



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH IT

3RD YEAR 1ST SEMESTER 2015/2016 ACADEMIC YEAR
KISII CAMPUS-PART TIME

COURSE CODE: ABA 301

COURSE TITLE: PRINCIPLES OF TAXATION

EXAM VENUE:

STREAM: (ABA)

DATE:

EXAM SESSION: MAY-AUG 2016

TIME: 2 HOURS

Instructions:

1. Answer QUESTION ONE and any other two questions
2. Candidates are advised not to write on the question paper.
3. Candidates must hand in their answer booklets to the invigilator while in the examination room .

QUESTION ONE[30 MARKS]

a) X,Y and Z are in partnership trading as XYZ enterprises. They share profits and losses in the ratio of 2:2:1. In the year 2015,they reported a loss of shs.100,000 after charging the following items in their income statement. Shs.

Depreciation	50,000
Salaries A	180,000
B	160,000
C	100,000
Interest on capital A	48,000
C	52,000
Commission B	100,000
Stationery	25,000
Office expenses	50,000

Required : Calculate the adjusted profit and prepare profit distribution schedule for partners

(8 marks)

b) Explain five principles of an optimal tax system

(10 marks)

c) Outline the conditions that must be satisfied for residence for taxation purposes incase of:

i) An individual

ii) Company

(7marks)

d) Explain four classes unto which wear and tear allowances are subdivided into. 5 marks

QUESTION TWO(20 marks)

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

	Firm A	Firm B
	Sh.	Sh.
Basic pay per month	90,000	81,000
Benefits:		
Housing (market rent) p.m.	75,000	80,000
Car 1600cc (cost)	1,100,000	1,100,000

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

Required:

What offer would you recommend to Mr. Shoma? Explain the reasons for your recommendation.

QUESTION THREE(20 MARKS)

Rai, Sai and Tai are former school mates who were doing business together. The business is not registered but they registered themselves as equals in it. They keep proper books of account and have been able to provide the following profit and loss account for the year ended 31 December 2015.

Profit and Loss Account

Establishment expenses	Sh. 800,000	Gross profit	Sh. 1,908,000
Rent of business premises owned by all of them jointly	180,000	Sundry receipts	80,000
Interest expense	80,000	Interest Income	72,000
Stationery and printing	120,000	Profit on sale of shares	200,000
Light and heating	40,000	Gross income from farming	340,000
General farm expenses	294,000	Lottery winnings	800,000
Repair of premises	40,000	Dividend (Gross)	120,000
Depreciation	300,000		
Interest on partner's capital:			
Rai	80,000		
Tai	120,000		
Salary to Sai	160,000		
Commission to partners:			
Rai	96,000		
Sai	96,000		
Tai	96,000		
Bad debts	240,000		
Gifts, present and charity	40,000		
Donation to child welfare	200,000		
Interest on loan taken to pay			

Income tax	20,000	
Legal charges	120,000	
Net profit	<u>398,000</u>	
	<u>3,520,000</u>	<u>3,520,000</u>

Additional information:

- Capital allowances have been agreed as follows: Wear and Tear allowances sh.180,000; Farm works deductions sh.120,000.
- The partners had borrowed Sh.400,000 with a hope of investing it on fixed securities to earn more income interest rates nevertheless declined. Interest expense of Sh.80,000 and interest income of Sh.72,000 relate to the loan.
- Legal charges include Sh.40,000 paid to finish a case in the customs department.
- In 2015, the partners brought forward losses amounting to Sh.800,000 from this business.

Required:

- Compute taxable income derived from the partnership (16 marks)
- Show allocation among partners. (4 marks)

QUESTION FOUR[20 marks]

- Taxation plays a critical role in economic development. Justify the importance of taxation in Kenya (12 marks)
- Outline four advantages and disadvantages of direct taxes (8 marks)

QUESTION FIVE [20 marks]

- Distinguish between tax evasion and tax avoidance. (8 marks)

(b) Write explanatory notes on:

(a.a.i) Taxation of pension income for a retired employee; (3 marks)

(a.a.ii) Allowable deductions for contributions to a registered pension scheme; (3 marks)

c) Explain the following in relation to taxation:

i) progressive taxes (2 marks)

ii) Balancing charge (2 marks)

iii) Trading receipt

(2 marks)