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GABA CAMPUS – ELDORET
MAIN EXAMINATION
MAY – AUGUST 2022 TRIMESTER
SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE
CAC 313: PRINCIPLES OF TAXATION

Date: July 2022	Duration: 2 Hours
Instructions: Answer Question ONE and any other TWO Questions	

QUESTION ONE

- a) Distinguish between farm deductions and capital deductions
(2 Marks)
- b) Explain the meaning of the following terms and state their effects in taxable income
- i) Trading receipts **(2 Marks)**
 - ii) Balancing change **(2 Marks)**
 - iii) Trading loss **(2 Marks)**
 - iv) Balancing deductions **(2 Marks)**
- c) Mr. Siele has two offers for employment in two engineering firms. The details of the two offers are as follows

Firm A FIRM B

Basic Salary per month	45,000	41,000
Car 1600cc (cost)	600,000	600,000

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

Required;

- i) What would you recommend to MR. Shoma. Explain the reason for your recommendation
(10 Marks)

- ii) What is the treatment of school fees? **(2 Marks)**
- d) Discuss any four factors that determine tax shifting **(4 Marks)**
- e) Miss Dorcas Juma received a notice of additional assessment dated 5.1.2022 which she does not agree with since the income assessed is wrong. She would like to know
- i) The conditions for launching a normal notice of objection **(2 Marks)**
- ii) The condition for CIT accepting a late notice of objection **(2 Marks)**

QUESTION TWO

- a) The principles of optimal tax system that are known as canon of taxation were laid down by Adam smith. Discuss three such major cannons **(3 Marks)**
- b) Richex ltd has provided the following profit and loss account for the year ended 31 December 2021

Profit and loss account for the year ended 31st December 2021

	Shs		Shs
Opening stock	524,000	Sales	10,584,000
Purchases	4,692,000	Closing stock	761,000
Manufacturing expenses	2,563,000		
Salaries and wages	252,000		
Supplier consumed	466,000		
General expenses	85,000		
Interest on loan	364,000		
Commission and brokerage	90,000		
Directors fees	55,000		
Auditors fees	70,000		
Taxes	43,000		
Bad debts reserve	296,000		
Depreciation	648,000		
Managing directors remuneration	126,000		
Reserves	750,000		
Provision for dividends	300,000		
Profit for year	21,000		
	11,345,000		11,345,000

The following additional information is provided

- i) Salaries and wages include shs 20,000 and contributed by the company to unregistered pension scheme
- ii) General expenses include shs 15,000 for donation shs 10,000 for contribution to business pressure group that protest traders of the same kind
- iii) Taxes represents VAT paid
- iv) Bad debt (specific) are shs 180,000
- v) The fixed asset schedule is as follows

Asset	Year	Cost Kshs
Factory building	2018	4,000,000 net of I.D
Additional plant	2021	2,000,000 bought to use on 1.1.2021
Factory machinery	2019	4,800,000 net I.D
N	2021	6,000,000 fixed in new building
Computers	2021	1,000,000
Furniture	2021	640,000

Required;

- a) Compute the capital allowances for the company **(9 Marks)**
- b) Show the adjusted profit(loss) for tax purposes for the year **(5 Marks)**
- c) Calculate the tax payable thereon **(3 Marks)**

QUESTION THREE

- a) Differentiate between tax burden and tax incidence **(4 Marks)**

You have been approach by directors of a company to help them in their return for the year 2021.The following information is available

Write down values as at 30.11.2020

	Kshs
Lorries	250,000
Tractors	375,000
Saloons	1,250,000
Equipment	275,000
Computers	300,000
Furniture	725,000
Greenhouse at cost shs	1,200,000
Furniture cost	1,500,000

Additional information

- i) A Mercedes Benz was purchased for the directors at Kshs 2,500,000
- ii) Four cars were traded in for four new ones. The value of the cash was shs 750,000 each. The company used a payment of shs 600,000 for each of the four cars acquired.
- iii) An irrigation system was installed at a cost of KHz 900,000
- iv) Anew water pump was acquired at a cost of Kshs 200,000

Required;

- i) Compute the capital allowance for the company ltd as at 31.12.2021
(14 Marks)
- ii) Comment on the motor vehicle benefit for the car used by the director
(2 Marks)

QUESTION FOUR

- a) Explain the following income tax terms
 - i) Year of income **(2 Marks)**
 - ii) Business **(2 Marks)**
 - iii) Resident when applied to an individual **(2 Marks)**

- b) The income tax of married woman living with her husband is deemed to be the income of the husband for the purpose of ascertaining chargeable income. 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)**

- c) An aggrieved tax payer may appeal against the commissioner's decision to the local committee in his income tax district or the tribunal in Nairobi.
- i) Under what circumstances can the appeal be made to the tribunal
(4 Marks)
 - ii) What are the requirements of a valid memorandum of appeal to the local committee
(3 Marks)
 - iii) State the rules governing the payment of tax assessed pending the determination of the appeal
(2 Marks)

END