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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2022/2023 ACADEMIC YEAR**  
**FIRST YEAR, FOURTH SEMESTER EXAMINATION**  
**DIPLOMA IN ACCOUNTING**  
**DAC 1507- TAXATION**

Date: 2<sup>nd</sup> August 2022  
Time: 11.30am - 1.30pm

**INSTRUCTIONS TO CANDIDATES**

**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE COMPULSORY (30 MARKS)**

- Capital allowances are offered to organizations in some industries, in reference to the tax they are supposed to pay. It can be claimed by such organizations for various reasons. Explain five benefits of claiming capital allowances (5 marks)
- Differentiate between taxable income and non-taxable income. (2 marks)
- The tax return of Mr. Mulu who is a farm manager at Kibu Ltd. For the year ended 31<sup>st</sup> December 2020 showed the following.

	<b>Self(Sh.)</b>	<b>Wife(Sh.)</b>
Employment salary	80,000	60,000
Benefits from farm produce	-	110
Pension from previous employment	120,000	30,000
Share of partnership profit	-	32,000
Housing interest income	18,000	-
Rent income	24,000	-
Dividends	36,000	24,000

**Additional information:**

- P.A.Y.E deducted:  
Self – Sh. 5,200  
Wife – Sh. 4,200
- The wife was employed in the farm as a nurse and earned an additional of 15% of her employment salary.

3. Reimbursement of medical expenses for Mr. Mulu was Sh. 18,000 since the company provided medical cover.
4. Withholding tax for Mr. Mulu:  
On dividends Sh. 5,400
5. Mr. Mulu is also housed by the company and gets 15% house benefit.

**Required:**

- i. Show the total income of Mr. Mulu and calculate the tax payable for the year ended 31<sup>st</sup> December 2020.  
(Any information not used in the calculation of his income should be accompanied with an explanation of why it was excluded from the computation) (8 Marks)
- ii. Show the total income of Mrs. Mulu and calculate the tax payable for the year ended 31<sup>st</sup> December 2020. (4 Marks)
- d) Briefly explain six classification of taxes that exist in the Kenyan tax system (6 marks)
- e) Briefly explain five principles or canons of taxation that guide the tax authorities in various countries (5 marks)

**QUESTION TWO (20 MARKS)**

- a) Define capital allowances and discuss the capital allowances available in respect to capital expenditure. (10 Marks)
- b) Highlight the differences between zero-rated supplies and exempt supplies. (4 marks)
- c) The best tax system is one which produces the least undesirable effects. Discuss the effects of taxation on production. (6marks)

**QUESTION THREE (20 MARKS)**

- a) Distinguish between tax evasion and tax avoidance and provide the three reasons that might cause tax evasion. (5 Marks)
- b) The following are the purchases and sales made by Millers Ltd. During the month of August 2021. The prices were inclusive of VAT at the standard rate of 16 %.  
August 1: Purchased 400 units at Sh. 5,600 per unit  
: Sold 40 units at Sh. 7,200 per unit on the same day  
5: Sold 80 units at Sh. 7,200 per unit  
10: Sold 200 Units at Sh. 7,200 per unit  
20: Purchased 300 units at Sh. 6,400 per unit  
25: Sold 80 units at Sh. 7,200 per unit  
31: Sold 200 units at Sh. 8,000 per unit

**Required:**

- i. Input tax (4 Marks)
- ii. Output tax (6 Marks)
- iii. Tax liability (3 Marks)
- iv. On what date is the VAT due payable? (2 Marks)

**QUESTION FOUR (20 MARKS)**

Sam and Ray are partners in a business called Sawa Ltd. They share profits and losses in the ratio 3:2. The income statement for the year ended 31<sup>st</sup> December 2021 was as follows:

**SAWA LTD.**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2021**

	<u>Sh.</u>	<u>Sh.</u>
Gross profit		2,300,000
Receipts		150,000
Discounts received		80,000
Rent from property		132,000
Profit on sale of shares		100,000
Interest on deposits		<u>120,000</u>
		<b><u>2,882,000</u></b>
<b>Less: expenses</b>		
Salaries and wages	280,000	
Rent, rates, and taxes	150,000	
Office expenses	204,000	
Printing and stationeries	64,000	
Installment tax paid	45,000	
Advertising	73,000	
Interest on capital:		
Sam	60,000	
Ray	70,000	
Legal charges	82,000	
Commission to partners:		
Sam	45,000	
Ray	35,000	
Depreciation	92,000	
Bad debts	68,000	
General expenses	99,000	
Donation to famine relief	100,000	
General reserve	120,000	
Local taxes on property	12,000	
Electricity expense	46,000	
Showroom expenses	<u>117,000</u>	(1,762,000)
<b>Net profit</b>		<b><u>1,120,000</u></b>

**Additional information:**

1. Closing stock was valued at Sh. 180,000 which is 10% less than its cost price as per the market price.
2. Salaries and wages include salary amounting to Sh. 40,000 paid to Ray.
3. Legal charges included Sh. 12,000 paid as fines and penalties.

4. Ray's other income includes Sh. 120,000 from rent.
5. Capital allowances amounted to Sh. 90,000

**Required:**

- a) Compute the total taxable income from the partnership business (10 Marks)
- b) Allocate the profit among the partners (5 Marks)
- c) Determine the taxable income of each partner for the year of income 2021 (5 Marks)

**QUESTION FIVE ( 20 MARKS)**

- a) Assessments is done for the benefit of both the tax payer and the tax authorities to ensure a fair tax system is maintained. Explain five types of tax assessments that can be done. (10 marks)
- b) Most concepts have a theoretical foundation to base on. Briefly explain three theories of taxation that were used to strengthen tax systems (10 marks)