



KAIMOSI FRIENDS UNIVERSITY
FOURTH YEAR SECOND SEMESTER UNIVERSITY
EXAMINATIONS
2025/2026 ACADEMIC YEAR

SPECIAL EXAMINATION
FOR THE DEGREE OF BACHELOR OF COMMERCE
COURSE TITLE: TAXATION THEORY & PRACTICE
COURSE CODE: BCA 422

DAY/DATE: 24/06/26

TIME: 9-11 A.M.

INSTRUCTIONS TO STUDENTS

1. **ANSWER QUESTION ONE AND ANY OTHER TWO FROM THE CHOICES GIVEN.**
2. **PHONES, SMART WATCHES, EAR PHONES OR ANY OTHER UNAUTHORIZED DIGITAL AND AI GADGETS AND APPLICATIONS ARE NOT ALLOWED IN THE EXAMINATION ROOM.**
3. **ANSWER ALL QUESTIONS IN THE EXAM ANSWER BOOKLET PROVIDED.**
4. **DO NOT WRITE ON THIS QUESTION PAPER.**
5. **ALL KAFU EXAMINATION RULES AND REGULATIONS APPLY.**
6. **DURATION OF EXAMINATION: TWO (2) HOURS**

KAFU observes ZERO tolerance to examination cheating.
This paper consists of FIVE printed pages. Please turn over.



QUESTION ONE

- a) Discuss four factors that influence tax shifting in an economy **(4 marks)**
- b) Identify four ways in which an individual or firm could engage in -tax avoidance **(4 marks)**
- c) Discuss four arguments in favour of progressive taxes in a country **(4 marks)**
- d) Briefly explain any four characteristics of tax that distinguish it from any other payment made to the state **(4 marks)**
- e) Mr. Burny Odipo has provided the following information on his employment and other incomes for the year ended December 2024:
1. He received a basic salary of Sh.120,000 per month. (PAYE Sh.30,000 p.m.).
 2. From 1 January 2024 to 30 April 2024, he was provided with a company motor vehicle of 2,000 cc which the company had purchased in August 2025 at a cost of Sh.1,500,000. The motor vehicle was disposed of on 1 May 2024. From 1 May 2024, the company hired another motor vehicle for use by Mr. Burny Odipo at a monthly hire charge of Sh.60,000. The initial cost of the motor vehicle to the hiring company was Sh.2,400,000.
 3. He lived in a company house until 30 September 2024 and paid a nominal rent of Sh.10,000 per month for the house. The market rental value of houses in the estate was Sh.50,000 per month.
 4. He purchased a house and moved in on 1 October 2024. He financed the house through a mortgage loan of Sh.10,000,000 at an interest rate of 12% per annum.
 5. He is a member of a house ownership savings plan (HOSP). He contributed Sh.10,000 per month up to the time he acquired the mortgage loan
 6. He has a life insurance policy where the company pays sh. 20,000 per month for him. He also paid an equal amount for the same.
 7. He received dividends from Hekima Co-operative society of sh.68,000 (Net) and interest on 20 years government bond of sh.72000 (Gross during the year)
 8. He received entertainment allowances of sh.50,000 during the year.
 9. His wife has invested in shares of a quoted company. She received a dividend of sh. 24000 (Net) from the investment during the year.
 10. During the year, he reported a net rental income of 700,000 after deducting the following expenditure

Purchase and installation of alarm system	40,000
Caretakers' wages	52,000
Repairs of a leaking roof	90,000
Replacement of wooden door with metal door	50,000
Interest on mortgage	100,000
Capital allowances	80,000

Required;

- a. Total taxable income of Burny Odipo for the year ended 31st December 2024 **(10 marks)**
- b. Tax payable **(4 marks)**



QUESTION TWO

- a) Argue FOUR cases against indirect taxes imposed in your country **(4 marks)**
 b) Explain the applicable rate and the due date for the affordable housing levy **(4 marks)**
 c) Karen, Kigen and Kiliko are trading as Mali enterprises. They share profits and losses in the ratio of **2:1:1** respectively. The following is a statement of comprehensive income for the year ended 31 December 2010

	Sh	Sh
Gross profit		2,480,000
Rental income (gross)		400,000
Gain on sale of shares		200,000
Dividend from Kari Ltd		60,000
Farming income		180,000
		3,320,000
Less expenses		
Estate agent fee	48,400	
Salaries and wages	360,000	
Installment tax	64,200	
Printing and stationery	18,000	
General reserve	36,000	
Commission to Kiliko	120,000	
Interest on capital	480,000	
Advertising	96,400	
Purchasing of neon sign	42,000	
Legal expenses	156,800	
Provision for bad debts	24,600	
Rents and rates	64,800	
Drainage system in the farm	72,000	
Feeding	60,000	
Repainting of rentals houses	347,000	
Amortization of copyrights	24,000	
Donation to red cross society	15,000	
Purchase of software for computers	30,000	1746,900
Net profit		1,573,100

