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**CPA**  
**ADVANCED TAXATION**  
**REVISION KIT**

**PAST EXAMINATION PAST PAPERS WITH  
SUGGESTED ANSWERS**

**TOPICALLY ARRANGED**

**Updated With  
DECEMBER 2025**  
**Past Paper with Answers**

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**TOPIC 2****LIMITED COMPANIES****QUESTION 1****December 2025 Question Three B**

Sparkle Oil Ltd. is an oil exploration company operating in Turkwel County. The following is the statement of profit or loss of the company for the year ended 31 December 2024:

	<b>Sh.“000”</b>
Revenue	500,000
Gain on sale of exploration assets	20,000
Royalty income	15,000
Interest income	<u>5,000</u>
	540,000
Operating expenses	(200,000)
Depreciation on exploration assets	(10,000)
Decommissioning provision expenses	(5,000)
Exploration and development costs	<u>(100,000)</u>
Operating profit	225,000
Other income	10,000
Other expenses	<u>(5,000)</u>
Net profit before tax	<u>230,000</u>

**Additional information:**

- Exploration and development expenditure included:
  - Penalties of Sh.6 million for violating environmental regulations during exploration activities.
  - Cost of constructing production facilities amounting to Sh.16 million in the development phase.
  - Expenses amounting to Sh.2 million spent on seismic studies but lacked e-Tims compliant invoices.
  - Expenses incurred on team-building of Sh.800,000.
- Cost of constructing production facilities, pipelines and storage tanks amounted to Sh.50 million.
- Machinery used for exploration including drilling rigs seismic equipment and exploration vehicles was Sh.30 million.

4. Interest on loans of Sh.14 million in respect to loan obtained for financing exploration and development activities. The loan was obtained from a bank where the company's debt to equity ratio was 1.5:1.
5. Gain on sale of exploration assets include a loss of Sh.3 million to a specific mining block whose expenditure had been ring fenced.
6. The company is considering selling a 30% stake in its Turkwel operations to a foreign investor at a net gain of Sh.180 million.
7. Royalties payment were made to the government for the right to extract oil amounting to Sh.16 million included in operating expenses.

**Required:**

- (i) Prepare a statement of adjusted taxable profit or loss for the year ended 31 December 2024. (8 marks)
- (ii) Compute corporate tax payable, if any, for the year ended 31 December 2024. (2 marks)
- (iii) Explain the tax implication in relation to the following two transactions of Sparkle Oil Ltd.:
  - The proposed indirect transfer of 30% stake in the Sparkle Oil Ltd. (1 mark)
  - The loan obtained from a bank where the company's debt to equity ratio was 1.5:1. (1 mark)

**QUESTION 2**

**December 2025 Question Four C**

You are a senior tax consultant at Smart Tax Consultants. Your firm has been appointed by the board of Speed Bank Ltd., a Tier II commercial bank to conduct a tax compliance review ahead of a scheduled Revenue Authority Audit for the year ended 31 December 2024:

The following data was extracted from the bank's trial balance for the year ended 31 December 2024:

	<b>Sh.“000”</b>
Interest income from customer loans	480,000
Interest income from treasury bonds	65,000
Interest income from interbank placements	18,000
Fees and commission income	44,000
Shopping mall lease rental income	8,400
Loss on disposal of assets	15,000
Treasury bills discount income	7,000
Loss on disposal of investment securities	4,800
Staff salaries and wages	12,400
Depreciation and amortisation	32,000

# PART B

## SUGGESTED

## SOLUTION AND ANSWERS

## TOPIC 2

## LIMITED COMPANIES

## QUESTION 1

## December 2025 Question Three B

## Statement of adjusted taxable profit or loss for the year ended 31 December 2024

Details	Sh.“000”	Sh.“000”
Net Profit as per accounts		230,000
<i>Add: Non-allowable expenses</i>		
Depreciation (Non-cash/Accounting policy)	10,000	
Decommissioning provision (Provision not yet incurred)	5,000	
Environmental penalties (Fines for law violations)	6,000	
Capital expenditure: Production facilities (W1)	16,000	
Expenses without e-Tims invoices (Non-compliant)	2,000	
Ring-fenced loss on exploration assets (W5)	<u>3,000</u>	<u>42,000</u>
		272,000
<i>Deduct: Investment allowance</i>		
Interest income (Subject to WHT as final tax)	(5,000)	
Gain on sale of exploration assets (Capital gain)	(20,000)	(25,000)
Adjusted profit before capital allowances		247,000
<i>Less: Capital Allowances (Extractive Industry)</i>		
<i>Petroleum Capital Allowance (PCA)</i>		
Total Production facilities (50M+16M=66M) @ 20%	(13,200)	
Exploration Machinery (30M) @ 20%	(6,000)	
<i>Exploration/Development Costs</i>		
Allowed Exploration costs (100M–6M–16M–2M–0.8M)	(75,200)	(94,400)
Adjusted Taxable Profit		<u>152,600</u>

## (ii) Computation of Corporate Tax Payable

In many jurisdictions, the corporate tax rate for resident mining/oil companies is **30%**.

$$\text{TaxPayable} = 152,600,000 \times 30\% = 45,780,000$$

**Corporate Tax Payable: Sh. 45,780,000**

### (iii) Tax Implications

## W1: Proposed Indirect Transfer of 30% Stake

- **Taxability:** The transfer of a stake exceeding 20% in a licensee (Sparkle Oil Ltd) is considered a "deemed disposal" of the underlying interest in the petroleum rights.
- **Net Gain:** The Sh.180 million gain is subject to tax. Under the Ninth Schedule, this is often taxed as **Income Tax** (not just Capital Gains Tax) at the prevailing corporate rate (30%) because it relates to the value of the mineral rights located in the country.

