



OFFICE OF THE DEPUTY PRINCIPAL  
ACADEMICS, RESEARCH AND STUDENTS' AFFAIRS

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# UNIVERSITY EXAMINATIONS

## 2024/2025 ACADEMIC YEAR

...3.... YEAR .....1... SEMESTER REGULAR EXAMINATION

**FOR THE DEGREE OF BACHELOR OF BUSINESS  
MANAGEMENT**

**COURSE CODE: BBM 303**

**COURSE TITLE: TAXATION 1**

**DATE: 14/01/2025**

**TIME: 11:00 – 2:00PM**

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**THIS PAPER CONSISTS OF 3 PRINTED PAGES**

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**REGULAR – MAIN EXAM**

**BBM 303: TAXATION 1**

**STREAM: BBM (Finance)**

**DURATION: 3 Hours**

**INSTRUCTION TO CANDIDATES**

- i. *Answer question ONE and any other TWO questions*
- ii. *Do not write on the question paper.*
- iii. *Use the current tax rates attached*

**QUESTION ONE (30 MARKS)**

a) Ugunja Traders is a business registered for Value Added Tax (VAT) purposes. The following transactions in KES were recorded in the month of May 2024:

May 4: Purchases of goods (local)	4,640,000
May 6: Purchase of a computer	162,400
May 8: Return outwards	139,200
May 10: Legal fees	62,640
May 12: Imports Cost, Insurance and Freight (CIF)	300,000
May 14: Advance salaries and wages	580,000
May 16: Sales (local)	5,916,000
May 18: Export sales	600,000
May 20: Exempt sales	1,840,000
May 24: Printing and stationery	27,840
May 28: Electricity	53,940

Additional information:

1. During the month, import duty was at 20% on Cost, Insurance and Freight (CIF) basis.
2. A debtor of goods valued at Sh.121, 800 was declared bankrupt on 20 May 2024.
3. Input tax relating to goods sold as exempt sales could not be directly identified and it was found appropriate to restrict deductible import tax.
4. Transactions are inclusive of VAT at the rate of 16% where applicable.

**Required:**

- (i) Output tax. (3 marks)
- (ii) Deductible input tax (5 marks)
- (iii) VAT payable or refundable. (2 marks)

b) Following the convergence of market economies, most business transactions currently take place through the digital market place. Most countries have come up with ways of taxing the digital economy, although some countries continue to struggle in taxation of this economy.

With reference to the above statement, suggest FIVE challenges faced by your country in taxing the digital economy. (10 marks)

c) Identify and explain FIVE factors that explain Taxable capacity in your Country (10 marks)

### QUESTION TWO (20 MARKS)

a) Identify FIVE cannons of Taxation in your Country. (5 marks)

b) Amagoro limited has provided the following statement of profit or loss for the year ended 31 December 2023: Statement of **Profit or Loss for the year ended 31 December 2023**

	Shs		Shs
Opening stock	524,000	Sales	10,584,000
Purchases	4,692,000	Closing stock	761,000
Manufacturing expenses	2,563,000		
Salaries and wages	252,000		
Supplies consumed	466,000		
General expense	85,000		
Interest on loan	364,000		
Commission and brokerage	0		
Director's fees	90,000		
Auditor's fees	55,000		
Taxes	70,000		
Bad debts reserve	43,000		
Depreciation	296,000		
Managing directors' remuneration	648,000		
Reserves	126,000		
Provision for dividends	750,000		
Profit for the year	300,000		
	<u>21,000</u>		
	<u>11,345,000</u>		<u>11,345,000</u>

The following additional information is provided:

- 1) Salaries and wages include Sh.20, 000 contributed by the company to unregistered pension scheme.
- 2) General expenses include Sh.15, 000 for donations, Sh.10, 000 for contributions to a business pressure group that protects traders of the same kind.
- 3) Taxes represent VAT paid
- 4) Bad debts (specific) are Sh.180, 000.
- 5) The fixed asset schedule is as follows:

Asset	Year	Cost (Shs)
Factory building	2017	4,000,000 (net of I.D)

Additional plant building	2023	2,000,000 – brought to use 1 July 2023
Machinery	2000	4,800,000 (net of I.D)
New machinery	2023	6,000,000 – fixed in new building
Computers	2022	1,000,000
Other machinery and furniture	2017	640,000

**Required.**

- i. Compute the capital allowances due to Amagoro limited. (8 marks)  
 ii. Show the adjusted profit (loss) for tax purposes for the year 2023. (7 marks)