Additional information

1. Closing stock which amounted to Sh 96,000 had been understated by 20%
2. Interest on capital paid included Sh 120,000 to Karen Sh 200,000 to Kigen and Sh 160,000 to Kaliko
3. The gross profit represented 40% of total sales revenue and the partners determined gross profit based on sales inclusive of VAT
4. Interest on drawings by Kigen amounting to Sh 74,200 was included in the gross profit
5. The estate agents fee related to rental houses before they were leased out



Required

1. A statement of adjusted taxable income for tax purposes for the year ended 31 December 2010 **(10 marks)**
2. A statement of the allocation of the taxable income to the partners **(4 marks)**

QUESTION THREE

- a) Discuss any three types of capital allowances **(6 marks)**
- b) Quality Meat Ltd was established on 1 January 2013 to process meat products for the market. The company incurred the following costs on constructing relevant structures, which were utilized as from 1 January 2013

	Sh '000'
Factory building	8,200
Labour quarters	2,400
Showroom	960
Staff recreational facility	4,800
Retail shop	720
Perimeter wall	1,400
Administration offices	620
Drive way	580
Sports pavilion	3,200
Drainage system	840
Other assets acquired prior to 2 January 2013 comprised	
Heating plant	3,400
Delivery van	2,200
Computers	680
Lorry tonnes	4,200
Factory machine	1,800
Fax machine	420
Water pump	740

Additional information

1. A borehole was drilled at a cost of Sh 920,000 and utilized from 1 September 2013
2. On 1 July 2014, the company constructed a factory extension and a loading bag at a cost of Sh 2,400,000 and Sh 560,000 respectively. The structures were utilized with effect from 1 October 2014
3. The following assets were acquired on 1 August 2014:
 - Pick up Sh 2,000,000
 - Conveyors belts Sh 640,000
 - Scanners Sh 220,000
 - Mobile phone Sh 156,000
 - Electronics weighing machine Sh 720,000
4. The following assets were disposed off during the year



Asset	Disposal date	Cost of asset	Disposal proceeds
Computer	2 Feb 2014	120,000	420,000
Delivery van	4 April 2014	1,100,000	760,000
Fax machines	30 September 2014	860,000	54,000

5. The company had not claimed capital allowance since it commenced the business

Required

Capital allowances due to Quality Meat Ltd for each of the years ended 31 December 2013 and 2014 **(14 marks)**

QUESTION FOUR

- a) Discuss four offenses under V.A.T with their penalties **(8 marks)**
 b) Mauzo Ltd, a company registered for VAT purposes provided the following details in respect of the month of November 2012

Receipts	Details	Sh '000'
November		
1	Balance brought forward	120
4	Cash sales	560
6	Cash sales	720
15	Cash sales	450
25	Receipts from customers	360
28	Refund from suppliers	240
30	Cash sales	280
		2730
Less payments		
November		
2	Cash purchases	200
5	Payments to suppliers	120
7	Cash purchases	240
9	Electricity and water bills	34
12	Purchases of computers	45
18	Salaries and wages	136
28	Insurance	15
30	Audit fee	6
		(796)
30	Bal c/d	1934

Additional information

1. Opening inventory as at 1 November 2012 was valued at Sh 240,000



2. Sales were made up of standard rated, zero rated and exempt sales in the ratio 3:2:1 unless otherwise stated
3. Total credit sales for the month were valued at Sh 1,200,000
4. Receipts from customers included recovery of bad debts amounting to Sh 72,000 which were previously written off and the VAT refund claimed
5. Refund from suppliers relates to defective exempt supplies for the month of October 2012, returned to supplier
6. Electricity and water bills were in the ratio 3:1 respectively. The electricity bills relates to the month of September, October and November 2012. This expenses accrued evenly over the 3 month
7. On 26 November 2012 credit notes amounting to Sh 35,000 were sent to customers. This relates to goods sold at standard rate
8. The company returned standard rate vatiable goods worth Sh 36,000 to suppliers on 30 November 2012
9. Bad debts written off during the month relating to good sold at standard rate amounting Sh 24,000
10. Customers returned standard rate vatiable goods worth Sh 320,000 on 30 November 2012

All transaction are exclusive of VAT, which is chargeable at 16% where applicable

Required

VAT account for the month of November 2012

(12 marks)

QUESTION FIVE

- a) The revenue authority may send its officers to employer's paying points to check the operations of PAYE system. Discuss four key areas that the tax officers should include in the audit procedure on the operations of the PAYE systems **(8 marks).**
- b) The management of Quick ltd has presented the full statement of comprehensive income for the year ended 31 December 2011

	Sh 000	Sh 000
sales		41200
Less cost of sales:		
opening inventory	9000	
Add: purchase	11600	
Less: closing stock	(6200)	14400
Gross profit		26800
Add other incomes		
Gain on sale of equipment	260	
Interest on saving a/c (Gross)	90	
Refund of V.A.T	210	
Gain on foreign exchange	260	
Farming incomes (Gross)	90	
Rental income (Gross)	86	996
		27796
Less expenditures		
Legal expense	860	



