



MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

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UNIVERSITY EXAMINATIONS 2024/2025

SECOND YEAR, FIRST SEMESTER EXAMINATION FOR DIPLOMA IN BUSINESS
ADMINISTRATION

BFD 2301: TAXATION

DATE: DECEMBER 2024

TIME: 1 ½ HOURS

INSTRUCTIONS: Answer Question ONE (compulsory) in Section A and any other TWO Questions in Section B

SECTION A

QUESTION ONE – (30 MARKS)

- a) Explain the principles /cannons of taxation. (10 Marks)
- b) Discuss factors that influence taxable capacity. (10 Marks)
- c) Explain the main classification of taxes in Kenya. (6 Marks)
- d) Differentiate tax from price. (4 Marks)

SECTION B

QUESTION TWO – (20 MARKS)

- a) Mr. Njuguna is an employee of XYZ ltd-in the year 2012, he received salary of Ksh.500, 000. The employer also provided him with free litres of petrol amounting to Ksh.4, 000 P.m.

Required

Calculate the taxable income (3 Marks)

5. Expenditure incurred in demolishing part of a wall to make room for a recently purchased Machine.

Required:

From an income Tax perspective indicate for each of the above items whether it is capital or revenue expenditure. Explain. (5 Marks)

b) Timexa limited provided the following details with respect to its fixed assets for the year of income 2015.

1.

Building Class I		Class II	Class III	Class IV
Sh.	Sh.	Sh.	Sh.	Sh.
1,400,000	460,000	610,000	800,000	6,200,000

2. The industrial building had been constructed sometimes back in 2010 at a cost of Sh. 1,600,000. Fixed machines were Sh. 2,000,000. Due to an oversight, no investment Deduction was claimed.

3. During the year the following assets were purchased:

- Patents Sh- 200,000
- Computers Sh.390, 000
- Stamping machine Sh. 800,000
- Land Sh.530, 000

4. A car for use by the directors was involved in an accident and written off. No recoveries Were made.

5. In December, all computers were sold as one lot for Sh- 1, 220,000.

6. Assume 60% as the rate of investment deductions. For year 2010

Required:

Capital allowances for Timexa Limited for year of Income 2015.

(15 Marks)

QUESTION FIVE – (20 MARKS)

Mr. Olé mboga an employee of bidi company ltd received an income in the year 2021 as follows:

Basic salary .Sh. 550,000 p.a

A day night watchman whose salaries were 5000 p.m. and 6500 p.m. respectively.

Furniture were also provided 280,000

A car of 2000cc whose initial cost was sh1, 400,000 was provided for personal use.

The company paid his telephone bill averaging to sh 4000 p.m.

He was granted a free company product valued at she 3500 p.a

Required

- a) Calculate his taxable income (15 Marks)
- b) His tax liability for the year 2021 (5 Marks)