



**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 2018/2019 ACADEMIC YEAR
MAIN CAMPUS**

COURSE CODE: ABA 301

COURSE TITLE: PRINCIPLES OF TAXATION

EXAM VENUE:

STREAM: (BBA)

DATE:

EXAM SESSION:

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) Briefly explain the principles of a good tax system. (10Marks)
- b) Alex Kipkoech is employed by Zintac Ltd. as a salesman. He provided the following information relating to his income and that of his wife for the year ended 31 December 2017:
1. His monthly basic salary is Sh. 60,000 (PAYE Sh. 15,000 per month).
 2. He is also entitled to a commission based on 5% of all extra sales he makes above Sh. 200,000 per month. His sales for the months of March, June, August and October 2017 amounted to 250,000, Sh.300,000, Sh.220,000 and Sh.215,000 respectively.
 3. He lives in a company house and pays a nominal rent of Sh. 8,000 per month. The market rental value of the house is Sh. 45,000 per month.
 4. The company reimburses him for all out-of- pocket expenses incurred on the official use of his car. In the year 2017, the amount reimbursed was Sh. 90,000, he had purchased the car in the year 2014 at cost of Sh. 800,000. The car has an engine capacity of 1600cc.
 5. The education fees for his two children amounting to Sh. 200,000 was paid by the company during the year. This amount was charged to the company's income statement.
 6. He earned a net interest income of Sh. 150,000 during the year from his investments in housing development bonds.
 7. He is contemplating purchasing a house for his residence in the near future. In the year 2017, he invested Sh. 100,000 in a registered home ownership savings plan and earned an interest income of Sh. 10,000.
 8. He has a life insurance policy for self and family for which he pays a total premium of Sh.45,000 per annum.
 9. He has a farm which generated a surplus of Sh. 120,000 during the year. A tax of Sh. 15,000 had been deducted under presumptive tax regulations.
 10. His wife has invested in the shares of a quoted company. She received a dividend of Sh. 12,000 (net) from the shares in the year 2017.

Required:

- (i) Compute the total taxable income of Alex Kipkoech for the year ended 31 December 2017. (10 marks)
- (ii) Determine his tax liability from the income computed in (i) above. (4 marks)
- c) Giving appropriate examples, distinguish between forward and backward tax shifting. (3 Marks)
- d) Differentiate between Low interest benefit and fringe benefit. (4marks)

QUESTION TWO

- a) Differentiate between tax avoidance and tax evasion (4 Marks)
- b) Briefly explain the role of taxation in achieving the budgetary objectives for a developing countries like Kenya. (10 Marks)
- c) Enumerate on the tax incentives for enterprises operating within Export Processing Zones (EPZs) in Kenya. (6 marks)

QUESTION THREE

- i. Clearly explain the role played by taxation in economic development of a county like Kenya. (10 Marks)
- ii. Mr. Collin's employment contract for 5 years is terminated on 31st Dec 2016 after it had run 3 years. Compensation of Sh. 1.5 Million is paid to the employee and the employee's rate of earning as at the date of termination was Sh. 500,000 per annum .

Required

Establish the amount of the compensation that will be assessed to tax showing clearly the years to which it relates. (5 Marks)

- iii) Enumerate the factors influencing tax shifting (5 Marks)

QUESTION FOUR

Fefra Limited a company making various leather products, commenced operation on 1st January 2009. The following information relate to the assets that the company purchased or constructed before the commencement of the operations.

Assets	Cost (shs.)
Factory building (including ware house Kshs. 700,000)	3,800,000
Parking bay	480,000
Drainage systems	240,000
Design room	180,000
Motor Van	420,000
Processing machinery	1,680,000
Security wall and fencing	720,000
Office block (including staff clinic Kshs. 380,000)	780,000

Additional information:

- i) The company has obtained a loan of Kshs. 3,800,000 at an interest rate of 15% per annum to fund the construction of the factory building. The first loan repayment was due on 31st December 2009.
- ii) On 1st October 2009, a part of the ware house was damaged by fire. The loss was estimated at Kshs. 360,000 including stock worth Kshs. 35,000. A total of kshs. 280,000 was received from the insurance company as compensation, which include Kshs.20,000 for loss of stock. The ware house was subsequently repaired.
- iii) On 30th November 2009, the company undertook electrical wiring of the factory building at a cost of Kshs. 1,400,000.00.
- iv) On 1st December 2009, the company sunk a borehole at a cost of Kshs. 600,000 and installed a water pump for Kshs. 460,000
- v) An amount of Kshs. 200,000 in respect of import duty and Kshs. 36,000 for value added tax were paid in relation to the processing of the machinery.
- vi) A speed governor valued at Ksh. 80,000 was installed in the delivery van as per the traffic regulations.
- vii) The company reported a gross profit of Kshs. 9,800,000 for the year ended 31st December 2009, before deducting operating expenses of Kshs. 2,480,000 and capital allowances.

Required:

For the year ended 31st December 2009, determine for Fefra Limited:

- i) Capital Allowance Due (7 marks)
- ii) Taxable Profit or loss (7 marks)
- iii) Explain the reasons why a country might prefer a multiple tax system over a single tax system (6 marks)

QUESTION FIVE

- i) A notice of assessment is a standard form issued by the commissioner of domestic taxes. Briefly explain the five types of notices of assessments (10 Marks)
- ii) With relevant examples differentiate between impact of tax and incidence of tax. (2 marks)
- iii) Explain the meaning of the below terminologies as used in taxation:-
 - a) Assessment year (2 Marks)
 - b) Accounting period (2 Marks)
 - c) Year of income (2 Marks)
 - d) Permanent establishment (2 Marks)