - Computers Kshs. 75,000
  - Delivery van Kshs. 760,000

**Required**

- i) Capital allowances due to the company for the year of income 2015
  - ii) State the effect of capital allowances on the taxable profit for the year. (12 marks)
4. a) Explain three benefits of granting capital allowances to businesses. (6 marks)
- b) Kitasi mining Ltd has been prospecting for copper in Migori since 2011. On 1<sup>st</sup> September 2014, mining commenced with the following expenditures being incurred.

	Kshs.
Payment for mining rights to the government	9,250,000
Purchase of specialized drilling equipment	1,800,000
Transportation of specialized drilling equipment to site	120,000
Tools and implement for mining	170,000
Construction of labour quarters at the site	2,520,000
Purchase of a 5 tonne lorry	2,600,000
Purchase of computers	130,000

Purchase of a pick-up	2,600,000
Purchase of saloon car for the manager	1,200,000
Purchase of furniture and fittings	715,000
Construction of go down	4,125,000
Construction of administration block on site	980,000

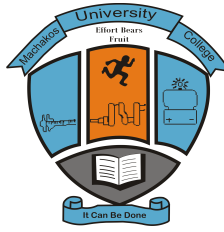
**Additional information**

- i) The company had incurred exploration expenses of Kshs. 1,450,000 and administration expenses of Kshs. 395,000 before 1<sup>st</sup> September 2014.
- ii) In 2015, computers worth Kshs. 140,000 were sold.

**Required**

Calculate capital allowances for the company for the years of income ended 31<sup>st</sup> December, 2014 and 2015

- 5. a) Outline five rights of a registered VAT person. (10 marks)
- b) Distinguish between “trading receipt” and “balancing charge” as applied in taxation. (4 marks)
- c) Explain the treatment of Valued Added Tax (VAT) in relation to the following:
  - i) Security on property for unpaid tax. (4 marks)
  - ii) Relief due to difficulties or doubt in recovery of VAT. (2 marks)



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SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES  
FIRST SEMESTER EXAMINATION FOR DIPLOMA IN DIPLOMA IN ACCOUNTANCY

DACC 204: FINANCIAL MANAGEMENT

Date: 2/8/2016

Time: 8.30-10.30 AM

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## INSTRUCTIONS

*Answer Question One and Any Other Two Questions*

1.
  - a) Explain four limitations of ratio analysis. (4 marks)
  - b) Outline four objectives of an organization. (4 marks)
  - c) State four disadvantages of pay back method of project appraisal (4 marks)
  - d) Outline four importance of time value of money. (4 marks)
  - e) Kaki limited intends to invest in either project A or project B. The initial outlay required is Kshs. 4 million. The expected cash flows from the projects are as follows:-

Year	Project A	Project B
	Kshs.	Kshs.
1	1,800,000	1,100,000
2	1,500,000	1,200,000
3	1,600,000	1,500,000
4	1,000,000	700,000
Scrap value		300,000

The Company's cost of capital is 15%.

**Required**

- i) Calculate the net present value of each project.
- ii) Advise the management on the project to undertake. (14 marks)

2. a) The existing capital structure of Mwaka limited is given as follows:-

	Kshs.
Ordinary share capital sh. 100 per value	40,000
Reserves	15,000
12% debentures sh. 100 per value	25,000
10% preference share capital Shs. 20 per value	<u>20,000</u>
	<u>100,000</u>

**Additional information**

- i) Ordinary shares of Mwaka Limited are currently selling at Shs. 80 each.
- ii) The 12% debentures and 10% preference shares are currently selling at Shs. 90 and Shs. 30 respectively.
- iii) The most recent ordinary dividend paid by the company is Shs. 4. This is expected to grow at the rate of 10% each year in perpetuity.
- iv) The corporate tax rate is 30%.

