



(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR
SECOND YEAR FIRST SEMESTER
MAIN EXAMS

FOR THE DIPLOMA IN BUSINESS MANAGEMENT

COURSE CODE: DAB102T

COURSE TITLE: TAXATION

DATE: 25TH JANUARY, 2022

TIME: 9.00AM - 11.00AM

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question one carries 30marks 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 4 Printed Pages. Please Turn Over.

QUESTION ONE

- (i) State the benefits of value added tax (VAT) in the context of the principles of a good tax system. (8 marks)
- (ii) Given below were the purchases and sales made by Tough Limited during the month of December 2018. The prices were inclusive of VAT at the standard rate of 16 percent.

December	1	Purchased 400 units at Sh.5,600 per unit
		Sold 40 units at sh.7,200 per unit
	5	Sold 80 units at Sh.7,200 per unit
	10	Sold 200 units at Sh.7,200 per unit
	20	Purchased 300 units at Sh.6,400 per unit
	25	Sold 80 units at sh.7,200 per unit
	31	Sold 200 units at Sh.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:

- (a) The VAT account for the month of December 2018. (16 marks)
- (b) Amount Payable of Carried forward (2 marks)
- (c) On what date is VAT due payable? (4 marks)

(Total: 30 marks)

SECTION B

(Choose any two questions)

QUESTION TWO

- (a) Mr. Shoma has two offers for employment in two engineering firms. The details of the two offers are as follows:

	Firm A	Firm B
	Sh.	Sh.
Basic pay per month	45,000	41,000
Benefits:		
Housing (market rent) p.m.	50,000	60,000
Car 1600cc (cost)	600,000	600,000

Pension scheme which is registered by commissioner of income tax both employer and employee contribute 5% of the basic salary for pension scheme.

Required:

- a) What offer would you recommend to Mr. Shoma? Explain the reasons for your recommendation. (16 marks)
- (b) What is the tax treatment of school fees? (4 marks)
- (Total: 20 marks)**

QUESTION THREE

- (a) Distinguish between farm works deductions and capital deductions. (5 marks)
- (b) John Moturi, a farmer, constructed a farmhouse on 2 January 2015 for Sh.6,000,000 and incurred the following additional expenditure:

	Sh.
2.1.2015 Cattle dip	1,000,000

30.6.2015	Irrigation system	1,500,000
30.9.2015	Labour quarters	2,400,000
30.10.2015	Milking machinery	1,120,000

John Moturi sold the farm on 2.1.2016 to his brother, Peter Muturi, who is also a farmer. Their sale agreement contained the following particulars:

	Sh.
Cattle dip	1,200,000
Farmhouse	6,700,000
Irrigation system	1,200,000
Milking machinery	980,000
Labour quarters	2,800,000

Required:

Calculate the capital deductions due to John Moturi and Peter Muturi for the years 2015, 2016 and 2017. (15 marks)

(Total: 20 marks)

QUESTION FOUR

- (a) Distinguish between tax evasion and tax avoidance. (5 marks)
- (b) The recent debate relating to importation of goods through the port of Mombasa has had one of its issues the amount of tax assessed. Specify and explain clearly at least three ways in which the Government may lose tax revenue on imports. (6 marks)
- (c) Suggest three possible ways in which the Government may prevent loss of tax revenue from imports.

(6 marks)

(d) Should citizens feel obliged to pay tax? Explain.

(3 marks)

(Total: 20 marks)

QUESTION FIVE

Explain the meaning of the following terms as appearing in the respective tax legislation:

- | | |
|---|-----------|
| (a) Excise duty; | (2 marks) |
| (b) Bonded warehouse; | (3 marks) |
| (c) Taxable person; | (3 marks) |
| (d) Zero-rated; | (3 marks) |
| (e) Non-resident; | (3 marks) |
| (f) Registered home ownership savings plan; | (3 marks) |
| (g) Commercial Vehicle | (3 marks) |

(Total: 20 marks)