



*(Knowledge for Development)*  
**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2020/2021 ACADEMIC YEAR**  
**SECOND YEAR FIRST SEMESTER**  
**MAIN EXAMINATION**  
**FOR THE DIPLOMA IN BUSINESS MANAGEMENT**

**COURSE CODE: DAB 102T**

**COURSE TITLE: TAXATION THEORY AND PRACTICE**

**DATE: 26/07/2021      TIME: 9.00 A.M – 11.00 A.M**

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**INSTRUCTIONS TO CANDIDATES**

**Answer Question One in Section A and Any other TWO (2) Questions in Section B**

**TIME: 2 HOURS**

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 3 Printed Pages. Please Turn Over. 

**SECTION A****QUESTION ONE (30 Marks) (COMPULSORY)**

- a) Highlight and explain five reasons why taxes are levied (5marks)
- b) State and explain five cannons of taxation. (10marks)
- c) Define the term 'Capital allowances' (4 marks)
- d) Miss Cecilia Nyemura received a notice of additional assessment dated 4.1.2020, which she does not agree with as income assessed is wrong. She would like to know:  
 The conditions for lodging a normal notice of objection. (3marks)  
 The conditions for CIT accepting a late notice of objection. (3marks)
- e) List five grounds under which a trader may be deregistered from the VAT register (5 Marks)

**SECTION B (ANSWER ANY TWO QUESTIONS)****QUESTION TWO**

- a) X, Y and Z are in partnership, trading as X enterprises. They share profits and losses in the ratio of 2:2:1. In the year 2020, they reported a loss of Sh. 200,000 after charging the following items.

	<b>Sh.</b>
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

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

b) Discuss the advantages and disadvantages of direct as opposed to indirect taxation, explaining and illustrating the various terms used in your answer (8 marks)

### **QUESTION THREE**

Molo Co. Ltd., a company dealing in hardware, prepares its accounts to 30 June each year. The following information relates to the year ended 30 June 2013.

i) **Written down value of assets brought forward for Income Tax purpose:**

	Class I	Class III	Class IV
	37½%	25%	12½%
	<b>Shs</b>	<b>Shs</b>	<b>Shs</b>
Written Down Value 30.6.2012	175,000	180,000	87,000

ii) **Disposals during the year:**

	Cost	Net Book Value	Sales proceeds
	Shs	Shs	Shs
Isuzu Lorry	280,000	175,000	260,000
Motor car (purchased in 1.3.2012)	1,160,000	1,015,000	800,000

iii) **Additions during the year**

	Shs
Mercedes Benz sports car for director	4,000,000
Second-hand Tractor	80,000
Trailer occasionally used by tractor	80,000
Shop fittings	60,000
Computer bought 1.3.2013	250,000
Telephone system bought 1.9.2012	72,000

iv) the office safe which cost Shs 30,000, in 2010 was traded-in for a more modern safe costing Shs 40,000. The old safe was valued at Shs 20,000 and the company paid the balance of Sh, 20, 000 to acquire the new safe. The net book value of the old safe was Shs 22,968 at 30.6.2012.

**Required**

Calculate the wear and tear deductions due to the company for the year 2013. (20 Marks)

**QUESTION FOUR**

a) The income of a married woman living with her husband is deemed to be the income of the husband for the purposes of ascertaining his total income chargeable to tax.

However, under certain circumstances, employment income of a married woman may be assessed separately.

State the circumstances under which tax assessed on the husband may be collected from the wife. (4 marks)

b) Mr. Shoma has two offers for employment in two engineering firms. The details of the two offers are as follows:

	<b>Firm A</b>	<b>Firm B</b>
	<i>Shs.</i>	<i>Shs.</i>
Basic pay per month	45,000	41,000
Benefits: Housing		
Car 1600cc (cost)	600,000	600,000

Pension scheme which is registered by commissioner of income tax both employer and employee contribute 5% of the basic salary towards the pension scheme.

**Required:**

a. What offer would you recommend to Mr. Shoma? Explain the reasons for your recommendation (16 Marks)