



The Co-operative University of Kenya
END OF SEMESTER EXAMINATIONS AUGUST-2018

EXAMINATION FOR THE DIPLOMA IN BUSINESS ADMINISTRATION
(YR II SEM I)

UNIT CODE: DMAF 1201

UNIT TITLE: TAXATION

DATE: 23RD AUGUST, 2018

TIME: 9:00 AM – 11:00 AM

INSTRUCTIONS:

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

QUESTION ONE (COMPULSORY)

- a) Outline conditions under which a firm is considered residents? (4 Marks)
- b) Given the following information for 2018 Year of income (6 Marks)
- Calculate the residence of each individual. Comment whether they are Resident or Non-resident for tax purposes.

a) .Mrs. Musyoki
2017 60days
2016 120days
2015 180 days

b). Ocharo
2017 60 Days
2016 100 Days
2015 220 Days

- c) Mr. Mteule an employee of Kilimo Company received for income 2017 as follows:
- Basic salary of 600000p.a
 - A day and night watchman whose salaries were sh. 7,000 p.m and Sh. 3000 p.m respectively
 - Furniture was also provided at cost of sh. 300,000
 - A car of 2000cc whole initial cost was sh. 1,400,000 was provided for his personal use.
 - The company paid his personal telephone bills averaging sh.6000p.m
 - He was granted free company products valued at 4500 p.m.

Required,

- i. Taxable income for the year ended 31/12/2017 (10 Marks)
- ii. Tax liability for Mr. Mteule. (5 Marks)

QUESTION TWO

Discuss the 5 Principles of taxation as stipulated by Adam Smith (20 Marks)

QUESTION THREE

- a) Explain 4 factors affecting taxable capacity in Kenya (8Marks)
- b) Mr. Mwendwa prepared the following profit and loss account for his business for the year ended 31 December 2017

sh

sh

Sales		18,400,000
Discount received		600,000
Profit on sale of shares		100,000
Foreign dividends received		15,000
Foreign exchange gain		35,600
Insurance recovery on stolen stock		<u>180,000</u>
		19,330,600

Expenditure		
Purchases	12,800,000	
Sales	1,200,000	
Audit fee	45,000	
Tax consultancy fee	30,000	
Legal expenses	325,000	
Licenses and permits	64,000	
Depreciation	145,600	
Loss on sale of equipment	78,400	
Bank charges	44,200	
Donation to a political party	50,000	
Subscriptions	12,800	
Repairs & Maintenance	174,200	
Rent & rates	150,000	
Purchase of loose tools	90,000	
Commission and brokerage tool	<u>23,000</u>	<u>(15,232,700)</u>
		4,097,900

Additional information

1. Legal expenses comprise:

- | | |
|---|---------------|
| | sh |
| • Employment contracts | 5,000 |
| • Acquisition of trademark | 80,000 |
| • Successful defense of a legal suit for breach of trade contract | 200,000 |
| • Debt collection | <u>40,000</u> |
| | 325,000 |

2. Subscriptions comprise

	sh
Chamber of commerce and industry	2,800
Child care international	8,000
Golf club membership	<u>2,000</u>
	12,800

3. Repairs and maintenance includes sh.74200 used for the renovation of a store.

4. Capital allowance were agreed with the tax authorities at sh.680000

Required

- Prepare the adjusted taxable profit or loss for Mr. Mwendwa for the year ended 31 Dec,2017 (12 Marks)
- Determine the tax payable(if any),from the computations in i above (2 Marks)
- Indicate the latest date for submission of tax returns for Mr.Mwendwa (2 Marks)

QUESTION FOUR

a) Distinguish between set of terms as used in taxation:

- Budget deficit and budget Surplus (4Marks)
- Progressive and proportional taxes (4 Marks)
- Cess and Passenger Service charges (4 Marks)

b)Highlight four arguments in favor of Direct taxes

(4Marks)

c) Outline the four documents Chargeable to stamp Duty

(4 Marks)

QUESTION FIVE

a) Discuss the four Benefits of COMESA treaty

(8 Marks)

b) Given below were the purchases and sales made by Tough Limited during the month of December 2017. The prices were inclusive of VAT at the standard rate of 16%.

December 1st Purchased 400 units at Shs.5, 600 per unit

1st Sold 40 units at Shs.7, 200 per unit.

5th Sold 80 units at Shs.7, 200 per unit.

10th Sold 200 units at Shs.7, 200 per unit.

20th Purchased 300 units at Shs.6, 400 per unit.

25th Sold 80 units at Shs.7,200 per unit.

31st Sold 200 units at Shs.8,000 per unit.

There was no inventory at the beginning of the month but 100 units were in stock at the end of the month.

Required

i. The VAT account for the month of December 2017.

(10 Marks)

ii. On what date is VAT due payable?

(2 Marks)