Goodwill impairment loss	56	
Salaries and wages	4100	
Bad debts	1200	
NSSF contribution (unregistered)	110	
Advertising expenses	600	
General expenses	1300	
Farming expenses	600	
Repair of rental properties	30	
Staff meals	410	
Donation to trade association	90	
Depreciation	290	
Interest on debentures	570	
Interest on bank overdraft	60	
Insurance	136	
Branch closure costs	200	
Dividend paid	1000	
Purchase of furniture's	25	11637
Net profit		16159

Additional information

- The closing stock was valued at cost plus marked up of 20%
- Legal expenses relate to:
 - Preparation of memorandum of association Sh 390,000
 - Conveyance fee of purchase of land Sh 120,000
 - Acquisition of trade mark Sh 10,000
 - Settling of customers disputes on debts Sh 200,000
 - Acquisition of bank overdraft Sh 80,000
 - Preparation of staff contract Sh 60,000
- The directors had withdrawn goods costing Sh 700000 for personal use. The goods had been included in both sales and purchases (selling price Sh 740,000)
- Salaries and wages included:
 - Directors' allowances Sh 2100,000
 - Staffs Christmas gifts Sh 900,000
 - Golden handshake to retiring directors Sh 1100,000
- Bad debts include:
 - Loan to directors Sh1100,000
 - Estimated defaults of trade receivables Sh 900,000
- Advertising expenses included Sh 200 for a neon sign
- 25% of general expenses related to private expenses
- Capital allowances were agreed at Sh 600,000

Required

- Adjusted taxable profit for Ndimu Ltd
- Tax liability

(10 marks)
(2 marks)



RATES OF TAX (For employment income including wife's employment, self-employment and professional income). Year of income 2025.

Assume the following rates of tax applied throughout the year of income 2024:

Monthly taxable pay (Sh.)		Annual taxable pay (Sh.)		Rate of tax % in each Sh.
1	- 24,000	1	- 288,000	10%
24,001	- 32,333	288,001	- 388,000	25%
32,334	- 500,000	388,001	- 6,000,000	30%
500,001	- 800,000	6,000,001	- 9,600,000	32.5%
Excess over	800,000	Excess over	9,600,000	35%

Personal relief Sh.2,400 per month (Sh.28,800 per annum).

Investment allowance:	Rate of investment allowance	Residual value (25% per year on equal instalments)	Prescribed benefit rates of motor vehicles provided by employer			
Capital expenditure incurred on:			(i) Saloons, Hatch Backs and Estates			
			Monthly Annual rates rates (Sh.) (Sh.)			
(a) Buildings:			Up to	1200 cc	3,600	43,200
• Hotel building	50% in the first year of use	25%	1201 -	1500 cc	4,200	50,400
• Building used for manufacture	50% in the first year of use	25%	1501 -	1750 cc	5,800	69,600
• Hospital buildings	50% in the first year of use	25%	1751 -	2000 cc	7,200	86,400
• Petroleum or gas storage facilities	50% in the first year of use	25%	2001 -	3000 cc	8,600	103,200
• Educational/hostels building	50% in the first year of use		Over -	3000 cc	14,400	172,800
• Commercial building	10% per year on straight line basis 10% per year on straight line basis					
(b) Machinery:			(ii) Pick-ups, Panel Vans (unconverted)			
• Machinery used for manufacture	50% in the first year of use	25%	Up to -	1750 cc	3,600	43,200
• Hospital equipment	50% in the first year of use	25%	Over -	1750 cc	4,200	50,400
• Ships or aircraft	50% in the first year of use	25%				
• Motor vehicles and heavy earth moving equipment	25% per year on straight line basis 25% per year on straight line basis		(iii) Land Rovers/Cruisers			
• Computer software, calculators, copiers and duplicating machines	10% per year on straight line basis				7,200	86,400
• Furniture and fittings	10% per year on straight line basis					
• Telecommunication equipment	10% per year on straight line basis					
• Film equipment by a local producer	25% per year on straight line basis	25%				
• Machinery used to undertake operations under prospecting rights and exploration under	50% in the first year of use					



mining rights • Other machinery	10% per year on straight line basis		
(c) Purchase/acquisition of right to use fibre optic cable by telecommunication operation	10% per year on straight line basis		
(d) Farm works	50% in the first year of use	25%	

Commissioner's prescribed benefit rates:**Services**

- (i) Electricity (Communal or from a generator)
(ii) Water (Communal or from a borehole)

**Monthly rates
(Sh.)**

1,500
500

**Annual rates
(Sh.)**

18,000
6,000

Agriculture employees: Reduced rates of benefits

- (i) Water
(ii) Electricity

200
900

2,400
10,800



