



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

BACHELOR OF COMMERCE

BACHELOR OF BUSINESS ADMINISTRATION

BAC4303: TAXATION

SPECIAL/SUPPLEMENTARY EXAMINATION

SERIES: JULY 2025

TIME: 2 HOURS

DATE: 2024

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.

Tax bands	Annual rates of tax			Monthly rates of tax		
	Taxable Pay (KES)	Tax rates	Cumulative (KES)	Taxable pay(KES)	Tax rates	Cumulative (KES)
On the first	288,000	10%	28,800	24,000	10%	2,400
On the next	100,000	25%	53,800	8,333	25%	4,483
On the next	5,612,000	30%	1,737,400	467,667	30%	144,783
On the next	3,600,000	32.5%	2,907,400	300,000	32.5%	242,283
Excess over	9,600,000	35%		800,000	35 %	
Personal relief			KES 28,800 (a)			KES 2,400 (a)
Insurance relief			KES 60,000 (b)			KES 5,000 (b)
Affordable housing relief			KES 108,000 (c)			KES 9,000 (c)
Mortgage interest relief			KES 300,000 (d)			KES 25,000 (d)
Registered Pension/Provident Schemes relief			KES 240,000 (e)			KES 20,000 (e)

b) Commissioner's Prescribed Benefit Rates

Service	Reduced rates of benefits
Electricity (Communal or from a generator)	KES 1,500 (KES 900 for agriculture employees)
Water (Communal or from a borehole)	KES 500 (KES 200 for agriculture employees)
Telephone (Landline and mobile phones)	30 % of the cost to employer
Provision of Furniture *	1 % of the cost to employer

d) Investment allowance on Machinery

Capital expenditure incurred on:	Rate from 1 January 2022*
Machinery used for manufacture	50% in first year of use and residual value 25 % in equal instalments
Hospital equipment	50% in first year of use and residual value 25 % in equal instalments
Ships or aircrafts	50% in first year of use and residual value 25 % in equal instalments
Motor vehicles, * and heavy earth moving equipment	25 % per year in equal instalments
Computer and peripheral computer hardware and software, calculators, copiers and duplicating machines	25 % per year in equal instalments
Furniture and fittings	10 % per year in equal instalments
Telecommunications equipment	10 % per year in equal instalments
Filming equipment for local producers subject to CS approval	25 % per year in equal instalments
Machinery used to undertake exploration operations (prior to 01/01/2022, restricted to those who have a mining right)	50% in first year of use and residual value 25 % in equal instalments
Machinery used to undertake operations under a prospecting right	50% in first year of use and residual value 25 % in equal instalments
Other machinery	10 % per year in equal instalments

c) Motor Vehicles

Motor vehicle type	Engine Capacity	Monthly (KES)	Annual (KES)
Saloon, Hatch Backs & Estates	Up to 1,200 cc.	3,600	43,200
	1,201 to 1,500 cc.	4,200	50,400
	1,501 to 1,750 cc.	5,800	69,600
	1,751 to 2,000 cc.	7,200	86,400
	2,001 to 3,000 cc.	8,600	103,200
	Over 3,000 cc.	14,400	172,800
Pick-ups, Panel Van Unconverted	Up to 1,750 cc.	3,600	43,200
	Over 1,750 cc.	4,200	50,400
Land Rovers/Cruisers		7,200	86,400

QUESTION ONE (30 MARKS)

a) Discuss four factors that influence tax shifting in an economy (6 Marks)

b) Explain the following theories as used in Taxation

i) Diffusion Theory (2 Marks)

ii) Concentration Theory (2 Marks)

c) Discuss the measures that you may suggest for the Government to enhance Tax Compliance (10 marks)

d) Mr. Bwana Kusudi is employed as a senior manager with Brook Enterprises Ltd. He holds 18% of the company's controlling interest.

The following details relate to Mr. Bwana Kusudi for the year ended 31 December 2022.

1. Basic salary Sh.100, 000 per month (PAYE Sh. 22,068 per month).

2. Benefits in kind for the year amounted to Sh.48, 000.

3. He was provided with a company car of 2000 cc whose cost was Sh.700, 000. The car was leased by the company at a monthly rent of Sh.24,000. He also received a monthly fuel allowance of Sh.10, 000 for the car.

4. He was provided with a house by the employer. The house is rented from one of the company's directors at Sh40, 000 per month. The electricity is supplied from a generator installed by the company, the monthly expenses in relation to the generator amounted to Sh.15,000.

5. On 1 May 2022, he moved to his own house which he had constructed through a 12% mortgage loan of Sh.2, 000,000. The loan had been obtained from National Housing Corporation on 1 October 2018.

6. He is a member of a registered pension scheme where he contributes Sh.18, 000 per month with the employer contributing an equal amount for him.

7. On 1 October 2022, he secured an education insurance policy for his child at an annual premium of Sh.72, 000 payable by the company.

