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 212: TAXATION

DATE: 5/6/2017 **TIME: 8:30 -10:30 AM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Outline the conditions that must be fulfilled in order for building to qualify for industrial building dedications. (6 marks)

b) Explain the following terms:

i Balancing charge

ii Trading receipts

iii Balancing deductions. (6 marks)

c) Outline three obligations of a registered person in respect of Value Added Tax. (6 marks)

d) Bidii traders is registered for Value Added Tax. The following information was extracted from the company records for the month of July 2015.

Date	Sales Sh.	Purchases Sh.
July 3	4,200,000	-
10	2,800,000	3,200,000
16	3,150,000	-
22		1,800,000
31	4,200,000	

Additional information:

1) The company issued credit notes of Ksh. 210,000 and received debit notes of Ksh. 270,000.
2) Goods worth Ksh.172,000 were returned by the customers.
3) A debtor was declared bankrupt and he owed the business Sh. 300,000.
4) All transactions were exclusive of VAT at a rate of 16%,

Required

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

QUESTION TWO (20 MAKRS)

a) Explain four reasons why the government grants capital allowance to tax payers. (8 marks)

b) Ndovu Limited started business on 1 January 2015 with the following assets:

	Ksh.
Class I	4,800,000
Class II	1,300,000
Class III	2,500,000
Class IV	870,000

During the year the following transactions took place:

i On 1 April 2015 , the company constructed another factory at a cost of Sh. 6,000,000 and installed a processing machinery costing Sh. 2,500,000 to it.

ii Constructed warehouse at a cost of Ksh.800,000 and brought into use on 1st September,2015.

iii Disposed off a saloon car for Sh. 650,000

i) Acquired the following assets

	Ksh.
Station Wagon	1,800,000
Tractor Engine	2,000,000
Computer	160,000
Office Curtains	120,000
Grinder	1,600,000
Telephone	60,000

Required

Capital allowance due to Ndovu Limited for the year ended 31 December 2015.(12 marks)

QUESTION THREE (20 MARKS)

a) Write short notes on shipping investment deduction. (6 marks)

b) Kiki Enterprises provided the following details for the month of April 2015

	Ksh.
Sales	4,500,000
Purchases	1,800,000
Issued debit notes	300,000
Received debit notes	180,000
Issued credit notes	210,000
Electricity bills	24,000
Audit Services	30,000
Stationery	18,000
Returns inward	270,000
Returns outward	180,000

Required

Prepare a VAT account for the month of April 21015. (12 marks)

QUESTION FOUR (20 MARKS)

a) Outline five rights of a registered VAT person. (10 marks)

b) Explain two issues handled by the Income Tax Tribunal. (4 marks)

c) Outline three conditions for a valid notice of objective. (6 marks)

QUESTION FIVE (20 MARKS)

a) Explain five measures undertaken by the government to prevent dumping of goods into the country. (10 marks)

b) Outline five circumstances that can lead to duty paid on imported goods to be refunded. (10 marks)

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FIRST YEAR SECOND SEMESTER EXAMINATION FOR DIPLOMA IN ACCOUNTANCY

DACC 204: INTRODUCTION TO TAXATION

DATE: 29/5/2017 **TIME: 2:00 – 4:00 PM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE

a) Explain five reasons for the government imposing taxes on individuals and business Organizations (5 marks)

b) Explain five functions of Kenya Revenue Authority. (10 marks)

c) Explain the following terms:

i Proportional tax (2 marks)

ii Regressive tax (2 marks)

d) Chris Mwenda works for Makueni Ltd as a Sales manager. The following information relates to his employment for the year 2016.

i His basic salary is sh. 120,000 per month (PAYE) sh. 30,000).

ii He was reimbursed medical expenses incurred on self and family amounting to Ksh. 150,000. The medical scheme covers Managers only.

iii The Company paid sh. 80,000 as school fees for his daughter. It was allowable expense for the Company.

iv Life Insurance Premium of sh. 90,000 was paid by the employer to cover his life.

v He is provided a Saloon Car for private use. The initial cost of the Car is sh. 1,200,000.

vi The employer contributed 15% of his basic salary per month towards registered pension scheme while he contributed a similar amount

Required

i) Taxable income of Christ Mwenda for the year 2016

ii) Tax payable. (1 mark)

QUESITON TWO (20 MARKS)

a) Explain four non taxable employment benefits.

b) Mr. Mutiso Peter is a sole proprietor in Machakos Town. He has provided the following information in relation to the year ended 31 December 2016:

INCOME STATEMENT

Income	**Sh**	**Sh**
Cross Profit		5,200,000
Interest income form KK bank		120,000
Sale of Equipment		165,000
Sportpesa win		25,000
		5,510,000
Expenses		
Salary to Mutiso Peter	320,000	
Interest Expense	16,000	
Legal fees	510,000	
Income Tax	120,000	
Depreciation	8000,000	
Drawings of goods	165,000	
Purchase of furniture	75,000	
General provision for bad debts	95,000	
Administration expenses	380,000	
Sales and distribution expenses	17,500	2,657,500
Net Profit		**2,852,500**

Additional Information

1. Legal fees include sh. 220,000 incurred on a mortgage contract relating to Mutiso Peter's private residence.
2. Capital allowance is sh. 80,000

Required

Adjusted taxable profit /loss of the business for the year ended 31 December 2016. (12 marks)

QUESTION THREE (20 MARKS)

a) Explain five sources of public revenue in your country. (10 marks)

b) Sisi and Wewe are in partnership operating a wholesale as Siwe Enterprises and sharing profits and losses equally. The following is the income statement for the partnership business for the year ended 31 December 2016.

