



(Knowledge for Development)

**KIBABII UNIVERSITY  
UNIVERSITY EXAMINATIONS**

**2021/2022 ACADEMIC YEAR  
SECOND YEAR FIRST SEMESTER**

**SPECIAL/SUPPLEMENTARY EXAM**

**FOR THE DIPLOMA IN BUSINESS MANAGEMENT**

**COURSE CODE: DAB 102T**

**COURSE TITLE: TAXATION**

**DATE: 18<sup>TH</sup> JULY, 2022 TIME: 8.00AM – 10.00AM**

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**INSTRUCTIONS TO CANDIDATES**

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B

2. Question **one** carries **30** marks and each of the other two questions carry **20** marks each.

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over.

## SECTION A

### QUESTION ONE

- (a) Explain the concept of elasticity with respect to:
- (i) Direct Tax (4 marks)
  - (ii) Indirect Tax. (6 marks)
- (b) Name objectives of raising taxes and explain how they are achieved by the government. (20 marks)
- (Total: 30 marks)

## SECTION B

### QUESTION TWO

- (a) Explain the reasons why, for a particular year of income, the total income received is usually different from total taxable income. (4 marks)
- (b) Mr. Ray is a mechanical engineer by profession. He has provided you with the following details of his income for the year 2015.

	Sh.	Sh.
1.		
Practice fees		2,820,000
Less expenditure:		
Salary to support staff	216,000	
Salary to self	1,560,000	
Interest on bank loan	135,000	
Repayment of bank loan	480,000	
Stationery and postage	84,000	
Rent	408,000	
Traveling expenses	72,000	
Subscription to the Engineers Institute	10,000	
Single business permit	<u>20,000</u>	<u>2,985,000</u>
Practice loss		<u>(165,000)</u>

PAYED on salary to self of Sh.444,600 has been paid to the Income Tax Department.

2. Mr. Ray previously worked for KK Engineers until 31 December 2014 when he proceeded on terminal leave for six months ending 30 June 2015. During the period of terminal leave, the company paid him a salary of sh.120,000 per month and provided him with a free house. The company recovered a nominal 5% of his basic salary towards his housing. The house has a market rental value of Sh.30,000 per month. PAYE of Sh.34,000 was deducted from his salary and paid to the Income Tax Department every month.

3. KK Engineers provides a generous pension scheme and Mr. Ray retired on 30 June 2015 with a pension of Sh.18,000 per month. PAYE of sh.2,500 is deducted from the pension every month.
4. Mr. Ray owned 30,000 shares of Barclays Bank of Kenya Ltd. The Company paid him a dividend of Sh.150,000 (net) in 2015.
5. In July 2015, he obtained a loan from Kenya Building Society and purchased a house at a cost of Sh.2,400,000 in Buruburu which he occupied immediately. By the end of the year 2015, he had paid mortgage interest amounting to Sh.180,000.
6. Mrs. Ray is a nurse at Tender Care hospital earning a salary of Sh.30,000 per month. (PAYE of Sh.4,860 per month was deducted).

**Required:**

- (i) Compute Mr. Ray's taxable income of the year 2015. ( 8 marks)
  - (ii) Compute the income tax payable for the year 2015. ( 4 marks)
  - (iii) when is the tax you have computed in (ii) above payable? ( 1 mark)
  - (iv) Comment on any information you have not used or any assumptions you have made. ( 3 marks)
- (Total: 20 marks)**

**QUESTION THREE**

- (a) State and explain the VAT position on:

- (i) Security on property for unpaid tax. ( 4 marks)
- (ii) Relief because of doubt or difficulty in recovery of VAT. ( 2 marks)

- (b) Vunja Mbavu operates an electronics shop along Luthuli Avenue in Nairobi. He undertook the following transactions for the month of March 2016:

1 March 2016	Purchased 10 cameras for a total of Sh.500,000
4 March 2016	Purchased flashbulbs for a total of Sh.200,000
4 March 2016	Purchased 5 slide projectors for a total of sh.1,000,000
5 March 2016	Sold 5 cameras each at 25% above cost price.
6 March 2016	Purchased 200 wrist-watches at Sh.1,500 each.
8 March 2016	Sold 2 slide projectors for a total of Sh.500,000.
9 March 2016	Sold flashbulbs that cost sh.100,000 for Sh.150,000.
12 March 2016	Purchased 50 stop watches for a total of Sh.50,000
15 March 2016	Purchased 100 alarm clocks at a total value of sh.80,000
18 March 2016	Sold the remaining 5 cameras each at 25% above cost price.
20 March 2016	Sold 3 slide projectors for a total of sh.750,000.
22 March 2016	Sold 100 wrist-watches at sh.2,000 per watch.
25 March 2016	Sold 70 alarm clocks each at 30% above cost.
27 March 2016	Sold 500 stop watches for a total of Sh.75,000.

Required:

- (i) Given that the prices are inclusive of VAT, calculate: ( 5 marks)  
Input Tax. ( 5 marks)  
Output Tax.
- (ii) Prepare the VAT account 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)
- (Total: 20 marks)

QUESTION FOUR

- (a) Write brief notes on the following: ( 3 marks)  
(i) Taxation of companies operating in export processing zones. ( 3 marks)  
(ii) Taxation of members' clubs.
- (b) flora Ltd. has been in the flower business for many years. The company's profit and loss account for the year ended 31 December 2015 is as follows:

	Sh.	Sh.
Sales		29,489,600
Less: Cost of sales		<u>20,902,400</u>
Gross profit		8,587,200
Less expenses:		
Salaries and wages	4,543,200	
Shop expenses (rent, rates, lighting and telephone)	1,708,800	
Printing and stationery	89,600	
Motor vehicle expenses	332,000	
Depreciation - motor vehicle	96,000	
Legal expenses	99,200	
Redundancy payments to retrenchment staff	46,400	
Sundry expenses (all allowable)	144,800	
Bad and doubtful debts	44,800	
Loss on sale of motor van	<u>36,000</u>	
		<u>7,140,800</u>
Dividend received from XYZ Ltd.		1,446,400
Net profit		<u>102,400</u>
		<u>1,548,800</u>

Additional information:

1. Capital allowances have been agreed with the Commissioner of Income Tax at Sh.84,000.

2. The Ledger account for bad and doubtful debts for the year is as follows:

Bad and doubtful debts

	Sh.		Sh.
Debts written off:		Balances brought forward:	
Customers	31,200	General provision	14,400
Staff	1,600	Specific provision	21,600
Balances carried forward:		Bad debts recovered	4,000
General provision	24,000	(previously allowed)	<u>44,800</u>
Specific provision	<u>84,800</u>	Profit and loss account	<u>84,800</u>

3. Legal expenses consist of:

	Sh.
Advice on staff service contracts	23,200
Tax appeals	38,400
Debt collection	<u>37,600</u>
	<u>99,200</u>

**Required:**

Compute the adjusted taxable profit or loss for Flora Limited for the year 2015. ( 8 marks)

Calculate the tax payable thereon. (2 marks)

If Flora Limited paid instalment tax by the due dates, when is the final tax for 2015 payable? ( 2 marks)

Assume that the management of Flora Limited neither paid the tax in (iii) above on the due date nor submitted the self assessment return as required. What are the consequences of this action? ( 2 marks)

(Total: 20 marks)