



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FIRST YEAR FIRST TERM EXAMINATION FOR

DIPLOMA IN ACCOUNTANCY

TAXATION

DATE: 10/6/2021

TIME: 2.30-5.30 PM

INSTRUCTIONS:

Answer any three questions

QUESTION ONE

Name and briefly explain four major principles of a good tax system. (20 marks)

QUESTION TWO

- a) Explain the concept of elasticity with respect to:
- (i) Direct Tax (2 marks)
 - (ii) Indirect Tax. (3 marks)
- b) Name five objectives of raising taxes and explain how they are achieved by the government. (15 marks)

QUESTION THREE

The trial balance of Kitu and Watu, trading as partners and sharing profits in the ratio 2:3 as at 31 December 2005 is as follows:

	Sh.	Sh.
Capital:		3,600,000
Kitu		5,221,000
Watu		
Factory building	5,000,000	
Furniture at cost	750,000	
Factory equipment at cost	2,000,000	
Director's car at cost	1,000,000	
Provision for depreciation		710,000
Depreciation expense	115,000	
Debtors and prepayments	1,050,000	
Stocks as at 31 December 2005	1,042,000	853,000
Creditors and accruals	720,000	
Balance at bank		4,165,000
Gross profit on trading	300,000	
Rent and rates	826,000	
Office salaries	600,000	
Partners salaries	210,000	
Advertising costs	236,000	
Transport costs	100,000	
Deposit on new equipment	600,000	
Short term investment	14,549,000	14,549,000
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The following additional information is provided:

1. Rent and rates are for fifteen months to 31 March 2006
2. The partners have contracted to purchase new equipment for the factory at a cost of Sh.500,000. A debt of Sh.100,000 was paid during December 2005 and the remainder will be paid during January 2006 when ... is expected.
3. The factory building has been revalued from Sh.4,000,000
4. The partnership started operating on 1 January 2005
5. Partnership salaries are taken equally
6. Interest on capital is to be provided at 10% on balance given.

Required:

- a) Taxable partnership profit for the year of income 2005. (15 marks)
- b) Show the allocation between partners. (5 marks)

QUESTION FOUR

Flora Mwendu. has been in the flower business for many years. The profit and loss account for the year ended 31 December 2005 is as follows:

	Sh.	Sh.
Sales		29,489,600
Less: Cost of sales		<u>20,902,400</u>
Gross profit		8,587,200
Less expenses:		
Salaries and wages	4,543,200	
Shop expenses (rent, rates, lighting and telephone)	1,708,800	
Printing and stationery	332,000	
Motor vehicle expenses	96,000	
Depreciation – motor vehicle	99,200	
Legal expenses	46,400	
Redundancy payments to retrenchment staff	144,800	
Sundry expenses (all allowable)	36,000	7,140,800
Bad and doubtful debts		1,446,400
Loss on sale of motor van		102,400
		<u>1,548,800</u>
Net profit		

Additional information:

1. Capital allowances have been agreed with the Commissioner of Income Tax at Sh.84,000.
2. The Ledger account for bad and doubtful debts for the year is as follows:

Bad and doubtful debts

	Sh.		Sh.
Debts written off:		Balances brought forward:	
Customers	31,200	General provision	14,400
Staff	1,600	Specific provision	21,600
Balances carried forward:	24,000	Bad debts recovered (previously allowed)	4,000
General provision	84,800	Profit and loss	44,800
Specific provision	<u>84,800</u>		<u>84,800</u>

3. Legal expenses consist of:

	Sh.
Advice on staff service contracts	23,200
Tax appeals	38,400
Debt collection	<u>37,600</u>
	<u>99,200</u>

Required:

Compute the adjusted taxable profit or loss for Flora Limited for the year 2005. (20 marks)