**Required**

The weighted average cost of capital (WACC)

- b) Explain four advantages of using debentures as a source of finance to a company. (8 marks)
3. a) Explain four factors consider by lender when a company is raising debt finance. (8 marks)
- b) A firm intends to invest Kshs. 10 million in one of the following project whose projected cash inflows are as flows:-

Year	Project X Kshs.	Project Y Kshs.
1	2,000,000	2,500,000
2	3,000,000	1,200,000
3	1,000,000	1,400,000
4	1,800,000	2,400,000

The cost of capital is 14%.

**Required**

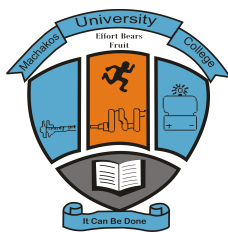
- i) Compute the profitability index for each project.
  - ii) Advise the management the project to invest in. Give reason for your answer. (12 marks)
4.
    - a) Explain five factors that influence the capital structure of a company. (10 marks)
    - b) Explain five advantages of ordinary share capital as a source of finance. (10 marks)
  5.
    - a) Explain five functions of a finance manager. (10 marks)
    - b) The following data was extracted from the financial statement of Jabu limited for the year ended 31<sup>st</sup> December, 2014.

	Kshs. 000
Cash and bank	200,000
Fixed assets	567,000
Sales (credit)	2,000,000
Net income	100,000
Current liabilities	211,000
Current ratio	3: 1
Debtors collection period	45 days.
Return on equity	12%
Notes payable to bank	40
The year is 365 days.	

**Required**

- i) Accounts receivable (2 marks)
- ii) Current assets (2 marks)
- iii) Return on total assets (2 marks)
- iv) Equity (2 marks)
- v) Quick ratio (2 marks)





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## SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

SECOND SEMESTER EXAMINATION FOR DIPLOMA IN ACCOUNTANCY

DACC 207: TAXATION II

Date: 5/8/2016

Time: 2.00-4.00 PM

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### INSTRUCTIONS

1. a) Distinguish between trading receipt and balancing charge as applied in taxation. (4 marks)
- b) Outline four obligations of a registered person under VAT Act (cap 476) Laws of Kenya. (4 marks)
- c) The following are purchases and sales of Timi Ltd made during the month of June 2016. The transactions are exclusive of VAT at the standard rate of 16 per cent.  
June 1 Purchased 460 units at Kshs. 5,200 per unit.  
June 7 Sold 40 units at Kshs. 7,600.  
June 10 Sold 90 units at Kshs. 7,600.  
June 18 Sold 240 units at Kshs. 7,600 per unit.  
June 22 Purchased 450 units at Kshs. 5,400 per unit.  
June 25 Sold 180 units at Kshs. 7,600 per unit  
June 30 Sold 220 units at Kshs. 7,800 per unit.

### Required

- i) The VAT account for the month of June 2016.
  - ii) On what date is vat due payable? (10 marks)
- d) The following are the written down values of assets owned by Mbauti Ltd as at 1 January, 2015.

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*Examination Irregularity is punishable by expulsion*

Assets	Kshs.
Class I	12,000,000
Class II	8,000,000
Class III	7,500,000
Class IV	9,000,000

During the year the following transactions took place:

- i) On 1<sup>st</sup> April, the company constructed another factory at a cost of 4,200,000 and installed processing machinery costing Shs. 2,000,000.
- ii) Constructed a labour quarters at a cost of Kshs. 1,200,000 and brought it into use on 1<sup>st</sup> September 2015.
- iii) A staff canteen was constructed at a cost of Kshs. 800,000 and put into use on 1<sup>st</sup> July 2015
- iv) Acquired the following assets.

	Kshs.
Pick up	2,800,000
Modem	60,000
Office furniture	75,000
Tractor	3,100,000
Lorry (2 tonnes)	1,300,000
Grinder	1,500,000

**Required**

Capital allowances due to the company for the year ended 31<sup>st</sup> December, 2015. (12 marks)

2. a) Explain five measures that a government may put in place to discourage dumping. (10 marks)
- b) The following income and expenditure relate to Kali savings and credit co-operative society (Sacco) for the year ended 31<sup>st</sup> December, 2015.

