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UNIVERSITY EXAMINATIONS 2024/2025

SECOND YEAR, FIRST SEMESTER EXAMINATION FOR CERTIFICATE IN BUSINESS ADMINISTRATION

BFD 1301: TAXATION

DATE: DECEMBER 2024

TIME: 1 1/2 HOURS

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

SECTION A (30 MARKS)

QUESTION ONE – (30 MARKS)

- a) Outline three features of a tax. (3 Marks)
- b) State three measures that are used to determine a person's ability to pay tax. (3 Marks)
- c) Briefly explain five effects of taxation. (10 Marks)
- d) State and explain the limitations of fiscal policy. (10 Marks)
- e) State four advantages of indirect tax. (4 Marks)

SECTION B (40 MARKS)

QUESTION TWO – (20 MARKS)

- a) Mr. Kennedy is an employee of XYZ ltd. in the year 2022, he received salary of Ksh.700, 000. He has insured his life and that of his spouse and children and total premium payable per month is sh 50000. The employer also provided him with free litres of petrol amounting to Ksh.4, 000 p.m.

Required

- i) Calculate his taxable income (4 Marks)
- ii) Tax liability (6 Marks)

b) Explain the functions of Kenya Revenue Authority (KRA) (10 Marks)

QUESTION THREE – (20 MARKS)

a) Discuss any five principles of taxation (10 Marks)
b) Explain the reasons why government levies taxes/ purpose of taxation (10 Marks)

QUESTION FOUR (20 MRKS)

a) Name the conditions that must be fulfilled in order for a building to qualify for industrial building deductions. (6 Marks)
b) Karua and Company Limited was incorporated in 2010 but did not start business until 1 January 2011 when the company commenced the business of processing tea.

The following details related to the acquisition of fixed asset in the year 2011 :

SH.

Land and Building	6
Plant & machinery	4,000,000
Motor Vehicle — 2 saloon cars	2,000,000
Tractor	5,000,000
Lorry (2 tons)	2,500,000
Furniture & Fittings	600,000
Construction of drainage	150,000
Fencing of farm	50,000
Farm House	600,000
Irrigation System	750,000
Labour Quarters	
Computers	220,000
Milking machinery	300,000

The following further information is provided.

1. The company kept 10 cows and constructed a cattle dip worth Sh. 400,000 for the animals during this year.

2. Included in land and building is the cost of land valued at Sh. 2,000,000.
3. One saloon car was disposed of for Sh. 500,000 which was half the cost price.

Required: Capital deductions for Karua and Company Limited for the year of income 2011

(14 Marks)

QUESTION FIVE - (20 MARKS)

The following is the revenue and expenditure of the government for two years: 2009 and 2010

REVENUE

Details	2011 (M. shs)	2012(M.shs)
Income tax	454.48	710
T.O.T	301.25	435
Customs duty	509.07	182
Excise duty	230.8	468
Entertainment tax	<u>123.06</u>	663
TOTALS	1618.66	2458

EXPENDITURE

Details	2011 (M.shs)	2012(M.shs)
Public administration	306.84	540.57
Defense	244.32	300.20
Education	456.63	702.57
Health	117.93	187.08
Social welfare	94.31	122.32
Economist service	426.55	819.45
Miscellaneous expenses	<u>580.97</u>	<u>1324.60</u>
Totals	2227.55	3996.09

Required;

- (i) Define a budget deficit (2 Marks)
- (ii) State four methods that government use to finance a budget deficit (4 Marks)

(iii) Outline the strategies that the government can use in reducing a budget deficit.

(6 Marks)

(iv) Using the figure above calculate budget surplus/deficit and express it as a percentage (%) of total revenue of the two years. Comment on the answer obtained

(8 Marks)