



The Co-operative University of Kenya
END OF SEMESTER EXAMINATION DECEMBER-2019
EXAMINATION FOR THE DIPLOMA IN BUSINESS ADMINISTRATION
(YR II SEM I)

UNIT CODE: DMAF 1201

UNIT TITLE: INTRODUCTION TO TAXATION

DATE: 5TH DECEMBER, 2019

TIME: 9:00 AM – 11:00 AM

INSTRUCTIONS:

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

QUESTION ONE

- (a) Briefly discuss the following; (8 marks)
- i. Income tax
 - ii. Value Added Tax (VAT)
 - iii. Excise duty
 - iv. Custom duty
- (b) Discuss FOUR factors that influence tax shifting (4 marks)
- (c) Mr. Juma received pension of Sh. 1,400,000 out of which sh. 450,000 was annual entitlement. Calculate his taxable income. (6 marks)
- (d) Mrs. Maina was paid a salary of Sh.550, 000 during the year 2016. She obtained a loan from HFCK of Sh.4, 000,000 which he used to purchase his residential house. She paid interest on the loan amounting to sh. 210,000 during the year. Calculate she taxable income (4 marks)
- (e) State the impact and incidence of the following taxes. (8 marks)
- i. Pay As You Earn (PAYE)
 - ii. VAT on accountancy services
 - iii. Import duty on motor vehicles not intended for resale
 - iv. Excise duty on sugar


QUESTION TWO

- (a) Rio Ltd presented the following income statement for the year ended 31 Decemebr 2018:

Revenue	Sh.	Sh.
Gross Profit		36,000,000
Bad debts recovered		1,200,000
Dividends from Companies		8,500,000
Proceeds from sale of furniture		60,000
Total revenue		45,760,000

Expenditure:

legal and accountancy fees 24,000,000

Salaries paid in lieu of leave	45,000	
Donations	120,000	
Patents written off	60,000	
Repairs and renewals	1,420,000	
Interests on overdue loan	14,000	
Directors fees	2,450,000	
Bad debt – general	160,000	
Depreciation	180,000	
Purchase of furniture	128,000	
Salaries and wages	3,400,000	
Electricity bills	171,000	
		32,148,000
		
Net profit		13,612,000

Additional information:

1. Legal and accountancy fees include:

Staff contact agreement	656,250
Defence of a company driver on a traffic offence	92,250

2. Repairs and renewals include:

Replacement of a car engine	146,000
Painting of a new factory extension	95,000

- Electricity bills include Sh. 20,000 incurred on additional deposits as required by the power company.
- Bad debts recovered include Sh. 640,000 relating to bad debts which were not previously allowed as an expense.
- Capital allowances for the year ended 31 December 2011 were agreed with the tax authority at Sh. 250,000.

Required:

Adjusted taxable profit or loss for Rio Ltd for the year ended 31 December 2018. (12 Marks)

(b) Highlight four arguments in favour of direct taxes (8 Marks)

QUESTION THREE

(a) The following income statement was prepared by Juhudi Co-operative Society Ltd, a district-based farmer's co-operative society, for the year ended 31 December 2017:

	Sh. '000'	
Turn over		18,000
Profit from canteen operations		
Interest income:		
Co-operative Bank Ltd (net)	1,200	
Treasury bills (net)	750	

Members' loans (gross)	3500	
Co-operative Insurance Company Ltd (net)	80	5,530
Total Income		
Expenditure		
Cost of sales	7,200	
Staff costs	5,400	
Depreciation	1,000	
Corporation Tax (for year 2010)	2,800	
Insurance premium		600
Dividend to members		4,200

Net Profit

Additional Information

- Staff costs include court fines amounting to Sh. 200,000 and legal fees incurred in relation to Preparation of scheme of service for staff.

Required:

Corporation tax payable by Juhudi Co-operative Society Ltd, for the year ended 31 December 2017. (12 Marks)

- (b) Explain the factors that determine the extent to which the incidence of a tax can be shifted (8 Marks)

QUESTION FOUR

Mr. Alex is a tax manager with J&B Associates, a firm of Certified Public Accountants (CPAs). During the year of income ended 31 December 2011, he reported the following:

- Basic salary per month sh.75,000 (PAYE SH.14,000 per month).
- He is provided with a motor vehicle of 2000 cc by the employer. The motor vehicle was leased from Magari Leasing Ltd. For sh.22,500 per month. As at 1 January 2011, the motor vehicle was valued at sh.400,000 after deducting accumulated depreciation of sh.150,000.
- He was housed by the employer in a fully furnished house (cost of furniture, sh.180,000) until 30 September 2011. During this period, he contributed 10% of his basic pay as rent.
- The employer paid his life assurance premiums amounting to sh.100,000 during the year.
- He is a member of a registered retirement benefits scheme to which he contributed sh.15,000 per month while the employer contributed an equal amount.
- During his spare time, he provided free tax advice to his friends. These services were valued at sh.100,000.

Required:

- (a) Total taxable income for Mr. Alex for the year ended 31 December 2017. (14 Marks)
(b) Tax liability for Mr. Alex (6 Marks).

QUESTION FIVE

(a) Naivasha Dairy co-operative Society Ltd. prepared the following income statement for the year ended 31 Dec 2016.

	Sh.	Sh.
Sales of milk and other products		21,600,000
Dividend from quoted companies		40,000
Revenue		21,640,000
Expenditure:		
Legal fee on overdraft	125,000	
Income tax paid (year 2015)	807,000	
Donations	68,000	
Bad debts reserve	160,000	
Repairs maintenance	82,000	
Loss on sale of investment	60,000	
Education workshop for members	120,000	
Committee sitting allowance	300,000	
Interest on overdraft	200,000	
Purchase of stationery	100,000	
Bonuses and dividends for farmers	12,000,000	(14,022,000)
Net surplus		7,618,000

Required:

Determine the tax payable by the co-operative society for the year ended 31 Dec 2016. (12 Marks)

(b) Mr. J K purchased industrial buildings from Mr. J.P in August 2015 at a cost of sh. 10 million. The buildings were constructed by Mr. J.P at a total cost of sh. 8 million which comprised of;

	Sh. 000
Factory building	4,000
Administration offices	800
Show room	400
Canteen	1,200
Store	1,600
Total Cost	8,000

The buildings were put into use by Mr. J.P in April 2013.

Required

Calculate the capital allowances claimable by Mr. J.P (8 marks)