



# The Co-operative University of Kenya

## SPECIALS AND SUPPLEMENTARY EXAMINATION AUGUST-2019 EXAMINATION FOR THE DIPLOMA IN CO-OPERATIVE MANAGEMENT

UNIT CODE: COCM 1211

UNIT TITLE: TAXATION

DATE: 26<sup>TH</sup> AUGUST, 2019

TIME: 11:30 AM – 1:30 PM

### INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

### QUESTION ONE

- (a) (i) Distinguish between a direct and indirect tax. (4 Marks)  
(ii) Is value Added Tax (VAT) a direct or indirect tax? Explain. (2 Marks)
- (b) What are the rules governing the payment of VAT? Specify the additional tax that may arise from failure to comply with those rules. (6 Marks)
- (c) Explain the purposes of taxation in Kenya in relation to the big 4 agenda of the government of Kenya. (8 Marks)
- (d) (i) Distinguish between tax evasion and tax avoidance. (4 Marks)  
(ii) types of Assessment under the tax act and explain. (6 Marks)

### QUESTION TWO

- (a) Outline the ways to enhance a budget deficit. (5 Marks)
- (b) Mr. Majimbo an employee of Bidii company Ltd received income in 2011 as follows;  
A day and night watchman whose salaries were shs.5,000 p.m and shs. 6,500 p.m. respectively.  
Furniture was also provided at cost of shs. 280,000  
A car of 2000cc whose initial cost was sh. 1,400,000 was provided for his personal use.  
The company paid his telephone bills averaging sh. 4,000p.m.  
He was granted free company products valued at sh 3,500p.m.  
Required;  
Calculate his taxable income; (15 Marks)

### QUESTION THREE

- (a) A, K and M are in a partnership of selling imported clothes, handbags and shoes. They have provided the following information for the year of income 2018;

		shs
Net loss after deducting the following;		(1,080,000)
Rent		180,000
Legal costs		75,000
Salaries and wages		300,000
Donations: Turkana Food Relief Fund		50,000
Electricity and water		35,000
Repairs to business premises		65,000
Stationery		12,000
Vehicle expenses		90,000
Audit and accountancy		24,000
Advertising		65,000
Depreciation:	Car	10,000

	Building	33,000
Salaries:	K	240,000
	M	240,000
	A	360,000
Interest on capital	K	80,000
	M	80,000
	A	120,000
Bad debts		40,000
Loss on sale of shares		8,000
Political party membership: K		6,000
Withdrawals by M		5,000
Dresses taken by A for her own use		12,000
School fees paid for A's children		55,000

**Additional information;**

- Wear and tear deductions were estimated at sh. 16,000
- Fifty per cent of vehicle expenses was for personal use.
- Salaries and wages include sh. 30,000 paid to A's daughter for assisting in the business during the school holidays.
- Rent analysis;

Payment for Partners residence	sh. 80,000
Business	sh. 100,000
- Legal costs included a payment of sh 15,000 paid to an arbitrator to settle a personal dispute between K and M.

**Required;**

- Taxable income (loss) for the partnership business and distribution among the partners for 2018 if they share profits and losses in the ratio 2: 1: 1. (18 Marks)
- Determine the taxable income of each partner. (3 Marks)

**QUESTION FOUR**

- Outline FOUR ways an individual can apply to avoid paying tax in Kenya. (4 Marks)
- List SIX other sources of revenue in Kenya apart from taxation. (6 Marks)
- Lusweti Kamau operates an electronics shop along Luthuli Avenue in Nairobi. He undertook the following transactions for 15<sup>th</sup> the month of March 2018:

1 March 2018	Purchased 10 cameras for a total of sh. 500,000
4 March 2018	Purchased flashbulbs for a total of sh 200,000
4 March 2018	Purchased 5 slide projectors for a total of sh. 1,000,000
5 March 2018	Sold 5 cameras each at 25% above cost price.
6 March 2018	Purchased 200 wrist-watches at sh. 1,500 each
8 March 2018	Sold 2 slide projectors for a total of sh. 500,000
9 March 2018	Sold flashbulbs that cost sh. 100,000 for sh. 150,000
12 March 2018	Purchased 50 stop watches for a total of sh. 50,000
15 March 2018	Purchased 100 alarm clocks at a total value of shs. 80,000
18 March 2018	Sold the remaining 5 cameras each at 25% above cost price.
20 March 2018	Sold 3 slide projectors for a total of sh. 750,000
22 March 2018	Sold 100 wrist-watches at sh. 2,000 per watch.
25 March 2018	Sold 70 alarm clocks each at 30% above cost
27 March 2018	Sold 500 stop watches for a total of sh 75,000

**Required;**

- Given that the prices are inclusive of VAT, calculate Mr. Lusweti Kamau's

- Input Tax (5 Marks)  
Output Tax. (5 Marks)
- (ii) Prepare the VAT account for Mr. Lusweti Kamu clearly showing the VAT (refundable). (2 Marks)
- (iii) State when the above tax is due, and the penalties payable if the tax is not paid on the due date. (2 Marks)

**QUESTION FIVE**

- (a) Distinguish between set of terms as used in taxation:
- (i) Budget deficit and budget Surplus (4 Marks)
- (ii) Progressive and proportional taxes (4 Marks)
- (iii) Cess and Passenger Service charges (4 Marks)
- (b) Explain any FOUR kinds of Taxes in Kenya. (8 Marks)