



*(Knowledge for Development)*

**KIBABII UNIVERSITY**  
**UNIVERSITY EXAMINATIONS**  
**2020/2021 ACADEMIC YEAR**

**THIRD YEAR**  
**SPECIAL/SUPPLEMENTARY EXAMINATIONS**

**FOR THE DEGREE OF BACHELOR OF SCIENCE**  
**AGRICULTURAL ECONOMICS AND RESOURCE**  
**MANAGEMENT**

**COURSE CODE:** AEC 312/IAE 384

**COURSE TITLE:** TAXATION THEORY AND PRACTICE

**DATE:** 11<sup>TH</sup> JANUARY 2022

**TIME:** 2 – 4 PM

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**INSTRUCTIONS TO CANDIDATES**

Answer Question ONE and any other TWO Questions.

TIME: 2 Hours

This paper consists of 2 printed pages. Please Turn Over



KIBU observes ZERO tolerance to examination cheating

**QUESTION ONE = 30 MARKS (Compulsory)**

- i) Write short notes on the following terms used in taxation
- a) Budget. **(2 Marks)**
  - b) Public Finance. **(2 Marks)**
  - c) Tax. **(2 Marks)**
  - d) Turnover Tax. **(2 Marks)**
- ii) Discuss factors affecting taxable capacity in a country. **(8 Marks)**
- iii) Distinguish between a direct and indirect tax. **(4 Marks)**
- iv) M/S Watu, Wote, Wao are three partners operating WWW Enterprises. In 2005, they made profits of Sh.180,000. They share profits in the ratio 3:3:4. Wao had overdrawn on his account and was charged Sh.30,000 interest. Watu and Wote received interest of Sh.25,000 each from the partnership. The interest account is included in the above profits. Determine how much Mr. Wote should pay given that he has no other source of income. **(10 marks)**

**QUESTION TWO = 20 MARKS**

- i) Distinguish between non-taxable income and non-allowable expenses in the context of Kenyan tax laws. (Cite at least 2 examples for each). **(6 marks)**
- ii) Saika Co. Ltd. a manufacturer, purchases raw materials at Sh.1, 000,000. The company then incurs conversion costs which are estimated at 40% of material cost. The profit mark-up is 20% of total cost. The completed product is sold to Chemuka Wholesalers who then incur conversion costs of 50% on cost. The wholesaler's mark-up is 10% on cost. The wholesaler sells the product to a retailer, who has no conversion costs but sells at a profit of 30%.

**Required:** VAT is charged at 16% on all products, compute VAT payable by Saka. **(14 marks)**

**QUESTION THREE = 20 MARKS**

- i) Explain some of the canons of taxation laid down by Adam Smith. **(15 Marks)**
- ii) Suggest and explain one proposal on how the Government can be able to generate tax revenue from the informal sector. **(5 Marks)**

#### **QUESTION FOUR = 20 MARKS**

- i) Many farmers in the rural areas are unaware of the benefits accorded to them in form of capital allowances under the Income Tax Act. Write a brief summary on capital allowances which may be available to the farmer. **(10 Marks)**
- ii) Explain the main effects of taxation on production. **(10 Marks)**

#### **QUESTION FIVE = 20 MARKS**

- i) Specify the rules relating to payment of Income tax under the Pay As You earn rules. **(10 Marks)**
- ii) What are the consequences of failure to deduct and pay tax under PAYE? **(5 Marks)**
- iii) Define the term capital Investment deduction. **(5 Marks)**