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**GARISSA UNIVERSITY**

**UNIVERSITY EXAMINATION 2020/2021 ACADEMIC YEAR THREE**

**SECOND SEMESTER EXAMINATION**

**SCHOOL OF BUSINESS AND ECONOMICS**

**FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT**

**COURSE CODE: BBM 303**

**COURSE TITLE: TAXATION 1**

**EXAMINATION DURATION: 2 HOURS**

**DATE: 18/08/2021 TIME: 09.00-11.00 AM**

**INSTRUCTION TO CANDIDATES**

* **The examination has FIVE (5) questions**
* **Question ONE (1) is COMPULSORY**
* **Choose any other TWO (2) questions from the remaining FOUR (4) questions**
* **Use sketch diagrams to illustrate your answer whenever necessary**
* **Do not carry mobile phones or any other written materials in examination room**
* **Do not write on this paper**

**This paper consists of FOUR (4) printed pages *please turn over***

**QUESTION ONE (COMPULSORY)**

1. Explain any three factors that influence tax shifting in an economy. (6marks)
2. State four advantages of direct tax as opposed to indirect tax. (4marks)
3. Musa operates a Safaricom dealer shop. He undertook the following transactions for

 The month of April 2020.

1st April purchased 15 n

Nokia for a total of sh.500,000

4. Sold 5 nokia each at 24% above the cost price.

4. Purchased 200 kambambe at sh.1500 each.

5. Sold 100 kambambe for a total of sh. 100,000

6. Purchased 10 infix for a total of sh.50,000

8. Sold the remaining 10 nokia each at 15% above the cost price.

9. Sold 3 alcatel for a total of sh 550,000.

12. Sold 100 remaining kambambe at sh.2000 each.

15. Sold infinix each at 30% above cost.

**Required**

Given that the prices were of vat exclusive, calculate Ali’s input and output tax (12marks)

1. Mr omar’s employment contract for five years is terminated on 31st december 2016 after it run for 3 years .compansation of sh.1,500,000 is paid to the employee and the employee’s rate of earnings as at the date of termination was sh.500,000.per year.

Required.

Establish the amount of the compensation that will be assessed to the tax showing clearly the year to which it relates. (4marks)

1. State four ways through which collectors of income tax can use to collect and recover tax that has not been paid. (4marks)

**QUESTION TWO**

1. Explain any four tax free employment benefits of an employee. (8marks)
2. A, B and C are in partnership, trading as X enterprises. They share profits and losses in the ratio of 2:2:1. In the year 2007, they reported a loss of sh. 200,000 after charging the following items.

 Sh.

Depreciation 100,000

Salaries A 400,000

 B 300,000

 C 200,000

Interest on capital A 100,000

 C 100,000

Commission B 200,000

Stationery 50,000

Office expenses 100,000

**Required.**

Calculate the adjusted partnership profit/(loss) and its distribution among the partners. (12marks)

**QUESTION THREE**

1. Discuss the role of Kenya revenue authority in the economy. (10marks)
2. The profit and loss account of mambo walia, a trader at eastleigh, Nairobi, show the following

For the year ended 31.12.2008

 **Sh sh**

Sales 100,000

Opening stock 25,000

Add: purchase 50,000

 75,000

Less: closing stock 35,000

Cost of goods sold 40,000

Gross profit 60,000

Other income:

Post office savings bank interest 15,000

Tax reserve certificate interest 3,000

Barclays bank interest—gross 2,000

Sweepstake winning 5,000 25,000

 85,000

Less: sundry expenses 50,000

**Net profit 35,000**

**The following information is given:**

1. an amount of sh 8,000 received from kenya national assurance company as Compensation for trading stock destroyed by fire has been included in drawings.
2. Owing to new found friendship, a creditor mrs. Matata wrote-off amounts payable to Her by Mr. Walia of s 4,000. The amount is included in drawings.
3. The sundry expenses in the profit and loss account include:
	1. Cost of a bicycle used in the shop bought in May 2008 for sh 3,500.
	2. Alimony paid to a former wife he divorced sh 2,400.
	3. Subscription of sh 1,000 to matumbo welfare association of which he is a
	4. Member.
	5. Depreciation of assets sh 2,200
4. He paid with amounts drawn and included in his drawings accounts:
	1. Insurance premium of sh 2,500 against fire in respect of trading stock.
	2. Painting of business premises sh 800.
	3. Stationery sh 500.
5. Wear and tear deduction of sh 1,500 has been agreed with the domestic tax Department.

**Required**

Compute the taxable income for the year ended 31.12.2008. (12marks)

**QUESTION FOUR**

1. Explain any five principles of optimal tax system .(10marks)
2. Assume a manufacturer acquires raw materials for sh.100,000 on which vat is levied at 16%.at each stage of the chain 25% conversion costs are incurred and a 30% markup is made. By clearly showing the stages, determine the total vat paid to the Kenya revenue authority. (14marks)

**QUESTION FIVE**

1. An assessment is the determination or ascertainment of total chargeable income chargeable to tax and computation of tax thereon.in relation to the statement discuss any five types of assessment. (10marks)
2. Given below were the purchase and sales made by tough traders during the month of December 2015.the prices were inclusive of vat at standard rate of 16%.

December 1st purchased 400 units at sh.5600 per unit

1. Sold 40 units at sh.7200 per unit.
2. Sold 80 units at sh.6200 per unit.
3. Sold 200 units at sh.7500 per unit.
4. Purchased 300 units at sh.6400 per unit
5. Sold 80 units atsh. 7000per unit
6. Sold 200 units at sh 8000 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;**

The VAT account for the month of December 2015. (10marks)