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*(Knowledge for Development)*

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2017/2018 ACADEMIC YEAR**

**THIRD YEAR 1ST SEMESTER**  
**SPECIAL/SUPPLEMENTARY EXAMINATION**  
**FOR THE DEGREE OF BACHELOR OF SCIENCE IN AGRICULTURE**  
**ECONOMICS AND RESOURCE MANAGEMENT**

**COURSE CODE:** IAE 384

**COURSE TITLE:** TAXATION THEORY AND PRACTICE

**DATE:** 4/10/2018


**TIME:** 3-5 PM.

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**INSTRUCTIONS TO CANDIDATES**

Answer Question ONE and ANY other TWO Questions.

TIME: 2 Hours

This paper consists of 4 printed pages. Please Turn Over 

KIBU observes ZERO tolerance to examination cheating

## QUESTION ONE

The Gitoro Food Processing Industries Ltd. commenced business on 1 January 1999 and the following are the fixed assets of the company which it acquired prior to the commencement of the business:

	<i>Sh.</i>
Conveyer and sorter (installed in the building)	3,120,000
Packaging machine	2,325,000
Milling machine	2,580,000
Crashing machine	2,760,000
Fork lifts	1,290,000
Farm tractors	5,850,000
Lorry	1,800,000
Saloon car	585,000
Delivery van	1,350,000
Furniture, fittings and partitions	408,000
Land at cost	15,000,000

The building in use was constructed at a cost of Sh.10,200,000 but its value after construction was estimated at Sh.12,600,000 by a professional valuer. In year 2000, the company bought the following assets:

	<i>Sh.</i>
Tractor	2,655,000
Lorry	3,900,000
Toyota – Land Cruiser	2,025,000
Furniture	210,000
Partitions	408,000
Land	4,680,000
3 computers – year 2000 compliant	450,000

The following assets were disposed off in Year 2000: *Sh.*

Land	4,290,000
Fork lifts	360,000
Saloon car	690,000

Further enquiry revealed that under repairs and maintenance Sh.276,000 was paid for office partitions done in year 2000.

### Required

- (a) Compute the capital allowances for the company for the years 1999 and 2000  
(b) Comment on any information not used in (a) above.

(18 marks)  
(2 marks)

## QUESTION TWO

- a) Mr Tononoka, a farmer, incurred the following capital expenditure in his farm for the year ended 31.12.2013
- |                                    | <i>Sh</i> |
|------------------------------------|-----------|
| (a) Extension to labour line       | 30,000    |
| (b) Fenced paddocks                | 15,000    |
| (c) Extension to farm house-Note 2 | 270,000   |
| (d) Electric generator             | 32,000    |
| (e) Gabion for soil erosion        | 20,000    |

There is a balance of unclaimed Farm Work Deduction brought forward in 2013 of Shs 25,000

### Required

- Compute the capital deductions for the year 2013. (14 marks)
- b) Explain the tax position of the income of a deceased person. (3 marks)
- c) What is 'set-off' tax? (3 Marks)

## QUESTION THREE

The profit and loss account of Mambo Walia, a trader at Eastleigh, Nairobi, show the following for the year ended 31.12.2013

	Shs	Shs
<b>Sales</b>		<b>100,000</b>
Opening stock	25,000	
Add: Purchase	<u>50,000</u>	
	75,000	
Less: closing stock	<u>(35,000)</u>	
Cost of goods sold		<u>(40,000)</u>
<b>GROSS PROFIT</b>		<b>60,000</b>
Other Income:		



Post Office Savings Bank interest	15,000	
Tax Reserve Certificate interest	3,000	
Barclays bank interest—gross	2,000	
Sweepstake winning	<u>5,000</u>	<u>25,000</u>
		85,000
		<u>(50,000)</u>
Less: Sundry expenses		<u>35,000</u>
<b>NET PROFIT</b>		

The following information is given:

- i) An amount of Shs 8,000 received from Kenya National Assurance Company as compensation for trading stock destroyed by fire has been included in drawings.
- ii) Owing to new found friendship, a creditor Mrs. Matata wrote-off amounts payable to her by Mr. Walia of Shs 4,000. The amount is included in drawings.
- iii) The sundry expenses in the Profit and Loss Account include:
  - a. cost of a bicycle used in the shop bought in May 2013 for Shs 3,500.
  - b. alimony paid to a former wife he divorced Shs 2,400.
  - c. subscription of Shs 1,000 to Matumbo Welfare Association of which he is a member.
  - d. Depreciation of assets Shs 2,200
- iv) He paid with amounts drawn and included in his drawings accounts:
  - a. insurance premium of Shs 2,500 against fire in respect of trading stock.
  - b. painting of business premises Shs 800.
  - c. stationery Shs 500.
- v) Wear and tear deduction of Shs 1,500 has been agreed with the Income Tax Department.

**Required**

Compute the taxable income for the year ended 31.12.2013

(20 Marks)

**QUESTION FOUR**

- (a) Name and briefly explain four major principles of a good tax system.
- (b) Write brief notes on housing benefit

(16 marks)  
(4 marks)

### QUESTION FIVE

With reference to Income Tax, write short notes on the following:

- a) Self-assessment; (4 marks)
- b) Notice of objection; (4 marks)
- c) NSSF; (4 marks)
- d) PIN Advantages; (4 marks)
- e) Valuation of housing for employees. (4 marks)

**(Total: 20 marks)**