

**W1-2-60-1-6**

**JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2016/2017**

**I EXAMINATION FOR THE DIPLOMA IN BUSINESS ADMINISTRATION**

**HCB 0208: THEORY OF TAXATION**

**DATE: AUGUST 2017 TIME: 1.5 HOURS**

**INSTRUCTIONS: Answer question one and any other two questions.**

QUESTION ONE

a. Explain five objectives of taxation. (10 marks)

b. Explain five advantages of direct taxes. (10 marks)

c. Explain five principles of taxation. (10 marks)

QUESTION TWO

a. Explain eight diagnostic tests for a good tax system. (16 marks)

b. State four reasons why accounting profits is not same as taxable profit. (4 marks)

QUESTION THREE

a. Mr Kamau, helped by his wife run a kiosk in Nakuru, His receipts and expenditure account information as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Expenses |  | Receipt |  |
| Purchase of grocery | 6215 | Sale of food | 15645 |
| Wages to staff | 3912 | Juke box collection | 1903 |
| NSSF and PAYE | 360 | Sale of old cooker & furniture | 211 |
| Gas and electricity | 613 | Winning of lottery | 650 |
| Salary to wife | 900 | losses | 1234 |
| Cleaning materials , flowers | 319 |  |  |
| Utensils | 216 |  |  |
| Repairs and renewals | 816 |  |  |
| Insurance | 430 |  |  |
| Legal expenses | 316 |  |  |
| Household exp (sch fees) | 2215 |  |  |
| Car running expenses | 915 |  |  |
|  | 19643 |  |  |

The family lives in the flat above business premises the rent is apportionable 2/5 flat and 3/5 tea house. Insurance (premium ) amounts to 140 in respect of Kamau’s life insurance policy. Kamau Personal use of the car is about 40% of total mileage. Mr Kamau has not paid rent 200 for December and shop grocery bills amounts 316.

analysis of repair and rewards

Paintings and decorations. 216

New furniture 418

Repairs to toilets 182 (816)

At the beginning of the year there was stock of a grocery amounting to 115 and at the end of the year 96.

a. Calculate adjusted Profit and loss a/c for the year income tax purposes ignore any second scheduled deductions that may be due. (12 marks)

b. Explain all the assumption made in arriving at the adjusted profits. (4 marks)

c. Make any enquiries and comment you consider necessary. (4 marks)

QUESTION FOUR

a. Outline five advantages of indirect taxes. (10 marks)

b. Explain forward and Backward shifting of tax using examples. (4 marks)

c. Explain two theories which explain shifting tax incidence. (6 marks)

QUESTION FIVE

a. Explain the treatment of the following types of taxes.

 i. Custom duties. (2 marks)

 ii. A tax on profits. (2 marks)

 iii. Taxes on profits (2 marks)

 iv. Taxes on net income (2 marks)

 v. Inheritances and gifts (2 marks)

b. Explain the professionals listed at the fifth schedule of section 10 of income tax, who have specific allowable expenditures. (10 marks)