

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

**EXAMINATION FOR THE DIPLOMA IN CO-OPERATIVE MANAGEMENT**  
**(YR II SEM II)**

**UNIT CODE: COCM 1211**

**UNIT TITLE: TAXATION**

**DATE: 23<sup>RD</sup> AUGUST, 2018**

**TIME: 9:00 AM – 11:00 AM**

**INSTRUCTIONS:**

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

**QUESTION ONE**

- (a) Explain any **THREE** functions of the Kenya Revenue Authority (6 marks)
- (b) Mrs. Tosha is an employee of Sakafu Ltd. She earns a monthly salary of Kshs 70,000 and a house allowance of Kshs 15,000. The employer deducts the following from her salary
- NSSF of Kshs 200 p.m and the employer contribute a similar amount
  - NHIF of Kshs 320 p.m
  - Sacco Loan repayment of Kshs 7,000 pm
  - SACCO contribution of Kshs 3,000 pm

Required:

- Compute her taxable income and the tax payable for the year (10 marks)
- (c) For any person to be taxed in Kenya, he/she must meet certain criteria based in residence, explain any **THREE** of those conditions (6 marks)
- (d) Using well labeled diagrams, explain **FOUR** classes of taxes based on rates of tax (8 marks)

**QUESTION TWO**

Mr. Mburu is an employee of Punda Sacco Society Ltd and the following transactions relates to his income for the financial year ended 31<sup>st</sup> August, 2018.

- Salary Kshs 720,000
- House allowance kshs 180,000
- Employer contributed to a registered pension scheme, kshs 180, 000 and the employee contributed a similar amount
- Employee contributed Kshs 70,000 to a home ownership savings plan which is recognized
- The employee obtained a loan of Kshs 1,500,000 from Equity Bank to purchase his residential house at an interest rate of 13% p.a
  - ✓ Pension income was khs 18,000
  - ✓ Business income Kshs 360,000
  - ✓ Business income Kshs 100,000
  - ✓ Rental income Kshs 300,000
  - ✓ Dividends form XYZ Ltd kshs 114,000 (Net)
  - ✓ Interest form fixed deposit from Barclay Bank kshs 216,000 based in Tanzania

**Required:**

- (a) Compute his table income (14 marks)  
 (b) Computer the tax payable for the year 2012 (6 marks)

### QUESTION THREE

- (a) Discuss how the Kenya Tax system scores against the principles of a good tax system (20 marks)

### QUESTION FOUR

The accountant of Kijiko, Sahani and Sufuria Traders prepared the following statements of comprehensive income for the year ended 31<sup>st</sup> August 2018

|                           | <b>Kshs</b>       |                                    | <b>Kshs</b>       |
|---------------------------|-------------------|------------------------------------|-------------------|
| Opening stock             | 50,000            | Sales                              | 23,050,000        |
| Cost of sales             | 10,000,000        | Closing stock                      | 118,000           |
|                           |                   | Bad debts allowed as a donation in |                   |
| Factory expenses          | 2,000,000         | Earlier years                      | 10,000            |
| Staff salaries            | 4,000,000         | Interest (net)                     | 18,000            |
| Interest on capital       | 140,000           |                                    |                   |
| Bonus and Commissions     | 40,000            |                                    |                   |
| Partner drawings          | 50,000            |                                    |                   |
| Audit fees and expenses   | 56,000            |                                    |                   |
| Advertising expenses      | 55,000            |                                    |                   |
| Compensation to Sunga Ltd | 1,000,000         |                                    |                   |
| Donations for wheat       |                   |                                    |                   |
| Research                  | 20,000            |                                    |                   |
| Repairs and renewals      | 70,000            |                                    |                   |
| Contribution to;          |                   |                                    |                   |
| National Social Security  |                   |                                    |                   |
| Fund                      | 5,000             |                                    |                   |
| Pension                   | 30,000            |                                    |                   |
| Provident fund            | 10,000            |                                    |                   |
| General expenses          | 414,750           |                                    |                   |
| Depreciation              | 90,000            |                                    |                   |
| Bad debts provision       | 115,250           |                                    |                   |
| Taxation paid             | 750,000           |                                    |                   |
| Redundancy payments       | 300,000           |                                    |                   |
| Partners salaries         | 2,000,000         |                                    |                   |
| Net profits               | <u>2,000,000</u>  |                                    |                   |
|                           | <u>23,196,000</u> |                                    | <u>23,196,000</u> |

The partner, Kijiko, Sahani and Sufuria share profits and losses at the ratio of 2.2.1. They also received interest on capital and salaries

#### Required:

- (a) Prepare a statement showing the amount of taxable profit or loss of each partner (14 marks)  
 (b) Determine the tax payable by each partner (6 marks)

### QUESTION FIVE

Kandunge Diary Co-operative Society prepared the following income statement for the year ended 31<sup>st</sup> August, 2018

|                                   |                   |                             |
|-----------------------------------|-------------------|-----------------------------|
|                                   | Kshs              | Kshs                        |
| Sales of milk                     |                   | 21,600,000                  |
| Dividend from quoted<br>Companies |                   | <u>40,000</u><br>21,640,000 |
| <u>Expenses</u>                   |                   |                             |
| Legal fees on overdrafts          | 125,000           |                             |
| Income tax paid (for 2012)        | 807,000           |                             |
| Donations                         | 68,000            |                             |
| Bad debts reserve                 | 160,000           |                             |
| Repairs and maintenance           | 82,000            |                             |
| Loss on sale of investment        | 60,000            |                             |
| Education workshop for members    |                   |                             |
| Committee sitting allowance       | 120,000           |                             |
| Committee sitting allowance       | 300,000           |                             |
| Interest on overdraft             | 200,000           |                             |
| Purchase of stationery            | 100,000           |                             |
| Bonuses and dividends to farmers  | <u>12,000,000</u> | <u>14,022,000</u>           |
|                                   |                   | 7,618,000                   |

**Required**

Determine the tax payable by the society for the year ended 31<sup>st</sup> August, 2018 (20 marks)