**QUESTION THREE (20 MARKS)**

The partners of Obwiny Brothers reported a loss of Sh.250, 000 for the year ended 31 August 2023 after deducting the following expenses:

	Sh.
Salaries and wages	450,000
Partners drawings	360,000
Loss on sale of investment	15,000
Professional fees	120,000
Travelling expenses	650,000
Purchases	5,250,000
Repairs and maintenance	320,000
Depreciation	650,000
Rent and rates	240,000
Telephone	60,000
Postage and stationery	175,000
Bank charges and interest	24,000
Salaries to partners:	
S. Obwiny	50,000
M. Obwiny	50,000
N. Obwiny	100,000
Donations	20,000
Purchase of a computer	200,000
Bad debts written off	65,000
Interest on capital:	
S. Obwiny	20,000
M. Obwiny	20,000

**Notes:**

1. Agreed written down values of the assets as at 31 August 2022
- Class I** – Sh.1, 250,000; **Class III** – Sh.250, 000; **Class IV** – Sh.375, 000
2. The partners share profits and losses equally after salaries and interest
  3. The wife of S. Obwiny is a full time employee of the company and was paid a salary of Sh.120, 000 during the year.
  4. The partners have no other source of income other than from the partnership.

**Required**

(a) Calculate the taxable profit (loss) of the partnership for the year ended 31 August 2023 and taxable income of each partner. (13 marks)

(b) The partners' self-assessment returns and the partnership self-assessment are to be submitted to the Tax Department by 31 December 2023. What advice would you give the partners on filing tax returns? (4 marks)

(c) State the tax position of S. Obwiny and wife, if the wife runs a part time curio shop where she earns Sh.40, 000 per month and incurs an expenditure of Sh.10, 000 in the same month. (3 marks)

**QUESTION FOUR (20 MARKS)**

Solomon Chuchuh is employed as the Managing Director of Utamu Millers Ltd. During the year ended 31 December 2023, he presented the following information relating to his income:

1. His basic salary was Sh.120, 000 per month net of PAYE of Sh.48, 000 per month. He was provided with lunch by the employees from 1 August 2023 of Sh.6, 000 per month.
2. He enjoyed a medical allowance from the company which is only available to senior managers. The allowance was Sh.12, 500 per month.
3. The company paid for him Life Insurance premiums of Sh.4, 800 per month for each member of his family from 1 September 2022. This included himself, wife and the daughter.
4. During the year, the employer paid a total of Sh.200, 000 as school fees for his daughter. This amount was allowed in the company's income statement.
5. He was provided with a fully furnished house with electricity and water. The employer paid monthly rent of Sh.50, 000 for the house and deducted 5% of his basic salary for rent. The cost of furniture was Sh.240, 000 while the monthly electricity bill and water bill amounted to Sh.1, 800 and Sh.1, 000 per month respectively.
6. On 1 October 2022, the company provided him with the following:
  - A land cruiser which was acquired at a cost of Sh.3,200,000 with an engine capacity of 3000cc.
  - A house servant and a night watchman whose monthly salaries were Sh.12, 500 and Sh.15, 000 respectively. The fair market value was agreed with commissioner at Sh.14, 000 per month for each of them.
7. He contributed 15% of his monthly basic salary towards a registered pension scheme while the employer contributed 10% of his basic salary towards the same scheme.
8. Other incomes for the year include:
9. He has invested in the real estate and from his rental houses, he reported a net rental income of Sh.2, 400,000 after deducting the following expenditure;

	KES
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Caretaker wages	420,000
Fencing cost	640,000
Loan repayment	320,000
Monthly rental income tax	487,820
Insurance, rent and rates	248,000
Advertising	360,000
Partitioning and CCTV cameras	202,000
Repairs	268,200
	2,996,020

10. Dividend received from Mwalimu Savings Co-Operative Society was Sh.306, 000 net and interest received from Faulu Bank Ltd. was Sh.240, 000 net.

(i) Compute the total taxable income for Solomon Chuchuh for the year ended 31 December 2023. (15 marks)

(ii) Determine tax payable (if any) from the income computed in (c) (i) above. (5 marks)

#### QUESTION FIVE (20 MARKS)

(a) Distinguish between “direct” and “indirect Taxes”. (5 marks)

(b) Mr. Handa who is the owner of a supermarket in Nairobi has given you the following profit and loss account for the year ending 31.12.2023.

