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PUBLIC FINANCE AND TAXATION REVISION KIT

PAST EXAMINATION PAST PAPERS WITH
SUGGESTED ANSWERS

Updated With
DECEMBER 2025
Past Paper with Answers

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TOPIC 9

INVESTMENT ALLOWANCE/DEDUCTIONS

QUESTION 1

December 2025 Question Four B

Delta Lines Ltd., a registered company, started its operations of manufacturing electrical cables on 1 January 2024. The company's statement of profit or loss for the year ended 31 December 2024 indicated the following:

	Sh. "000"	Sh. "000"
Sales		12,600
Discount received		216
Dividends from a co-operative society		1,440
Profit on disposal of a tractor		<u>672</u>
		14,928
Expenses:		
Cost of cable manufacturing	4,632	
Salaries and wages	1,446	
Depreciation charges	164	
Advertisement expenses	300	
Donation to political parties	820	
Directors' fees	1,800	
VAT paid	1,530	
Legal fees	1,152	
Dividend paid	4,605	
Repairs and maintenance	<u>744</u>	<u>(17,193)</u>
Net profit (loss)		<u>(2,265)</u>

Additional information:

1. Legal fees comprised the following:

	Sh.
Parking fines	144,000
Stamp duty on land	576,000
Collection of debts from customers	180,000
Settling a dispute with a customer	<u>252,000</u>
	<u>1,152,000</u>

2. Repair and maintenance include Sh.336,000 spent on the purchase of conveyor belts during the year.
3. The tractor disposed of during the year had cost Sh.2,640,000 at the beginning of the year.

4. The following assets were acquired at the beginning of the year:

Assets	Sh.
Pick up	6,020,000
Heating plant	2,760,000
Computers	820,000
Water pump	552,000
Furniture	300,000
Tractors	6,230,000
Processing machines	4,340,000
2 saloon cars (each Sh.3,200,000)	6,400,000

5. On 1 January 2024, the company purchased a factory building from Mapato Ltd. a registered contractor for Sh.18,720,000 made up as follows as provided by Mapato Ltd.:

	Sh.
Acquisition of land	2,500,000
Demolition of old building on site	1,900,000
Factory building	10,760,000
Stone perimeter wall around the factory	3,000,000
Bank interest paid on loan relating to construction	560,000

6. The factory building included the showroom and a retail shop constructed at a cost of Sh.1,200,000 and Sh.960,000 respectively.

7. A godown and staff quarters were constructed at a cost of Sh.2,860,000 and Sh.1,620,000 respectively and put into use from 1 October 2024.

Required:

(i) Capital allowance due to Delta Lines Ltd. for the year ended 31 December 2024.

(7 marks)

(ii) A statement of adjusted taxable profit or loss for Delta Lines Ltd. for the year ended 31 December 2024.

(5 marks)

QUESTION 2

August 2025 Question Four C

Brite Ltd. constructed a factory building at a cost of Sh.6,200,000 and commenced production of designed handbags on 5 January 2023. The following additional expenditures were incurred before operations commenced:

Asset	Cost (Sh.)
Production machinery	2,500,000
Office computers	520,000
Assembly line belts	350,000
Employee cafeteria	2,000,000
Two distribution trucks (each Sh.2,800,000)	5,600,000

PART B

SUGGESTED ANSWERS AND SOLUTIONS

TOPIC 9

INVESTMENT ALLOWANCE/DEDUCTIONS

QUESTION 1

December 2025 Question Four B

(i) Investment allowances for the year ended 31 December 2024:

Investment deduction

Item	Qualifying cost (QC) Sh.	Investment deduction (ID) Sh.	Residue Sh.
Factory building	8,600,000	4,300,000	4,300,000
Demolition	1,900,000	950,000	950,000
Perimeter wall	3,000,000	1,500,000	1,500,000
Heating plant	2,760,000	1,330,000	1,330,000
Water pump	552,000	276,000	276,000
Conveyer belts	336,000	168,000	168,000
Processing machine	<u>4,340,000</u>	<u>2,170,000</u>	<u>2,170,000</u>
	<u>21,448,000</u>	<u>13,744,000</u>	<u>13,744,000</u>

