



(University of Choice)

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

MAIN CAMPUS

**UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR
SECOND YEAR SECOND SEMESTER
FOR DIPLOMA IN BUSINESS MANAGEMENT**

COURSE CODE: DAB 230

COURSE TITLE: TAX MANAGEMENT

DATE: Monday 1st August 2022 TIME: 8-10am

INSTRUCTIONS TO CANDIDATES

1. Answer Question One and any Other Two Questions

TIME: 2 HOURS

MMUST observes ZERO tolerance to examination cheating
This Paper Consists of 4 Printed Pages. Please Turn Over.

QUESTION ONE (30 MARKS)

- a) Define taxation and give characteristics of tax (3 Marks)
- b) Explain disadvantages of indirect taxes (4 Marks)
- c) Highlight situations when custom duty is refunded (5 Marks)
- d) Distinguish between absolute taxable capacity and relative taxable capacity(3 Marks)
- e) List any THREE instruments chargeable to stamp duty (4 Marks)
- f) Under what circumstances can a fresh bond security be required (4 Marks)
- g) Who is a resident person (4 Marks)
- h) Distinguish between tax avoidance and tax evasion (4 Marks)

QUESTION TWO (20 MARKS)

- a) Explain any FOUR sources of other revenue sources by the government (10Mrks)
- b) Highlight ways of reducing budget deficit (3mks)
- c) Discuss the factors affecting taxable capacity (7mks)

QUESTION THREE (20 MARKS)

- a) Under VAT Act (Cap 476) what do you understand by taxable supplies(4 Marks)
- b) Under the income tax Act on taxation of individuals, write notes on wife's income
- c) Mr. John Kimani provided the following for the year ended 2016. He was employed as a full time director of Safcom Ltd at a salary of Kshs.90,000.00 per month (PA YE Kshs.35200 per month).
 - (i) Free goods were received from the company Kshs.80,000.00
 - (ii) He enjoyed free medical treatment under the medical scheme operated by the company for senior officers which was assessed at Kshs.50,000
 - (iii) Commuter Allowance sh100,000
 - (iv) Mr. John Kimani and wife operate a Company fully owned by them whose taxable income has been assessed at Kshs240,000.00 after charging the wife's salary of Kshs. 140,000.00 (PAYE Kshs.220,000 per annum)
 - (v) Safcom ltd provides him with housing from 1st August, 2016 before this he lived in his own house.
 - (vi) His wife works as a nurse in a private hospital and she earns Kshs.30,000.00 per month (PAYE shs.5,000 per month)
 - (vii) Rent from property was Kshs. 30,000 from August 2016
 - (viii) The house he was living in before had a mortgage of Kshs.2, 000,000 and Kshs.550, 000 was paid on it of which Kshs. 350,000 was the capital sum.

Required

- a) Mr John Kimani's taxable income for 2016 (5 Marks)

- b) Taxability for 2016 (3 Marks)
 c) Notes and comments on information not used (2 Marks)

QUESTION FOUR (20 MARKS)

Mrs. Jinny Ondemo is a professional medical doctor practicing in Nairobi. Given below are the financial details of her clinic for the year ended 31 December 2016.

	KShs.
Gross professional fees received	3,000,000
Director fees received (deductions at source)	360,000
Interest income from AJ Bank Ltd-Gross	72,000
Dividend income (net)	102,000
Subscriptions to professional association and publications	60,000
Donations to destitute children's home	30,000
Subscription to wildlife Magazine	6,000
Debt collection (patients) expenses	18,000
Wages for clinic assistant	360,000
Replacement of clinic instruments	120,000
Rent for clinic premises	420,000
Electricity and water for clinic	120,000
General expenses - clinic	210,000
Car hire expenses for use in practice	150,000
Uniform for staff	115,000
Payment of school fees for own children	120,000
Terminal benefits paid to retired receptionists \	50,000
Contributions to registered provident fund-self	180,000
Payment of life insurance premium - self	60,000
Depreciation on furniture - clinic	36,000
Rents received from sub-rentals	42,000
Rent collection expenses	6,000
Wages paid to cleaners and watchman - clinic	150,000
Tarmacking of drive-way-personal residence	240,000
Additional servant quarters residence	420,000

Required:

- a) Taxable income of Mrs. Jinny Ondemo for the year ended 31 December 2016(10Mrks)
 b) Tax payable by Mrs. Ondemo (4Mrks)
 c) Indicate the date when the tax if any is payable to the Income Tax Department.(2Mrks)
 d) What is the tax position on a wife's income? (4Mrks)

QUESTION FIVE (20 MARKS)

Leo, Kesho and Kutwa Trade in electrical goods the\ share profit and loss equally The following details the draft accounts regarding their profit and loss status as at 31 December 2016 and have been provided

Debits .	Ksh.
Office expenses	408,000
General expenses	188,000
Salaries and Wages	560,000
Room expenses	234,000
Printing and stationery	128,000
Rent rates and taxes	300,000
Installment tax paid	90,000
Legal charges	164,000
Interest on capital	420,000
Depreciation	184,000
Bad Debts	136,000
Commission to partners	160,000
Donations for poverty	200,000
Property taxes	24,000
Electrical expenses	92,000
General reserve	240,000
Credits	Ksh.
Gross Profit	2,600,000
Interest earned	240,000
Discount received	160,000
Other receipts	300,000
Rent income	264,000
Capital gain on shares	200,000
Reported profit	236,000

The partner provides additional information as follows:

1. Closing stock had been understated by Kshs. 30,000 at 31" December 2016.
2. Leo was paid Kshs. 100,000 as salary (include in salaries and wages) and P.A.Y.E of Kshs. 3,000 was paid on it.
3. The firm was fined Kshs. 30,000 for breach of regulations. This is included in legal charges.
4. Interest on capital was Kshs. 160,000 to Leo, Kshs. 120,000 Kesho and Kshs. 140,000 to Kutwa.
5. Commission to partners included Kshs. 90,000 to. Leo and the Balance to Kutwa.
6. Capital Allowances have been agreed as Kshs. 1,880,000 with tax Authorities.

Required

- a) **Compute total income (Loss) from the partnership business for 2016 (10 MARKS)**
- b) **Show allocation of profit and loss among partners (6 MARKS)**
- c) **How is profit and loss of each partner to be treated for a tax purpose? (4MARKS)**