	Sh.000	Sh.000
Sales		9,700
Profit on sale of property		200
Rental income		120
		10,020
Less expenses		
Cost of goods sold	3,800	
Purchases of computer	160	
Salaries and wages	400	
General expenses	650	
Conveyance fees	93	
Depreciation	72	
Salaries to partners	200	
Repairs and maintenance	25	
Interest on partners capital	480	
Sisi's mortgage interest	66	
Donation to a football club	20	
Commission to Wewe	22	
Legal expenses	820	6,808
Net Profit		**3,212**

Additional information

1. General expense include:

	Shs.
Embezzlement by wewe	25,000
Partition of staff offices	50,000
Staff catering expenses	200,000
Stamp duty in land transfer	64,000
Pension contribution	180,000

2. Interest in capital and salaries to partners is to be shared according to the profit and business sharing ratio.
3. Legal expenses include:

	Shs.
Drafting a partnership deed	45,000
Negotiating a bank loan	27,000
Defending the business against breach of contract	60,000

Required

i) Adjusted taxable profit or loss for the partnership for the year ended 31 December 2016.

ii) A schedule showing distribution of partner's taxable income

(10 marks)

QUESITON FOUR (20 MARKS)

a) Explain five advantages of direct taxes.

b) Explain five factors influencing shift of incidence of taxes. (10 marks)

QUESTION FIVE (20 MARKS)

a) Explain three types of tax relief provided to individual tax payers under the income Tax Act (Cap 470). (6 marks)

b) Explain four functions of the state. (8 marks)

c) Explain three principles of a good tax system. (6 marks)

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FIRST YEAR SECOND SEMESTER EXAMINATION FOR DIPLOMA IN ACCOUNTANCY

DACC 205: FINANCIAL MANAGEMENT

DATE: 6/6/2017 **TIME: 8:30 – 10:30 AM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) State four advantages of payback method of capital budgeting. (4 marks)

b) Musa leaves a legacy of Ksh. 1000 000 to his son. He invested the amount for 4 years at the rate of 8% p.a. compound interest

Calculate the value of his investment after four years (4 marks)

c) Explain three advantages of using preference shares as a source of finance. (6 marks)

d) Kiko Limited intends to acquire a plant costing sh. 4,000,000. The expected cash inflows from the plant are as follows:-

	Shs.
1	1,700,000
2	1,450,000
3	800,000
4	840,000
5	410,00

The plant will be sold for Ksh. 200,000 at the end of the 5th year. The company's cost of capital is 10% .

Required

i) Calculate the profitability index for the plant.

ii) Advice the management on whether to acquire the plant or not

QUESTION TWO (20 MARKS)

a) Explain five characteristics of ordinary share capital (10 marks)

b) Wote Limited intends to invest in either project A or project B. The initial cash outlay for each project is Ksh. 16Million. The following are the expected cash in flow from the projects.

Year	**Project A Ksh.**	**Project B Ksh.**
1	4,000,000	6,000,000
2	5,200,000	6,000,000
3	6,000,000	1,000,000
4	5,000,000	4,000,000
5	4,000,000	4,000,000

Required

Calculate the payback period fort each project

QUESTION THREE (20 MARKS)

a) Explain five factors that may affect the capital structure of company. (10 marks)

b) Chuma Enterprises Limited has the following capital structure at the end of the certain period.

	Shs.
80,000 ordinary shares at sh. 10 per value	800,000
18% Long term loan	400,000
20,000 8% preference shares at Ksh. 10 per value	2000,000
16% Debentures at Ksh. 100 per value	500,000
	1,900,000

The company paid ordinary dividends of Ksh. 6 per share. The current market price per ordinary share is Ksh. 25. The preference shares and debentures are currently selling at Ksh. 18 and Ksh. 115 respectively.

Required

Calculate the weighed average cost of capital (WACC) for the company. (10 marks)

QUESTION FOUR (20 MARKS)

a) Explain five functions of a finance manager in an organization. (10 marks)

b) Explain five benefits of using mortgage finance in an organization. (10 marks)

QUESTION FIVE (20 MARKS)

a) Explain five advantages of using debenture as a source of finance. (10 marks)

b) State six characteristics of capital budgeting projects. (6 marks)

c) Outline four advantages of Net Present Value (NPV) as a method of project appraisal. (4 marks)