



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATIONS 2016

(SEPTEMBER-DECEMBER 2016)

YEAR THREE FIRST SEMESTER EXAMINATIONS FOR BACHELOR OF BUSINESS ADMINISTRATION

WITH INFORMATION TECHNOLOGY

(MAIN CAMPUS)

ABA 301: PRINCIPLES OF TAXATION

Date:

Time: 2Hours

INSTRUCTIONS

- 1.** Answer Question **ONE** and any other **TWO** Questions
- 2.** Question **ONE** carries **30** marks, the rest **20** marks each

QUESTION ONE (20 marks)

- i) In relation to fiscal policy, discuss the primary objectives of effective tax policy for developing a country (4 marks)
- ii) Distinguish between absolute taxable capacity and relative taxable capacity(4 marks)
- iii) In an attempt to achieve equity in taxation the several principles are applied. Discuss any three principles of taxation (6 marks)
- iv) It is held that income must be distinguished from capital profits , on this basis explain the case below: (6 marks)

BRITISH INSULATED AND HELSBY CABLE LTD. V ATHERTON.

Facts: *BIHC established a pension fund by trust deed for the benefit of its clerical and technical salaried staff. A lump sum payment £31,784 was made irrevocably as the nucleus of the pension fund. BIHC claimed as a deduction in computing its chargeable income, the lump sum payment.*

Held: *Sum not admissible deduction.*

QUESTION TWO (20 Marks)

The profit and loss account of KKB, a trader in the city show the following details for year ended 31 Dec, 2014.

	Kshs	Kshs
Sales		1,200,000
Opening stock	166,000	
Add purchases	375,000	
Less closing stock	<u>(150,000)</u>	<u>391,000</u>
Gross profit		809,000
Other Income		
Interest Post Office Savings Bank	120,000	
Baclays Bank Interest (Gross)	20,000	
Sweepstake winnings	35,500	
Sale of a plot at Mathare, Nairobi	<u>16,500</u>	<u>192,000</u>
		1,001,000
Less:- Sundry expenses		<u>(458,000)</u>
Net Profit		<u>543,000</u>

Additional information

- i) Payment from a resident insurance company for trading stock destroyed by fire amounting to Sh.115, 000 has been included in drawings account.
- ii) A creditor cancelled an amount payable to him by Mr. KKB of Sh.35, 000 also included in drawings account.
- iii) Sundry expenses in Mr. KKB's profit and loss account include: a second hand furniture bought during the year Sh.20,500; alimony paid to former wife he divorced Sh.14,500; subscription of Sh.8,000 paid to a welfare association of which he is a member;
- iv) Paid with amount drawn and included in drawings account were: Insurance premium of Sh.13,000 against fire in respect of trading stock; Painting of business premises for Sh.5,000; Stationary for Sh.3,500

You are required to Compute Mr. KKB's taxable income for Year 2014.

QUESTION THREE (20 marks)

- a) A mining company incurred the following expenditure prior to mining operations:

Search for minerals	kshs 300,000
Discovery of the minerals	kshs 60,000
Testing of the minerals	kshs 240,000
Winning access to deposits	kshs 150,000
Acquisition of patent rights	kshs 60,000

Buildings, machinery other than those qualifying for wear & tear allowance was kshs 540,000. General administration before commencement kshs_300,000

You are required to compute mining allowance. (7 marks)

- b) Discuss the aspects of concern that are of concern during tax planning in a business organization (5 marks)
- c) Discuss the role of taxation in economic development (8 marks)

QUESTION FOUR (20 marks)

- i) Company ABC Ltd. is to pay interest on debt capital of 15% where corporation tax rate of 30%. Compute the effective cost of debt capital (5 marks)
- ii) Discuss the penalties imposed under the VAT act of Kenya (10 marks)
- iii) Distinguish between exemptions and concessions in taxation (5 marks)

QUESTION FIVE (20 marks)

- i) Discuss the factors affecting the taxable capacity of a country (15 marks)
- ii) Distinguish between tax rate structure and tax base (5 marks)