Industrial Building deduction (IBD)

Item	QC Sh.	IBD Sh.	Residue Sh.
Showroom	1,200,000	120,000	1,060,000
Rental shop	960,000	96,000	864,000
Godown	2,860,000	71,500	2,788,000
Staff quarters	<u>1,620,000</u>	<u>40,500</u>	<u>1,579,500</u>
	<u>6,640,000</u>	<u>328,000</u>	<u>6,312,000</u>

Wear and tear allowances

Assets	Class I 25% Sh.	Class II 25% Sh.	Class III 25% Sh.	Class IV 10% Sh.
Pickup			6,020,000	
Computers		620,000		
Furniture				300,000
Tractors	6,230,000			
Salon cars			6,000,000	
Disposal - Tractor	<u>(2,640,000)</u>			
	3,590,000	820,000	12,020,000	300,000
Wear and tear allowance	<u>(897,500)</u>	<u>(205,000)</u>	<u>(3,005,000)</u>	<u>(300,000)</u>
Netbook value	<u>2,692,000</u>	<u>615,000</u>	<u>9,015,000</u>	<u>272,000</u>

Summary

	Sh
Investment deduction	10,744,000
Industrial Building deduction (IBD)	328,000
Wear and tear allowance	<u>4,137,500</u>
Total	<u>15,209,500</u>

ii) Statement of adjusted profit or loss for the year ended 31 December 2024

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

	Sh “000”	Sh “000”
Reported net loss		(2,265)
<i>Add back:</i>		
Parking fines		144
Stamp duty		576
Conveyor belt		336
Depreciation		164
Donation		820
VAT paid		1,530
Dividend		<u>4,605</u>
		5,910
<i>Deduct:</i>		
Dividends from cop society	(1,440)	
Profit on disposal on tractor	(672)	
Capital allowance	<u>(15,209.5)</u>	<u>17,321.5</u>
Net adjusted loss		<u>11,402.5</u>

QUESTION 2

August 2025 Question Four C

Computation of the investment allowances due to Brite Ltd. for the years ended 31 December 2023 and 31 December 2024

Brite Ltd.

Investment allowance computation: Year 2023:

Items	Quantity cost	Rate	Investment Allowance
Factory building	6,200,000	50%	3,100,000
Production machine $2,500,000 \times 125 \times 116\%$	3,625,000	50%	1,812,500
Office computers	520,000	25%	130,000
Assembly line belts	350,000	50%	175,000
Cafeteria	2,000,000	10%	200,000
Distribution trucks	5,600,000	25%	1,400,000
Heating system	1,900,00	50%	950,000

Hand tools	150,000	10%	<u>15,000</u>
			<u>7,782,500</u>

Year ended 31 December 2024:	Quantity cost	Rate	Investment Allowance
Furniture	320,000	10%	32,000
Labelling and sealing machine	1,700,000	50%	850,000
Saloon cars	9,000,000	25%	2,250,000
Barcode scanners	160,000	25%	40,000
Utility carts	400,000	10%	40,000
Production extension	1,400,000	50%	700,000
Generator	420,000	50%	210,000
Water purification system	900,000	50%	450,000
Medical centre	2,800,000	10%	280,000
Factory building	3,100,000	25%	775,000
Production machine	1,812,500	25%	453,125
Office computers	520,000	25%	130,000
Hand tools	150,000	10%	15,000
Cafeteria	2,000,000	10%	200,000
Distribution trucks	2,800,000	25%	700,000
Heating system	950,000	25%	237,500
Assembly line belts	175,000	25%	<u>43,750</u>
			<u>7,406,375</u>

QUESTION 3

April 2025 Question Four C

(i) Computation for the investment allowances due to SmartFarm Ltd. For the year ended 31 December 2024

SmartFarm Ltd 2024 Investment Allowance

Assets	Qualifying cost	Rate	Investment Allowance
Billboards	250,000	10%	25,000
Farm machines	184,000	10%	18,400
Solar panels	140,000	10%	14,000
Computers	420,000	25%	105,000
Chicken shed	188,000	50%	94,000
Furniture	250,000	10%	25,000
Dog kennels	230,000	50%	115,000
Tractors	8,900,000	25%	2,225,000