	Kshs.	Kshs
<b><u>Income</u></b>		
Interest: Members loans		6,000,000
Saving accounts		760,000
Fixed deposit account		400,000
Other investment income		800,000
Rental income		<u>1,500,000</u>
		9,460,000
<b>Expenditure</b>		
Salaries to staff	3,000,000	
Other operating expenses	<u>600,000</u>	<u>(3,600,000)</u>
		<u>5,860,000</u>

The society paid dividends and bonus to members amounting to Shs. 800,000 for the year ended 31<sup>st</sup> December, 2015.

**Required**

- i) Taxable profit or loss of Kali SACCO Ltd for the year ended 31<sup>st</sup> December, 2015.
  - ii) Tax liability (10 marks)
3. a) Explain four types of Tax assessment. (8 marks)
- b) Mr. Mutiso has been in business without keeping complete records of accounts and he has not been paying taxes. The following information relates to his assets and liabilities for the years.

	2010	2011	2012	2013	2014
Assets	Kshs. 000	Kshs. 000	Kshs. 000	Kshs. 000	Kshs. 000
Premises	1,650	1,650	1,650	1,650	1,650
Land	520	520	520	520	520
Furniture	400	450	460	470	480
Motor vehicles	-	-	950	950	400
Inventures	100	180	200	250	270
Accounts receivable	-	-	700	750	700
Bank	120	100	170	180	190
	2,790	2,900	4,650	4,770	4,210
Liabilities					
Account payable	-	60	80	85	90
Loan	<u>100</u>	<u>150</u>	<u>160</u>	<u>150</u>	<u>120</u>
	<u>100</u>	<u>750</u>	<u>240</u>	<u>235</u>	<u>210</u>

#### Additional information

- i) Estimated living expenses were Kshs. 170,000 in 2010 and had been estimated to be increasing by Kshs. 30,000 each year
- ii) A motor vehicle that cost Kshs. 550,000 was sold for Kshs. 600,000 in 2014.

#### Required

Calculate the taxable income in arrears for each of the years of income 2011, 2012, 2013 and 2014.

4.
  - a) Outline five sources of information for back duty case. (10 marks)
  - b) Kako company Ltd started lime manufacturing operation on 1<sup>st</sup> January 2015 after incurring the following capital expenditure.

	Kshs.
Factory building	18,000,000
Drainage system	500,000
Computers	420,000
Processing machine	8,000,000
Tractors	7,100,000
Lorry (2.5 tonnes)	4,000,000
2 saloon cars (shs.2.5m each)	5,000,000
Furnitures and fittings	625,000
Staff clinics	850,000
Motor cycles	155,000

### **Additional information**

- i) A warehouse costing sh. 3,600,000 was constructed and put into on 1<sup>st</sup> July 2015
- ii) A perimeter wall was constructed at a cost of sh. 2,000,000 during the year.
- iii) The staff quarters and staff canteen were constructed at a cost of sh. 1,800,000 and sh. 920,000 respectively and were both put into use form 1<sup>st</sup> November 2015
- iv) During the year, one of the saloon cars was sold for shs. 2,000,000
- v) During the year, the following additional assets were acquired.

	Kshs.
Wheel barrows	40,000
Weighing machine	400,000
Fax machine	115,200
Laptop computers	80,000

### **Required**

Capital allowances due to Kako Company Ltd for the year ended 31<sup>st</sup> December, 2015.

(10 marks)

5.
  - a) Outline five conditions that must be fulfilled in order for a building to qualify for industrial building deductions. (10 marks)
  - b) Highlight five rights of a registered person for value added tax (VAT). (10 marks)