



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS AND ECONOMICS**

**UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF
BUSINESS ADMINISTRATION**

3RD YEAR 1ST SEMESTER 2020 ACADEMIC YEAR

KISUMU CAMPUS –PART TIME

COURSE CODE : ABA 301

COURSE TITEL : PRINCIPLES OF TAXATION

EXAM VENUE : STREAM : BBA

DATE :1/12/20 EXAM SESSION : 9-12 NOON

TIME : 3 HOURS

Instruction:

1. Answer Question ONE (COMPULSORY) and any TWO questions

- 1. Candidates are advised to write on the text editor provided, or to write on a foolscap, scan and upload alongside the question.**
 - 2. Candidates must ensure that they submit their work by clicking 'FINISH AND SUBMIT ATTEMPT' button at the end.**
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QUESTION ONE

- a. Mapa Ltd. is a manufacturing company operating in Nairobi industrial area. The following information was obtained from the books of the company for the year ended 31st December 2007.

1. The reported profits for the year before capital allowances amounted to Sh4,296,000
2. The written down values of assets for capital allowance purposes as at 1 January 2007 were as follows

	Sh
Computers	390,000
Plant and machinery	3,640,000
Tractors	940,000
Furniture and fittings	120,000
Motor vehicles	740,000

3. The factory building constructed on 1 January 2002, and put into use on 1 January 2003 had a written down value of Sh1,665,000 as at 1 January 2007.

4. The following assets were constructed or acquired during the year.

Asset	Cost (Sh.)
Warehouse	784,000
Security wall	160,000
Showroom	348,000
Computer and peripherals	96,000
Motor vehicles	2,000,000
Lorry (3 tonnes)	1,290,000
Office cabinets	84,000
Conveyor belts	180,000
Processing machinery	680,000

5. During the year, a motor vehicle (saloon) which was purchased in 1997 for sh600,000 was disposed of for sh240,000.

6. The company demolished a factory extension in July 2007 at a cost of Sh180,000 in order to conform to industry safety standards.

7. The company sunk a water borehole at a cost of Sh 560,000 which was put into use on 1 September 2007.

b.

Required:

- i. Capital allowances due to the company for the year ended 31 December 2007 (12 marks)
 - ii. Adjusted taxable profit or loss for the year ended 31 December 2007 (2 marks)
- c. Identify four measures that a government may put in place to discourage dumping. (4 marks)
- d. Define the following terms
- i. Impact of a tax (2 marks)
 - ii. Incidence of a tax (2 marks)
- e. Comment on the treatment for withholding tax purposes of each of the following incomes received by a resident tax payer:
- i. Management fees (2 marks)
 - ii. Royalties (2 marks)
 - iii. Insurance commission (2 marks)
 - iv. Rent (2 marks)

QUESTION TWO

- a) Briefly explain the VAT treatment for each of the following items, clearly indicating who has the responsibility of remitting the tax to the tax authorities:
- i. Hotel and restaurant services (2 marks)
 - ii. Transportation of raw materials (2 marks)
 - iii. Medical services (2 marks)
 - iv. Mobile phone airtime (2 marks)
- b) With reference to the Customs and Excise Act (Cap.476), distinguish between 'prohibited goods' and 'restricted goods'. (4 marks)
- c) (i) Define the term "fiscal policy". (2 marks)
- (ii) State six objectives of fiscal policies with specific reference to the needs of developing countries. (6 marks)

QUESTION THREE

- a) Briefly explain the responsibility of partners with respect to:
 - (i) Filing of the partnership tax returns. (3 marks)
 - (ii) Penalties for late payment of tax (2 marks)

- b) Briefly explain the Benefit Theory of Taxation. (5 marks)

- c) Distinguish between farm-work deductions and capital deductions. (4 marks)

- d) List two types of buildings that qualify for industrial buildings deduction (IBD) under the second schedule of the Income Tax Act (Cap 470) (2 marks)

- e) Briefly explain the extent to which the following taxes can be shifted.
 - i. Income tax (2 marks)
 - ii. Customs duty (2 marks)

QUESTION FOUR

- a) Explain the tax position of the income of a deceased person. (2 marks)

- b) What is 'set-off' tax? (2 marks)

- c) Mrs. Ongera works with Anga Ltd. and has provided you with the following information for the year ended 31 December 2007.
 - i. Pension from previous employment Sh.20,000 per month.
 - ii. Salary sh.120,000 per month (P.A.Y.E Sh.42,000 per month)
 - iii. Mrs. Ongera and her husband own a company whose taxable income was agreed at Sh.500,000 after charging husband's salary of Sh.250,000 per month (P.A.Y.E sh.60,000 per month).
 - iv. Anga Ltd. provided a company house to Mrs. Ongera in South B where rent of similar houses was Sh.20,000 per month.
 - v. Mrs. Ongera works over-time and her over-time income averages Sh.10,000 per month.
 - vi. Mrs. Ongera enjoyed medical benefit of Sh.160,000 during the year. She is a senior manager and the company has medical cover for all its employees.
 - vii. She obtained free consumables from the company as a Christmas gift worth Sh.30,000 during the year.

- viii. Mrs. Ongera owns rental property at Komarock Estate and receives Sh.50,000 as rental income per month. During the year, She incurred Sh.60,000 in renovations, repairs and painting before letting the property. She had obtained a mortgage loan from Housing Finance Company amounting to Sh 3,000,000. She paid Sh 900,000 during the year of which Sh 500,000 was principal.
- ix. Mrs. Ongera owns 20% of the shares of Anga Ltd.

Required:

- i. The taxable income for Mr and Mrs Ongera for the year of income 2007. (10 marks)
- ii. Tax payable on the income computed above. (4 marks)
- iii. Mrs. Ongera did not fill her self-assessment return form for 2007. State the penalties due, if any. (2 marks)

QUESTION FIVE

- a) Outline the importance of a tax invoice in the administration of VAT. (2marks)
- b) Identify any four instruments on which stamp duty is chargeable (4 marks).
- c) With reference to the Customs and Excise Act (Cap. 472), outline four circumstances under which the Commissioner may grant a refund for import duty paid. (4 marks)
- d) The revenue authority may send its officers to employer's paying points to check the operations of PAYE system. Outline the key areas that the tax officers should include in the audit procedure on the operations of the PAYE systems (10 marks)