

LAIKIPIA



UNIVERSITY

UNIVERSITY EXAMINATIONS

1ST SEMESTER 2023/2024 ACADEMIC YEAR

SECOND YEAR EXAMINATION FOR DIPLOMA IN
PROCUREMENT

DIBM 0224: TAXATION

STREAM: R

TIME: 2 HRS

DAY: MONDAY [8.30-10.30 A.M]

DATE: 15/04/2024

THIS QUESTION PAPER CONSISTS OF SIX (6) PAGES

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INSTRUCTIONS TO CANDIDATES:

This paper contains four questions

Answer question one and any other two questions in the answer booklets provided

RATES OF TAX - (including wife's employment, self-employment and professional income rates of tax). **Year of income 2024**

Monthly taxable pay (shillings)	Annual taxable pay (shillings)	Rates of tax % in each shilling
1 – 10164	1 – 121968	10%
10165 – 19740	121969 – 236880	15%
19741 – 29316	236881 – 351792	20%
29317 – 38892	351793 – 466704	25%
Excess over 38892	Excess over 466 704	30%

Personal relief Sh.1,162 per month) Sh.13, 944 per annum)

Prescribed benefit of motor vehicles provided by employer

	Monthly Rates (Sh.)	Annual Rates (Sh.)
Capital allowances:		
Wear and tear allowances:		
Class I	37.5%	
Class II	30%	(i) Saloons Hatch Backs and Estates
Class III	25%	
Class IV	12.5%	
Software	20%	
Industrial building allowances:		
Industrial building	2.5%	Upto 1200cc 3,600 43,200
Hotels	10.0%	1201 - 1500cc 4,200 50,400
Hostels / Educational buildings	50%	1501 - 1750cc 5,800 69,600
Farm works allowances	100%	1751 - 2000cc 7,200 86,400
Investment deduction allowance:	100%	2001 - 3000cc 14,400 172,800
		(ii) Pick-ups, panel vans (Unconverted)
Shipping investment allowances	40%	
Mining allowance:		
Year 1	40%	Upto 1750cc 3,600 43,200
Year 2-7	10%	Over 1750cc 4,200 50,400
		(iii) Land Rovers/Cruisers 7,200 86,400
		OR 2% of the initial capital cost of the vehicle for

each month.

Commissioner's prescribed benefit rates

Services	Monthly rates Sh.	Annual rates Sh.
(i) Electricity (Communal or from a generator)	1,500	18,000
(ii) Water (communal or from a borehole)	500	6,000



(iii) Provision of furniture (1% of cost to employer)

If hired, the cost of hire should be brought to charge

(iv) Telephone (Land line and mobile) 30% of bills

Agriculture employees: reduced rates of benefits

(i) Water	200	2,400
(ii) Electricity	900	10,800

Other benefits

Other benefits for example, servants, security, staff meals etc are taxable at the higher of fair market value and actual cost to employer

QUESTION ONE

- a). Explain five objectives /purposes of taxation in an organized economy **(10marks)**
 b). List five kinds/ types of taxes imposed in Kenya **(5marks)**

c). The following information was extracted from the books of Kimanathi Ltd and as at 31 December 2022

Sh.

Written down values as at 31 December 2022

Motor vehicles	655,000
Tractors	2,755,000
Plant and machinery	530,000
Furniture and fittings	225,000
Combine harvester	1,012,500
Office curtains	22,000
Computers	77,000
Fax machine	40,000
Telephones	80,000

Additions in 2023

Sh

Tractor	4,800,000
Pick up	900,000
Plant and Machinery	3,260,000



Furniture	450,000
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Computers	560,000
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Disposals in 2023:

Furniture	250,000
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Computers	160,000
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Tractor	1,080,000
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Plant and Machinery	340,000
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Required:

Compute wear and tear allowances for the year 2023. (15marks)

QUESTION TWO

a). Enumerate five sources of taxable income in Kenya as specified in the income tax Act (Cap470) (5marks)

b) The following information relates to the transactions of Communication Solutions Ltd. for the month of September 2023. The company is registered for VAT.

