



TECHNICAL UNIVERSITY OF MOMBASA
Faculty of Business & Social Studies

DEPARTMENT OF BUSINESS STUDIES

DIPLOMA IN ACCOUNTANCY

BAC 2208: TAXATION

END OF SEMESTER EXAMINATIONS

SERIES: APRIL 2015

TIME: 2 HOURS

INSTRUCTIONS:

- This paper consists of **FIVE** questions.
- Answer question **ONE (Compulsory)** and any other **TWO** questions.
- Do not write on the question paper

This paper consists of Four printed pages.

QUESTION 1 (Compulsory)

- a) Mr Marani earns the following income, in the year 2014.
- Salary sh. 100,000 pm (PAYE sh. 20,000 p.m)
 - He was sent to work outside his work station and was paid sh. 60,000 for subsistence for five days.
 - As an employee of the year, he was awarded sh. 40,000
 - He was provided with a hired car of 1750 cc. cost of hiring was sh. 4,000p.m.
 - He was provided with a furnished house for which he paid 10% of his basic salary. Employer paid the landlord sh. 30,000 p.m.
 - The house was already furnished at a cost of sh. 400,000

Required:

Compute his taxable income and tax liability for the year ending 31st December 2014. (10 marks)

- b) Identify **FOUR** tax incentives available for companies operating in Export Processing Zones (EPZ). (8 marks)
- c) List any **FIVE** ways through which tax is evaded. (5 marks)
- d) Miss Sop imported goods subject to VAT at standard rate at a value of sh. 3 million. She later paid transport cost and clearing charges of sh. 80,000 and sh. 100,000 (all VAT exclusive) respectively. The goods were to attract an import duty of 20%. She incurred conversion cost of 10% before adding a margin of 30%.

Required

Compute VAT payable (if any). (7 marks)

QUESTION 2

- a) Briefly discuss the **THREE** theories that explain tax shifting. (6 marks)
- b) Outline **SEVEN** factors that determine the extent of tax shifting. (14 marks)

QUESTION 3

- a) Identify any **FIVE** measures that can help to improve tax compliance. (10 marks)
- b) Tax can be classified on the basis of the rate behaviour clearly illustrate with examples. (10 marks)

QUESTION 4

- a) Mr Chocha a businessman, reported an accounting profit of sh. 800,000 for the year ended 31st December 2013. However an assessment of the income and expenditure of his business by the revenue authority revealed a taxable profit of sh. 300,000 only for the same year.

Required:

Identify **FOUR** possible reasons for the difference between the profits as reported above. **(8 marks)**

- b) MAPA Ltd provided the following information in its books of accounts. The reported profits for the year ended 31st December 2011, before capital allowances amounted to sh. 4,296,000. The written down values of assets for capital allowances purposes as at 1st January 2011 were as follows:

	Sh.
Computers	390,000
Plant & machinery	3,640,000
Furniture & fittings	120,000
Tractors	940,000
Motor vehicles	740,000

The following assets were constructed or acquired during the year:

Asset	Cost (sh.)
Warehouse	784,000
Security wall	160,000
Computers	96,000
Motor vehicles	2,000,000
Lorry (3 tonnes)	1,290,000
Office cabinets	84,000
Conveyor belts	180,000
Processing machinery	680,000

- The company demolished a factory extension in July 2011 at a cost of sh. 180,000 in order to conform to industry safety standards.
- A borehole was sunk at a cost of sh. 560,000 and put into use on 1st September 2011.

Required:

Capital allowances due to the company for the year ended 31st December 2011. **(12 marks)**

QUESTION 5

- a) Discuss any **FIVE** deductions made against gross tax liability under employment income. **(10 marks)**
- b) State and explain any **FIVE** types of assessments. **(10 marks)**