



(University of Choice)

**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

MAIN, BUNGOMA, NAIROBI, WEBUYE CAMPUS

UNIVERSITY EXAMINATIONS

2021 / 2022 ACADEMIC YEAR

SECOND YEAR SEMESTER TWO EXAMINATION (FINAL EXAM)

FOR DIPLOMA

IN

BUSINESS MANAGEMENT

COURSE CODE: DAB 230

COURSE TITLE: TAXATION MANAGEMENT

DATE: Monday 25TH APRIL 2022 **TIME:** 12 - 2PM

INSTRUCTIONS TO CANDIDATES

Answer QUESTION ONE and any OTHER TWO questions

TIME: 2 Hours observes ZERO tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over.

QUESTION ONE

- a. Explain any three (3) benefits that citizens receive from paying taxes to the state. (6 marks)
- b. Briefly explain the following terms as used in taxation:
- | | |
|------------------------|--------|
| i. Statutory deduction | 2marks |
| ii. Capital allowances | 2marks |
| iii. Personal Relief | 2marks |
| iv. VAT return | 2marks |
- c. Briefly explain the following taxes and their administration (4 marks)
- | | |
|-------------------|-----------|
| i. Stamp duty | (4 marks) |
| ii. Catering levy | |
| iii. Rates | |
| iv. Cess | |
- d. Distinguish between Direct and indirect tax giving specific example (4 marks)
- e. Canon is a wholesaler who purchased processed goods from a Manufacturer at Ksh. 232,000 inclusive of VAT charged at 16%. He included a markup of 30% to determine the selling price. Calculate the VAT payable by a retailer who buys from Canon and adds a markup of 25% to determine the selling price. (4 marks)
- f. The taxable employment income for Mwangi (resident) was sh.370, 000 in the year 2016. Calculate his tax liability for the year (4 marks)

QUESTION TWO

- a. Taxable employment income include salary and all other benefits that accrue from employment. Explain three (3) scenarios that an ordinary employee may be exempted from taxation of housing benefit (6 marks)
- b. Mr. Levy was employed and received basic pay of Ksh. 480,000 (PAYE ksh. 153,050), for the year 2020. The employer issued two (2) Bales Unga estimated at Ksh. 14,000 to his category of staff during the year. He is also provided with accompany house to which he contributed 3% of his basic pay as rent. The market rental value of the house was sh. 10,000 per month. A company car of 2000cc was provided for his use including a house servant whose salary was sh.5000 p.m.

Required:

- i. Calculate his taxable employment income for the year (7 marks)
- ii. Tax liability/refund for the year (7 marks)

QUESTION THREE

- a. State three instruments of fiscal policy (8 marks)
- b. Tax reform is the process of changing the way taxes are collected or managed by the government and is usually undertaken to improve tax administration or to provide economic or social benefits. Explain challenges faced by tax authorities while implementing tax reforms (8 marks)
- c. Explain how the following principles of optimal tax system have been achieved (9 marks)
 - i. Certainty
 - ii. Simplicity
 - iii. Diversity

QUESTION FOUR

- a. Briefly state and explain categories of Vatable goods (6 marks)
- b. Bottlers ltd prepared end of year financial statements. The income statement for the year ended 2013 was presented as follows:

<u>Income</u>	<u>Sh.</u>	<u>Sh.</u>
Sales	9,200,000	
Profit from sale of shares	50,000	
Foreign dividends received	<u>7,500</u>	9,257,500
<u>Expenditure</u>		
Purchases	6,400,000	
Salaries	600,000	
Tax appeal	15,000	
Legal expenses	162,500	
Licenses and permits	32,000	
Depreciation	72,800	
Loss on sale of equipment	39,200	
Bank charges	22,100	

Donations to political party	25,000
Subscriptions	6,400
Repairs and maintenance	87,100
Rent and rates	75,000
Purchase of billboard	45,000
Commission and brokerage costs	11,500
	<u>7,593,600</u>
	1,663,900

Additional information

- 1) Legal expenses comprise
 - Employment contracts 2,500
 - Acquisition of trade mark 40,000
 - Legal suit for breach of contract 100,000
 - Debt collection 20,000
- 2) Subscription comprise
 - Chamber of commerce and industry 1,400
 - Child care international 4,000
 - Golf club membership 1,000
- 3) Repair and maintenance includes Ksh. 37,100 to fix a new car engine
- 4) Capital allowances were agreed at Ksh. 340,000

Required

- (i) Prepare the adjusted profit for tax purposes for December 2013 (10 marks)
- (ii) Determine the tax payable (4marks)

QUESTION FIVE

- a. Define taxable capacity and explain the factors influencing taxable capacity (6 marks)
- b. Explain three (3) ways that a citizen in Kenya can practice tax avoidance (6 marks)
- c. Define tax shifting and explain the factors that influence tax shifting (6 marks)
- d. Give the Due dates for filing and remission of the following taxes in Kenya (2 marks)
 - VAT
 - Individual income tax