2 September	Purchased goods worth sh.2, 400,000 from Japan. Customs duty was paid at 5%.
2 September	Sold goods to Mobile Connections Ltd. for Sh.960, 000 on credit. Goods worth sh.60, 000 were found to be defective and were returned.
5 September	Purchased office furniture for Sh.640, 000. One desk worth sh.80, 000 was defective and was returned to the seller.
9 September	Purchased office furniture for Sh.4, 500,000 on credit from a manufacturing company. Goods worth sh.500, 000 were damaged in transit and were thus not saleable. It cost the company sh.240, 000 to transport the goods.
10 September	Sold goods for cash worth Sh.960,000
12 September	Exported goods worth sh.2,400,000
16 September	Imported goods worth sh.1, 500,000 from Dubai. Customs duty was paid at 5%
20 September	Sold goods worth sh.218, 000 to Abicus Ltd.
25 September	Exported goods worth Sh.2, 600,000 to Kims Ltd.
30 September	Paid the following expenses for the month of September:



Sales and wages –	Sh.1,400,000
Electricity	- Sh.48,000
Telephone	- Sh.36,000
Water	- Sh.10,000

Note: Where applicable, prices are quoted exclusive of VAT. (VAT Rate 16%)

Required:

VAT Account for the month of September 2023

(15marks)

QUESTION THREE

Kamala, Susan and Kubasu are in partnership trading as Kasuku Traders sharing profit or losses equally. They have provided the following statement of profit or loss for the year ended 31 December 2022:

	Sh.	Sh.
Gross profit		7,020,000
VAT refund		102,500
Foreign exchange gain		485,000
Dividend income (net)		562,500
Profit on disposal of furniture		591,000
Rental income		<u>415,000</u>
		9,176,000
Less expenses:		
Insurance premiums	480,000	
Legal fees	1,556,250	
Depreciation	575,000	
Repairs and maintenance	2,250,000	
VAT paid	233,750	
Sundry expenses	2,702,500	
Interest on capital:		
Kamala	407,500	
Susan	185,000	
Kubasu	146,000	
Motor vehicle expenses	528,500	
Custom duty	227,500	
Accountancy fees	575,000	
Bad and doubtful debts	155,000	
Rates and rent	410,000	
Salaries and wages	1,700,000	
		<u>(12,132,000)</u>
Net loss		<u>(2,956,000)</u>

Additional information:

1. Insurance premiums include Sh.282, 500 paid to insure Susan's private car.
2. Legal fees include:



	Sh.
Parking fines	150,000
Settling a dispute with a customer	102,500
Appeal against a tax assessment	62,500
Court expenses for breach of a contract	400,000
Preparation of tender documents	235,000
3. Sundry expenses include:	
	Sh.
Interest charged on hire purchase	425,000
Cash embezzled by the cashier	565,000
Registration of a trade mark	281,250
4. Repairs and maintenance comprised the following:	
	Sh.
Repair of furniture	22,500
Installation of surveillance cameras	812,500
Cost of office furniture	525,000
5. The partners took goods for personal use which had a cost price Sh.225, 000. The gross profit margin was 20%, as recorded in partnership books of account.	
6. The investment allowances were agreed with the revenue authority at Sh.1, 475,000 during the year ended 31 December 2022.	
7. Salaries and wages included salaries to partners as follows:	
	Sh.
Kamala	600,000
Susan	450,000
Kubasu	225,000

Required:

- (i) The adjusted partnership profit or loss for the year ended 31 December 2022. **(14 marks)**
(ii) Distribution schedule of the profit or loss. **(6 marks)**

QUESTION FOUR

- a). Enumerate six benefits excluded from Employment Income /Tax free employment benefits in Kenya. **(6marks)**
- b). Explain the following cannons (principles) of a good tax system
- | | |
|-----------------|------------------|
| i) Equality | (3 marks) |
| ii) Economy | (3 marks) |
| iii) Simplicity | (3marks) |
- c). Describe five disallowable deductions (non -allowable expenses) in the computation of tax payable by an entity. **(5marks)**