	<i>Shs</i>		<i>Shs</i>
Opening stock	3,600,000	Sales	46,000,000
Purchases	40,000,000	Closing Stock	460,000
Salaries and wages	1,250,000	Profit on sale of residential hose	250,000
Rent rates and taxes	46,000	Bad debts recovered not allowed in the previous year for lack of proof	15,000
Fire insurance	6,200	Dividends (gross)	18,000
Household expenses	42,000		
Income tax for 2004	130,000		
Advertisement	69,500		
Legal and professional fees	45,500		
Stationery and postage	13,800		
Reserve for bad debts	23,000		
Depreciation	151,600		
Purchase of machinery	10,500		
Interest on loan to			
Purchase shares	20,800		
Gifts and present	8,400		
Medicine expenses of the Proprietor	12,000		

VAT	103,000	
Net profit	<u>1,210,700</u>	
	<u>46,743,000</u>	<u>46,743,000</u>

**Notes**

- i) Stock of goods at the opening as well as the closing day of the accounting year had consistently been undervalued at 10% below cost price.
- ii) Sales include a sum of Shs 50,000 representing the value of goods withdrawn for use by family members. These goods were purchased during the year 2022 at a cost of Shs 40,000.
- iii) Rates rents and taxes include Shs 8,500 for customs duty and VAT for purchase of machinery. VAT represents non-deductible input tax on business expenses.
- iv) Advertisement expenses include Shs 10,000 for erecting a signboard at the shop front.
- v) Analysis of legal and professional fees:

**Shs**

10,500 Renewal of a five year lease.

15,000 Defending a suit for alleged breach of trading contract.

10,000 Appeal to a local committee against tax assessment.

8,500 Defending a criminal proceedings against the proprietor for dealing in smuggled goods. The proprietor made a profit of Shs 16,000 from such activities.

1,500 Miscellaneous and allowable.

45,500

- vi) Wear and tear has been agreed with the Tax Assessor at Shs 108,000.

**Required**

Compute Mr. Handa's chargeable profit for the year of assessment 2023. (15 marks)

RATES OF TAX (For employment income including wife's employment, self-employment and professional income). Year of income 2023. Assume the following rates of tax applied throughout the year of income 2023:

Monthly taxable pay (KES)	Annual taxable pay (KES)	Tax Rate (%)
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	600,000.001-9,600,000	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: Capital expenditure incurred on:	Rate of investment allowance	Residual value (25% per year on equal instalments)	Prescribed benefit rates of motor vehicles provided by employer (i) Saloons, Hatch Backs and Estates Monthly rates (Sh.) Annual rates (Sh.)
14a. Buildings: <ul style="list-style-type: none"> <li>• Hotel building</li> <li>• Building used for manufacture</li> <li>• Hospital buildings</li> <li>• Petroleum or gas storage facilities</li> <li>• Educational/hostels building</li> <li>• Commercial building</li> </ul>	50% in the first year of use 50% in the first year of use 50% in the first year of use 50% in the first year of use 10% per year on straight line basis 10% per year on straight line basis	25% 25% 25% 25%	Up to 1200cc 3,600 43,200 1201-1500cc 4,200 50,400 1501-1750cc 5,800 69,600 1751-2000cc 7,200 86,400 2001-3000cc 8,600 103,200 Over- 3000cc 14,400 172,800
(b) Machinery: <ul style="list-style-type: none"> <li>• Machinery used for manufacture</li> <li>• Hospital equipment</li> <li>• Ships or aircraft</li> <li>• Motor vehicles and heavy earth moving equipment</li> <li>• Computer software, calculators, copiers and duplicating machines</li> <li>• Furniture and fittings</li> <li>• Telecommunication equipment</li> <li>• Film equipment by a local producer</li> <li>• Machinery used to undertake operations under prospecting rights and exploration under mining rights</li> <li>• Other machinery</li> </ul>	50% in the first year of use 50% in the first year of use 50% in the first year of use 25% per year on straight line basis 25% per year on straight line basis 10% per year on straight line basis 10% per year on straight line basis 25% per year on straight line basis 50% in the first year of use  10% per year on straight line basis	25% 25% 25%     25%	(ii) Pick-ups, Panel Vans (unconverted) Up to - 1750 cc 3,600 43,200 Over - 1750 cc 4,200 50,400 (iii) Land Rovers/Cruisers 7,200 86,400
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%	

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**Commissioner's prescribed benefit rates:**

	Monthly rates (Sh.)	Annual rates Services (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