



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

BACHELOR OF BUSINESS AND OFFICE MANAGEMENT III

BACHELOR OF SCIENCE IN MATHS AND FINANCE I

BAC 4306/BAC 4152: TAXATION THORY AND PRACTICE

END OF SEMESTER EXAMINATION

SERIES: APRIL, 2025

TIME: 2HOURS

DATE: APRIL, 2025

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of FIVE questions. Attempt question ONE (Compulsory) and any other TWO questions.

Do not write on the question paper.

QUESTION ONE

(a) List 7 expenses that are tax allowable according to the Income Tax Act. Cap. 470 (7Marks)

(b) Why should the Kenyan government levy taxes on its citizens? (3 Marks)

(c) Munala and Matio are in partnership trading as MUNATO Traders. They share profits and losses in the ratio of 2:3 respectively. The partnership statements of income for the year ended 31 December 2024 was as follows:

	Sh.	Sh.
Gross profit		5,130,600
Sales of motor vehicle		136,700
Foreign exchange gain		<u>72,800</u>
		5,340,100
Less expenses:		
Purchase of furniture	147,000	
Depreciation	180,000	
Conveyance fee for a plot	369,600	
Excise tax	23,100	
Salaries and wages	1,050,000	
Traveling expenses	112,200	
Legal expenses	540,000	
Loss on disposal of shares	60,000	
Stamp duty	96,750	

ii) Determine the tax payable by Matoo (4 Marks)

Required:

- (i) Adjusted taxable profit or loss for Pitch Ltd. for the year ended 31 December 2024. (16 Marks)
- (ii) Tax payable (if any) from the adjusted profit or loss in (b) (i) above. (4 Marks)

QUESTION TWO

Mwamba Limited was established in the year 2024 to manufacture soap for the local market. Before commencement of operation on January, 2024, the company spent a total of sh.9,760,000 to construct a factory. The cost is analyzed below:

	Sh
Cost of land	<u>1,760,000</u>
Actual building cost	<u>8,000,000</u>
	<u>9,760,000</u>

Additional information)

- 1) The following assets were constructed or purchased and utilized with effect from 1st July 2024.

	Cost (sh.)
Processing machinery (including installation costs as sh.200,000)	1,900,000
Bridge (connecting the factory to the main road)	600,000
Fork lift (mobile 2.5 tons)	150,000
Computers	3,600,000
Furniture and Fixtures	200,000
Pick-up (1.5 tons)	120,000
Tractor	1,500,000
Scanners	1,400,000

- 2) The following assets were purchased on 1st August, 2024.

	Shs
Processing machinery	400,000
Office curtains	160,000
Fax machine	100,000

Required

Compute the capital allowances due to Mwamba Limited for each of the year ended 31st Dec, 2024. (20 Marks)

QUESTION THREE

Ramogi Limited deals in a wide variety of goods. In the month of March 2025 the following transactions took place:

March 1 Sold goods for cash of Sh.117,000

March 2	Purchased goods on credit from River Road Limited of Sh.180,000.
March 2	Paid for transport for goods from River Road Limited Sh.6,000.
March 7	Purchased office equipment for use in the business on credit from Steel & Co. for Sh.27,770.
March 9	Sold goods to Uganda's Jinja Limited for Sh.39,600.
March 11	Paid Yusuf Transporters Sh.8,000 to take goods purchased by Jinja Limited to Uganda.
March 12	Paid River Road Limited in full.
March 12	Purchased goods for Sh.3,240 cash.
March 12	Returned defective office equipment which cost Sh.5,400 to Steel & Co.
March 16	Sold goods to Tanga Limited a firm in Tanzania for Sh.61,000 payable by Bank Transfer.
March 17	Granted Sh.1,000 allowance to Tanga Limited for a minor defect on an Item.
March 23	Agreed to cancel the account receivable from Jinja Limited in exchange of services rendered by them to the company in Kampala.

Note that all prices are net of VAT at standard rate

Required:

- a) The Value Added Tax Account of Ramogi Limited. **(12 Marks)**
b) Discuss the role of taxes in the economic development of Kenya. **(8 Marks)**

QUESTION FOUR

- (a) Discuss in details FIVE deductions allowable from employment income **(10 Marks)**
(b) Distinguish between tax evasion and tax avoidance and discuss the consequences of tax evasion. **(10 Marks)**

QUESTION FIVE

Mr. Jared Kamau is a Kenyan citizen. From 1 May 2007 to November 2017, he was working in London, United Kingdom where he lived with his family.

On December 2020, Mr. Kamau returned to Kenya where he was offered a job by Mega supplies ltd as a finance manager. The employment was to commence on 1st January 2021.

The terms of employment were as follows:

- Basic wage Sh. 160,00 per month (net PAYE Sh. 60,000 per month)
- A bonus of 15% of his basic salary per annum payable annually at the end of the year.
- Provision of a motor vehicle for his use, leased by the employer at a cost of Sh. 20,000 per month.
- Payment by the employer of school fees for the children amounting to Sh. 200,000 per annum.
- The employer would also pay for his life insurance policy amounting to Sh. 40,000 per annum.

Required:

- a. The taxable income(s) of Mr. Kamau and his Wife for the year ended 31st December, 2024.

(13 marks)

b. Determine the tax payable by Mr. Kamau for the year ended 31 December, 2024

(7 marks)

RATES OF TAX (For employment income including wife's employment, self-employment and professional income). Year of income 2023.

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

Assume the following rates of tax applied throughout the year of income 2023:

Monthly taxable pay	Annual taxable pay	Rate of tax
(Sh.)	(Sh.)	% 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%

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 rates (Sh.) Annual rates (Sh.)
(a) Buildings:			
• Hotel building	50% in the first year of use	25%	Up to 1200 cc 3,600 43,200
• Building used for manufacture	50% in the first year of use	25%	1201 - 1500 cc 4,200 50,400
• Hospital buildings	50% in the first year of use	25%	1501 - 1750 cc 5,800 69,600
• Petroleum or gas storage facilities	50% in the first year of use	25%	1751 - 2000 cc 7,200 86,400
• Educational/hostels building	10% per year on straight line basis		2001 - 3000 cc 8,600 103,200
• Commercial building	10% per year on straight line basis		Over - 3000 cc 4,400 172,800
(b) Machinery:			
• Machinery used for manufacture	50% in the first year of use	25%	(ii) Pick-ups, Panel Vans (unconverted)
• Hospital equipment	50% in the first year of use	25%	Up to - 1750 cc 3,600 43,200
• Ships or aircraft	50% in the first year of use	25%	Over - 1750 cc 4,200 50,400
• Motor vehicles and heavy earth moving equipment	25% per year on straight line basis		(ii) Land Rovers/Cruisers 7,200 86,400
• Computer software, calculators, copiers and duplicating machines	25% per year on straight line basis		
• 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 mining rights	50% in the first year of use		
• Other machinery	10% per year on straight line basis		
(c) Purchase/acquisition of right to use fibre optic cable by telecommunication	10% per year on straight line basis		

operation			
(d) Farm works	50% in the first year of use	25%	

Commissioner's prescribed benefit rates:	Monthly rates	Annual rates
Services	(Sh.)	(Sh.)
(i) Electricity (Communal or from a generator)	1,500	18,000
(ii) Water (Communal or from a borehole)	500	6,000
Agriculture employees: Reduced rates of benefits		
(i) Water	200	2,400
(ii) Electricity	900	10,800