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 ACCOUNTANCY

INTRODUCTION TO TAXATION

Date: 12/8/2016 **Time: 11:00 – 1:00 PM**

INSTRUCTIONS

Answer question **ONE** (*Compulsory*) and any **other two** questions

QUESTION ONE

(a) XYZ Ltd is a manufacturing company dealing with manufacture of a food product. The accountant of the company has provided you with the following profit and loss account for the year of income 2010

	Kshs.		Kshs.
Opening stock	1,048,000	Sales	31,752,000
Purchases	14,076,000	Closing stock	2,283,000
Depreciation	2,052,000	Profit on sale of shares ex-dividend	760,000
Directors remuneration	543,000	Bad debts recovered (specific)	120,000
Salaries and wages	756,000		
General expenses	255,000		
Auditors fees	210,000		
Reserves	2,250,000		
Bad debts reserve	888,000		
Taxes	129,000		
Interest on loan	1,038,000		
Manufacturing expenses	7,689,000		
Supplies used	1,338,000		
Commissions paid	270,000		
Provision for dividends	900,000		
Audit fees – for tax appeal	100,000		
Preliminary expenses	700,000		
Fire insurance	122,000		
Net profit	551,000		
	34,915,000		**34,915,000**

Additional information provided is as follows:

1. Stock of goods both at the beginning and at the end of the year were overstated by 20%.
2. Preliminary expenses relate to company formation.
3. Bad debts (specific) are shs. 540,000.
4. Taxes represent VAT paid.
5. General expenses include shs. 45,000 for donations and shs. 30,000 contributions to a trade union.

Required

a) The adjusted income loss for Uwezo Co. Ltd for the year of income 2010. (12 marks)

b) The tax payable (if any), indicating when it is due. (6 marks)

(b) The following assets were acquired in 2012, by Uwezo limited for its manufacturing business.

	Cost Shs.
Machinery fixed in building	14,400,000
Computers	3,000,000
Furniture and fittings	1,920,000
Heavy Commercial Vehicles	18,000,000
Factory building	12,000,000
Mobile Cranes	6,000,000
Pick up	4,400,000
Tractor	3,700,000

Required

Compute

i) Investment allowances (4 marks)

ii) Wear and Tear Allowances (4 marks)

QUESTION TWO

(a) State and explain **five** principles of Taxation. (10 marks)

(b) Using relevant examples, explain any 3 classification of Taxes. (10 marks)

QUESTION THREE

(a) With reference to taxation, explain the meaning and relevance of **Residence**. (10 marks)

(b) State and explain any **five** incomes which are exempt from taxation as per the income Tax Act Cap 470. (10 marks)

QUESTION FOUR

(a) State and explain **four classes** machinery that qualify for Wear and Tear deduction according to the 2nd schedule of Income Tax Act. (15 marks)

(b) With reference to wife's employment income, explain three incomes which do not qualify separate taxation. (5 marks)

QUESTION FIVE

Write short notes on the following;

(i) Self assessments (4 marks)

(ii) Income Tax installment Taxes (4 marks)

(iii) Year of income (4 marks)

(iv) Resident companies (4 marks)

(v) Investment deduction bonded manufacture (4 marks)