8. He reported a farming income of Sh. 98,000 after presumptive tax.

9. He was out of work station for 5 days for which he was paid per diem of Sh.4, 600 per day.

Required:

(i) Total taxable income of Mr. Bwana Kusudi for the year ended 31 December 2022 and Tax due on the taxable income calculated in above. (10 marks)

QUESTION TWO (20 MARKS)

a) Evaluate four measures under Customs and Excise Act that are designed to prevent dumping in your country.

(4 Marks)

b) Pluto Ltd., a company registered for value added tax (VAT) purposes, provided the following details in respect of the month of April 2023:

Receipts		Sh.
1 April:	Balance brought forward	120,000
4 April:	Cash sales	560,000
6 April:	Cash sales	720,000
15 April:	Cash sales	450,000
25 April:	Receipts from customers	360,000
28 April:	Refund from suppliers	240,000
30 April:	Cash sales	<u>280,000</u>
		2,730,000

Less payments

2 April:	Cash purchases	200,000
5 April:	Payments to suppliers	120,000
7 April:	Cash purchases	240,000
9 April:	Electricity and water bills	34,000
12 April:	Purchase of computer	45,000
18 April:	Salaries and wages	136,000
28 April:	Insurance	15,000
30 April:	Audit fees	<u>6,000</u>
		(796,000)
30 April;	Balance carried forward	<u>1,934,000</u>

Additional information:

1. Opening inventory as at 1 April 2023 was valued at Sh. 240,000.
2. Sales were made up of standard rated, zero rated and exempt sales in the ratio of 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 March 2023, returned to suppliers.
6. Electricity and water bills were in the ratio of 3:1 respectively. The electricity bill relates to the month of February, March and April 2023. This expense accrued evenly over the 3 months.
7. On 26 April 2023, 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 vatable goods worth Sh.36,000 to suppliers on 30 April 2023.
9. Bad debts written off during the month relating to goods sold at standard rate amounted to Sh. 24,000.
10. Customers returned standard rate vatable goods worth Sh. 320,000 on 30 April

2023. All transactions are exclusive of VAT which is chargeable at 16% where applicable.

Required:

- a) VAT account for the month of April 2022 (12 Marks)
- b) Outline four offences under the value added tax (VAT) Act. (4 Marks)

QUESTION THREE (20 MARKS)

b) David and Aisha are in partnership trading as Davisha Enterprises. They share profits and losses in the ratio of 2:3 for David and Aisha respectively. The partners presented the following income statement of the partnership for the year ended 31 December 2023:

	Sh.
Sales	7,000,000
Closing stock	980,000
Dividend received (net)	45,200
Foreign exchange gain	45,800
Interest income (net)	100,000
Discount received	70,000
Rental income	435,400
	<u>8,676,400</u>
Opening stock	800,000
Purchases	3,400,000
Salaries and wages	1,200,000
Insurance	240,000
Travelling expenses	156,000
Salaries to partners: David	400,000
Aisha	600,000
Rent and rates	465,000
Interest expenses	1,560,000
Goodwill written off	100,000
Medical expenses for partners	200,400
Legal expenses	120,200
Bank charges	76,400
Stamp duty (on 30 years lease agreement)	150,000
Loss on sale of equipment	16,000
VAT paid	32,600
Purchase of furniture	48,000
Depreciation	40,000
	<u>9,604,600</u>
Net loss	<u>(928,200)</u>

Additional information:

1. On 1 April 2023, Santa was admitted as a partner. She contributed Sh.800,000 as her share of capital and goodwill. The profit and loss sharing ratio was revised to 2:2:1 for David, Aisha and Santa respectively with effect from 1 April 2023. Santa was not entitled to a

salary for the year ended 31 December 2023. Interest expenses comprised:

Interest on capital:	Sh.
David	400,000
Aisha	360,000
Santa	40,000
Interest on loan	560,000
Fringe benefit tax	200,000
	<u>1,560,000</u>

2. All transactions relating to equipment and furniture occurred after 1 April 2023. All other revenues and expenses accrued evenly throughout the year.

Required:

The adjusted partnership profit or loss for the year ended 31 December 2023 (12 Marks)

b) Discuss SIX main Principles of a Good Tax System (8 Marks)

QUESTION FOUR (20 MARKS)

a) You have been appointed as a Payroll manager for Shikamo Enterprises. Samuel has been recruited in the Company, on the following terms;

Basic Salary	Ksh.	100,000
Pension of	Ksh.	7,500
NSSF	Sh.	1,080
SHIF	Sh.	1,700
Personal Relief		2,400

Required:

Prepare Samuel's payslip (Show all the workings) (10 Marks)

b) Discuss the Merits of Direct Taxes (6 marks)

c) With Examples Explain the following;

i) Regressive Tax (2 marks)

ii) Proportional Tax (2marks)