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ADVANCED TAXATION REVISION KIT

PAST EXAMINATION PAST PAPERS WITH
SUGGESTED ANSWERS

TOPICALLY ARRANGED

Updated With
AUGUST 2025

Past Paper with Answers

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TOPIC 1

TAXATION OF PARTNERSHIP BUSINESSES

QUESTION 1

August 2025 Question Two B

Mikah and Janace have been running a partnership business by the name “Jakah Enterprises” from 1 January 2023. They share profits and losses equally having contributed total capital of Sh.6,800,000. They have not been keeping proper books of accounts and have approached you to assist in the computation of their tax liability for the year ended 31 December 2024.

The following details were provided:

1. They sell goods on both cash and credit terms. During the year ended 31 December 2024, they sold 148,300 units on cash basis at a price of Sh.80 per unit.
2. An extract from the statement of financial position as at 31 December 2023 included the following non- current assets:

Asset	Cost Sh.“000”	Accumulated Depreciation Sh.“000”	Net book value Sh.“000”
Land and office building (Land Sh.1,500,000)	7,000	1,000	6,000
Plant and equipment	9,000	4,000	5,000
Furniture and fittings	2,000	1,000	1,000

3. Extract of current account had the following balances:

	31 December 2023 Sh.“000”	31 December 2024 Sh.“000”
Trade debtors	1,708,000	6,460,000
Bank	3,068,000(Credit)	4,169,900 (Debit)
Trade creditors	1,340,000	1,868,600
Subscriptions prepaid	200,000	140,000
Salaries owing	380,000	950,000
Electricity accrued	248,200	196,800
Inventory in trade	1,400,000	620,000

4. Payments through the bank were as follows:

	Sh.
Cash purchases	3,188,000
Purchase of furniture	204,000

- | | |
|--|-----------|
| Catering service inclusive of VAT | 180,000 |
| Motor vehicle fuel inclusive of VAT | 260,000 |
| Electricity | 184,600 |
| Salaries (partners' salaries Sh.900,000) | 1,830,000 |
| Legal fees | 138,500 |
| Subscriptions paid | 200,000 |
5. Legal fees included Sh.30,500 relating to acquisition of freehold land and office building while electricity paid during the year included a deposit of Sh.40,000.
 6. The capital contribution ratio was 3:1 for Mikah and Janace respectively. The partners are entitled to an interest of 10% and 8% per annum of capital contribution for Mikah and Janace respectively.
 7. On 1 April 2024, the partnership obtained a bank loan of Sh.2,500,000. The interest rate was 18% per annum. The loan was repayable in 5 equal annual installments but had already fallen into arrears.
 8. The partnership was converted into Jaykay Ltd. company on 1 September 2024 under the following terms:
 - The partners were issued with ordinary shares equivalent to capital contribution in the partnership as at the date of conversion.
 - They invited John to be a shareholder upon contribution of Sh.5,000,000 towards ordinary share capital and 8% debenture in the ratio of 3:2.
 - The partners were to become the directors of the company earning a salary of Sh.40,000 each per month. This is not included in the salaries for the year.
 - Land and buildings were revalued to Sh.10,500,000.
 9. They purchased a saloon car on 1 October 2024 for Sh.3,300,000 which had 2800cc and computers for Sh.320,000 net of cash discounts of Sh.15,000.
 10. Discount received from suppliers during the year amounted to Sh.720,000 while in November 2024, a debtor owing Sh.68,000 was declared bankrupt.
 11. Subscriptions were made to Chamber of Commerce.
 12. All sales and purchases were inclusive of VAT at the rate of 16%.
 13. All revenue and expenses accrued evenly throughout the year unless otherwise stated.

Required:

- (i) In a columnar format, determine the taxable income of the partnership and Jaykay Ltd. for the year ended 31 December 2024. (12 marks)
- (ii) Compute taxable income of each partner for the year ended 31 December 2024. (3 marks)
- (iii) Compute tax payable (if any) by Jaykay Ltd. for the year ended 31 December 2024. (1 mark)

QUESTION 2

PART B

SUGGESTED

SOLUTION AND ANSWERS

TOPIC 1

TAXATION OF PARTNERSHIP BUSINES

QUESTION 1

August 2025 Question Two B

Workings:

1: Sales

Account receivable A/c

	Sh		Sh
Balance b/d	1,708,000	Bad debts written off	68,000
Credit sales	<u>4,820,000</u>	Balance c/d	<u>6,460,000</u>
	<u>6,528,000</u>		<u>6,528,000</u>

