

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

**JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2014/2015**

**YEAR II SEMESTER II EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE**

**HBC 2123: INTRODUCTION TO TAXATION**

**DATE:AUGUST 2015 TIME: 2 HOURS:**

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

**QUESTION ONE (30 MARKS)**

a. List any five items that are included in the monthly pay – slip. (5 marks)

b. Using relevant diagrams explain the difference between proportional tax system and Regressive tax system. (6 marks)

c. Explain the case for and against direct taxes. (6 marks)

d. Explain six objectives of taxation in the modern economy. (6 marks)

e. Explain the various ways through which the tax policy can be used to promote growth of small and medium size enterprises in Kenya. (7 marks)

**QUESTION TWO (20 MARKS)**

a. Explain the importance of tax invoices in the determination of VAT tax. (5 marks)

b. The management of cocody ltd presented the following information relating to the company’s transactions for the six months ended 30th June 2013.

|  |  |  |
| --- | --- | --- |
| Months | Purchases (kshs) | Sales (kshs) |
| January | 1500000 | 2200000 |
| February | 1800000 | 2700000 |
| March | 1700000 | 2000000 |
| April | 1500000 | 9000000 |
| May | 4000000 | 600000 |
| June | 2000000 | 2600000 |

The amounts stated above were inclusive of VAT at the rate of 16%

Required

Determine VAT payable or refundable for each of the six months from January to June 2010.

**QUESTION THREE**

a. Explain five main sources of public revenue to the Kenyan government. (10 marks)

b. Discuss three objectives of fiscal policy as a tool of increasing economic development in the country. (6 marks)

c. Distinguish between tax evasion and tax avoidance. (4 marks)

QUESTION FOUR

a. Mr Kobia had the following income for the year 2013.

|  |  |
| --- | --- |
| Salary | Shs 170000(PAYE SH 25000) |
| Dividends | SHS 30000 withholding tax sh 4500) |
| Free company car | 1200 CC |

Waterbill was paid by employer and amounted to the prescribed benefit rate.

Required

a. Compute Mr Kobia’s Taxable income and tax payable. (14 marks)

b. Explain the meaning of a resident individual in relation to income tax computation.

(6 marks)

**QUESTION FIVE**

a. Taxable capacity is not rigidly fixed. It’s a moving point. Explain any seven factors that influence taxable capacity of a nation. (7 marks)

b. Describe the effects of tax incidence on imports and exports. (6 marks)

c. Explain the various methods the government can use to finance its budget deficit.

(7 marks)