



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 2016/2017 ACADEMIC YEAR
RE-SIT EXAM MAIN

COURSE CODE: ABA 301

TITLE: PRINCIPLES OF TAXATION

EXAM VENUE:

STREAM: (BBA – FINANCE)

DATE: 06/05/2016

EXAM SESSION: 2.00 – 4.00 PM

TIME: 2 HOURS

Instructions:

- 1. Answer Question ONE (COMPULSORY) and ANY other 2 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

- (a) (i) Distinguish between a direct and indirect tax. (4 marks)
- (ii) Is Value Added Tax (VAT) a direct or indirect tax? Explain (2 marks)
- (b) What are the rules governing the payment of VAT? Specify the additional tax that may arise from failure to comply with those rules. (3 marks)
- (c) (i) Mr. Mali Mingi is a hardware merchant. He purchases cement from Athi Cement Ltd. which he then sells to his customers. Both Mali Mingi and Athi Cement Ltd. require a profit margin of 20% on cost. Cement attracts 16% VAT. If the cost of production by Athi Cement Ltd. is Sh.220 per bag of 50Kg. At what price should Mali Mingi sell a bag of cement including VAT? (4 marks)
- (ii) What VAT is payable to the Collector of VAT by Mr. Mali Mingi per 50 Kilogramme bag? (3 marks)
- (d) Distinguish between tax evasion and tax avoidance. (3 marks)
- (e) The recent debate relating to importation of goods through the port of Mombasa has had one of its issues the amount of tax assessed. Specify and explain clearly at least three ways in which the Government may lose tax revenue on imports. (3 marks)
- (f) Suggest three possible ways in which the Government may prevent loss of tax revenue from imports. (3 marks)
- (g) Should citizens feel obliged to pay tax? Explain. (3 marks)

QUESTION TWO

- (a) Many farmers in the rural areas are unaware of the benefits accorded to them in form of capital allowances under the Income Tax Act. Write a brief summary on capital allowances which may be available to the farmer. (6 marks)
- (b) On 1 January 2010, Pesa Limited brought into full operation its Limuru Factory of producing bottle tops. The following expenditure had been incurred up to that date.

| | Sh. |
|---|------------------------|
| Factory building (including store and showroom of Sh.600,000 and 800,000 respectively) | 5,600,000 8,000,000 |
| New machinery installed: Fixed | 2,000,000 |
| Moveable | 4,800,000 |
| Delivery trucks (6980cc each) | 1,600,000 |

| | |
|------------------|-----------|
| Office furniture | 2,400,000 |
| Computers | 800,000 |
| Workers' canteen | |

In 2012, additional machinery worth Sh.1,200,000 was purchased and installed in the store at a cost of Sh.320,000. It was brought to use on 1 January 2012 to produce can tops. A saloon car worth sh.600,000 was also purchased.

Required:

Compute the capital allowances due to the company in 2010, 2011 and 2012. (14 marks)

QUESTION THREE

- (a) Explain clearly the nature of a public good with specific reference to provision of education in Kenya today and the role taxes play under such circumstances. (10 marks)
- (b) What is the principle of cost sharing and to what extent does it influence the level of taxation? (8 marks)

QUESTION FOUR

- (a) List and explain any three deductions that may be available against gains or profits from employment. (3 marks)
- (b) Mr. Manubhai works as a sales manager with Kenya Bats Limited. The following are his employment details for the year ended 31 December 2012. The company pays him a salary of Sh.90,000 per month. He is a member of the company's pension scheme which is registered with the Commissioner for Income Tax. He contributes five percent of his salary and company contributes ten per cent.

He has a co-operative loan which he repays at the rate of sh.9,967 per month.

The company bought for him a car on loan and repays Sh.10,160 per month towards the loan. Drought levy has been agreed at Sh.1,438 per month.

Mr. Manubhai lives in Nairobi and is married with two children. His Payroll Number is FD0095/12.

Statutory deductions are: NSSF Sh.200 per month
NHIF Sh.320 per month.

Required:

- (i) A well laid out statement in respect of the month of December 2012 showing the income tax and other deductions; and net pay for Mr. Manubhai. (8 marks)
- (ii) Would you agree that current income tax rules regarding payment of tax discriminate against employees when compared to companies? Explain. (4 marks)

QUESTION FIVE

Write explanatory notes on the taxes listed below and in each case indicate whether the tax complies with the main principles of a good tax system.

- (a) Presumptive tax on agricultural produce. (5 marks)
- (b) Cess on agricultural produce. (5 marks)
- (c) Trade licence chargeable to professionals. (5 marks)
- (d) Stamp duties on transfer of properties. (5 marks)