	Sh
Total Sales: Cash 148,300 × 80	11,864,000
Credit	<u>4,820,000</u>
	16,684,000
Less: VAT [$\frac{16}{116} \times 16,684,000$]	<u>(2,301,141.40)</u>
Actual Sales	<u>14,382,758.60</u>

2: Purchases

Account Payable a/c

	Sh.		Sh.
Discount received	720,000	Balance b/d	1,340,000
Balance c/d	<u>1,868,600</u>	Credit purchases	<u>1,248,600</u>
	<u>2,588,600</u>		<u>2,588,600</u>

	Sh
Total Purchases: Credit	1,248,600
Cash	<u>3,188,000</u>
	4,436,600
Less: VAT [$\frac{16}{116} \times 4,436,600$]	<u>(611,944.80)</u>
Actual Purchases	<u>3,824,655.20</u>

3. Salaries:

	Sh
Balance b/f	(380,000)
Bank	1,830,000
Balance c/d	<u>950,000</u>
	<u>2,400,000</u>

4. Subscriptions:

	Sh.
Balance b/f	200,000
Bank	200,000
Balance c/d	<u>(140,000)</u>
	<u>260,000</u>

5. Electricity:

	Sh.
Balance b/f	(248,200)
Bank	184,600
Balance c/d	<u>(196,800)</u>
	<u>133,200</u>

(i) Taxable income of the partnership and Jaykay Ltd. for the year ended 31 December 2024

<u>Jaykay Enterprise Ltd. 2024 Income and tax computation</u>			
		Partnership 4 months Sh.	Ltd. Company 4 months Sh.
Sales	14,382,758.60	9,588,506	2,794,253
<i>Less:</i> Cost of sales			
[1,400,000 + 3,824,655 - 620,000]=	4,604,655	(3,069,770)	(1,534,885)
Gross profit		6,518,736	3,259,368
<i>Add:</i> Discount received	720,000	<u>480,000</u>	<u>240,000</u>
Taxable revenue		6,998,736	3,499,368
<i>Less: Allowable expenses</i>			
<i>Investment allowances:</i>			
Office building (5,500,000 × 10%)	= 550,000	366,667	183,333
Plant and equipment (9,000,000 × 10%)	= 900,000	600,000	300,000
Furniture (2,204,000 × 10%) =	220.4	146,933	73,467

Subscriptions	260,000	173,333	86,667
Salaries (2,400 - 900)	1,500,000	1,000,000	500,000
Electricity (133.2 - 40)	93,200	62,133	31,067
Catering fee [$180 \times \frac{100}{116}$]	155,172	103,448	51,724
Motor vehicle fuel: [$260 \times \frac{100}{116}$]	224,138	149,425	74,713
Legal fees (138,500 - 30.5)	108,000	72,000	36,000
Interest on loan ($18\% \times 2,500$) 450, $\frac{5}{12}$, $\frac{4}{12}$		187,500	150,000
Debenture interest [$\frac{2}{5} \times 5,000 \times 8\%$] 160, $\frac{4}{12}$		-	53,333
Directors salary ($40,000 \times 4 \times 2$)	320		320,000
Capital allowance:			
Saloon car ($25\% \times 3,000,000$)	750		750,000
Computers ($25\% \times 320$)	80		80,000
Bad debt written off	68		68,000
		(2,861,439)	(2,758,304)
Adjusted business income		<u>4,137,297</u>	<u>741,064</u>

ii) Allocation of profit

	Milcah	Janice	Total
Salary to partners	450,000	450,000	900,000
Interest on capital:			
$10\% \times 6,800,000 \times \frac{8}{12} \times \frac{3}{4}$	340,000		
$8\% \times 6,800,000 \times \frac{8}{12} \times \frac{1}{4}$		90,667	430,667
Profit share	<u>1,403,315</u>	<u>1,403,315</u>	<u>2,806,630</u>
Taxable income	<u>2,193,315</u>	<u>1,943,982</u>	<u>4,137,297</u>

iii) Tax payable by Jaykay Ltd.

$$30\% \times 741,064 = 222,319.2$$

QUESTION 2

April 2025 Question Two B

Workings:

W1: Salaries

Salaries as per account	722,020
Less: partners' salaries	<u>(1,640,520)</u>
	<u>1,081,500</u>