



(Knowledge for Development)
KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2021/2022 ACADEMIC YEAR

MAIN EXAMINATION

FOR THE DIPLOMA IN BUSINESS MANAGEMENT

COURSE CODE: DAB 102

COURSE TITLE: TAXATION

DATE: 14TH DECEMBER, 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 **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 5 Printed Pages. Please Turn Over.

QUESTION ONE

- (a) In the context of the Customs and Excise Act (Cap. 472) what is meant by the term “dumping”? (4 marks)
- (b) Identify the measures that a government may put in place to discourage dumping. (4 marks)
- (c) Outline four circumstances under which duty paid on imported goods may be refunded. (4 marks)
- (d) The following transactions relate to Mapato Limited, a VAT registered company, for the month of June 2021

- 1 June: Brought forward merchandise purchased in the previous month for Sh. 200,000.
- 3 June: Purchased variable merchandise at Sh. 80,000
- 4 June: Sold zero-rated merchandise for Sh. 60,000
- 6 June: Purchased merchandise from a trader at Sh. 100,000. This trader was not registered for VAT purposes.
- 7 June: Merchandise worth Sh. 16,000 was returned to supplier.
- 9 June: Merchandise sold on 4 June for Sh. 25,000 was returned by customers.
- 12 June: Sold merchandise for Sh. 360,000.
- 19 June: A customer who had purchased merchandise on 12 June for 18,000 was declared bankrupt before paying the amount due from him.
- 25 June: Purchases merchandise as follows:
- From suppliers registered for VAT purposes - Sh. 80,000
 - From suppliers not registered for VAT purposes - Sh. 40,000
- 27 June: Sold merchandise as follows:
- To customers registered for VAT purposes - Sh. 160,000
 - To customers not registered for VAT purposes - Sh. 122,000

Required:

VAT account for the month ended 30 June 2021. (18 marks)

(Where applicable, transactions are inclusive of VAT at the standard rate).

(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 Sh.	Firm B 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)
- (4 marks)
- (Total: 20 marks)
- (b) What is the tax treatment of school fees?

QUESTION THREE

- (a) Distinguish between farm works deductions and capital deductions. (5 marks)
- (b) Michael, a farmer, constructed a farmhouse on 2 January 2020 for Sh.6,000,000 and incurred the following additional expenditure:

Date	Description	Sh.
2.1.2020	Cattle dip	1,000,000
30.6.2020	Irrigation system	1,500,000
30.9.2020	Labour quarters	2,400,000
30.10.2020	Milking machinery	1,120,000

Michael sold the farm on 31.12.2021 to James, who is also a farmer. Their sale agreement contained the following particulars:

Description	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 Michael and James for the years 2020 and 2021. (15 marks)
- (Total: 20 marks)

QUESTION FOUR

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)

QUESTION FIVE

Discuss the principles of a good tax system as laid down by Adam Smith (20 marks)