

JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

KISII LEARNING CENTRE

DEGREE IN BUSINESS ADMINISTRATION

ABA 301 PRINCIPLES OF TAXATION AUGUST 2014 EXAMINATIONS

INSTRUCTIONS:QUESTION ONE IS COMPULSORY AND ANY OTHER TWO

QUESTIONS

QUESTION ONE

(a) (i) Discuss principles of an optimal tax system (10 marks)

ii) Explain the purposes of taxation in an economy (6marks)

b) List and explain deductions that may be available against gains or profits from employment.

(8 marks)

[30 MARKS]

QUESTION TWO

The partners of Festa Brothers reported a loss of Sh.250,000 for the year ended 31 August 2010 after deducting the following expenses:

	Sh.
Salaries and wages	450,000
Partners drawings	360,000
Loss on sale of investment	15,000
Professional fees	120,000
Travelling expenses	650,000
Purchases	5,250,000
Repairs and maintenance	320,000
Depreciation	650,000
Rent and rates	240,000
Telephone	60,000
Postage and stationery	175,000
Bank charges and interest	24,000
Salaries to partners:	
S. Festa	50,000
M. Festa	50,000
N. Festa	100,000
Donations	20,000
Purchase of computer	200,000

Bad debts written off	65,000
Interest on capital:	
S. Festa	20,000
M. Festa	20,000

Notes:

1. Agreed written down values of the assets as at 31 August 2010
Class I – Sh.1,250,000; Class III – Sh.250,000; Class IV – Sh.375,000.
2. The partners share profits and losses equally after salaries and interest.
3. The wife of S. Festa is a full time employee of the company and was paid a salary of Sh.120,000 during the year.
4. The partners have no other source of income other than from the partnership.

Required:

Calculate the taxable profit (loss) of the partnership for the year ended 31 August 2010
[20 marks]

QUESTION THREE

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 summary on capital allowances which may be available to the farmer.

[20marks]

QUESTION FOUR

a) State and explain from tax perspective whether each of the following items are capital or revenue.

- Legal and professional fees on computerization.
- Structural alterations to premises to maintain existing rent.
- Legal costs and stamp duty for acquisition of lease of business premises
- Expenditure on advertising to promote sale of goods or services provided by a business income tax
- Reserves and provisions. 15 marks

- (b) Give five examples of non-taxable income. 5 marks
[20 marks]

QUESTION FIVE

Ouro Co. Ltd., a company dealing in hardware, prepares its accounts to 30 June each year. The following information relates to the year ended 30 June 2010.

- i) **Written down value of assets brought forward for Income Tax purpose:**

Class I	Class III	Class IV
37½%	25%	12½%
<i>Shs</i>	<i>Shs</i>	<i>Shs</i>

	Written Down Value 30.6.2009	175,000	180,000	87,000
ii)	Disposals during the year:			
		Cost	Net Book Value	Sales proceeds
		Shs	Shs	Shs
	Isuzu Lorry	280,000	175,000	260,000
	Motor car (purchased in 1.3.2009)	1,160,000	1,015,000	800,000
iii)	Additions during the year			Shs
	Mercedes Benz sports car for director			4,000,000
	Second-hand Tractor			80,000
	Trailer occasionally used by tractor			80,000
	Shop fittings			60,000
	Computer bought 1.3.2010			250,000
	Telephone system bought 1.9.2009			72,000
iv)	the office safe which cost Shs 30,000, in 2007 was traded-in for a more modern safe costing Shs 40,000. The old safe was valued at Shs 20,000 and the company paid the balance of Sh,20,000 to acquire the new safe. The net book value of the old safe was Shs 22,968 at 30.6.2009.			

Required

Calculate the wear and tear deductions due to the company for the year 2010.

20 marks