## W2: Debt to Equity Ratio (1.5:1)

- **Thin Capitalization:** Tax laws often restrict the deductibility of interest if a company is "thinly capitalized." However, the standard threshold is usually **3:1**.
- **Implication:** Since Sparkle Oil Ltd's ratio is **1.5:1**, it falls well within the safe harbor limit. Therefore, the **Sh.14 million interest expense is fully tax-deductible**, provided it was used for the production of income and the interest rate is at arm's length.

## QUESTION 2

## December 2025 Question Four C

## Speed Bank Ltd. 2024 income and computation:

## Income:

Income:	SAR 000	SAR 000
Investment income custom loans (480,000 + 240)	480,240	
Invest income treasury bonds	65,000	
Invest income: Interbank placements (18,000 + 650)	18,650	
Fees and commissions	44,000	
Treasury bills discount income	<u>7,000</u>	
	614,890	

### **Less: Allowable expenses**

Loss on disposal of assets provided as security	8,000
Loss on disposal of investment securities	4,800
Salaries and wages	12,400
Administration & operating expenses (9,500-6,000-1,200-1,400)	900
Investment allowance: Banking system 25%(6,000 + 1,200)	1,800
Generator 10% $\times$ 1,500	150
Interest payable on custom deposits	24,600
Specific provision for bad debts	10,000
Legal and professional fee (6,800 - 2,400 - 2,800)	1,600
Contribution to Kenya Insurance deposit protection	2,300
External audit fees	<u>2,400</u>
Adjusted taxable business income	<u>68,950</u>
	545,940

## Other Incomes:

Gross rental income	8,400
<b>Less: Investment allowance:</b>	
Shop 10% $\times$ 1,600	160
Gym 10% $\times$ 750	75
Office 10% $\times$ 800	80
Pavement and sewerage system 10% $\times$ 350	35
Water meter 10% $\times$ 190	19
Maintenance expenses 200 $\times$ 12	<u>(2,400)</u>
Advertising	<u>(630)</u>
Total taxable income	<u>550,941</u>

*Tax thereon: 30%  $\times$  550,941 = 165,282.3*

### QUESTION 3

#### December 2025 Question Five B

##### Luck Ltd. capital gains tax computation:

##### Option 1:

Selling price	2,400,000
<b>Adjusted cost of property:</b>	
Purchase 500,000 + 48 (35,000 - 12,000) + (30 $\times$ 12,000)	<u>(1,964,000)</u>
Capital gain	436,000
Capital gains tax 15% $\times$ 436,000	<u>(65,400)</u>
Net gain	<u>370,000</u>

##### Option 2:

Sh.	Sh.
Transfer value	3,200,000
Selling price	<u>(80,000)</u>
<i>Less: Legal fees</i>	<u>(90,000)</u>
Agent Commission	(3,030,000)
Purchase Cost 500,000+48(35,000 - 12,000)+(48 $\times$ 12,000)	<u>(2,180,000)</u>
Capital gain	850,000
Capital gains tax 15% $\times$ 850,000	<u>(127,500)</u>
Net gain	<u>722,500</u>

*Advise:* use option 2 since it gives a higher net gain

**QUESTION 4****August 2025 Question Three B**

(i) Statement of adjusted taxable profit or loss for Western Mining Ltd. for the year ended 31 December 2024

<u>Western Mining Ltd.</u>		
<b>Statement of adjusted taxable profit 31 December 2024:</b>		
Net profit before tax		
<b>Add back:</b>		
Depreciation	50,000	
Site restoration provision	10,000	
Amortisation of exploration license	8,000	
Legal fines for environmental violations	2,000	
Donations (unapproved)	3,000	
Impairment loss	<u>6,000</u>	<u>79,000</u>
		274,000
<b>Deduct:</b>		
Investment allowances:		
Mining equipment $(12,000 \times 50\%)$	6,000	
Roads construction $(15,000 \times 50\%)$	<u>7,500</u>	<u>(13,500)</u>
Adjusted taxable profit/income		260,500

(ii) Corporate tax payable by western is:

$$\begin{aligned} \text{Adjusted taxable income} &= 260,500 \times 30\% \\ &= 78,150,000 \end{aligned}$$

(iii) The two tax obligations of mining companies operating in Kenya are:

- **Payment of corporation tax** - Required to compute and pay corporate income tax on their adjusted taxable profit @ 30%.
- **Remittance of withholding tax** - Must deduct and remit withholding tax on payments to non-residents and on specified resident transactions for example professional fees and dividends.