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PUBLIC FINANCE AND
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**PUBLIC FINANCE AND
TAXATION
REVISION KIT**

**PAST EXAMINATION PAST PAPERS WITH
SUGGESTED ANSWERS**

**Updated With
APRIL 2026**

Past Paper with Answers

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TOPIC 8**TAXATION OF INCOME****QUESTION 1****April 2026 Question Three C**

Vincent Warecha is a senior research scientist at Smart Multinational Ltd. He provided the following information relating to his income for the year 2025:

1. Basic salary: Sh.450,000 per month (monthly PAYE deducted: Sh.135,000).
2. He was provided with a fully furnished house where employer pays monthly rent of Sh.100,000. Furniture cost: Sh.600,000. Vincent Warecha contributes Sh.15,000 per month towards rent.
3. He was assigned a 3500cc saloon car by the employer on 1 July 2025 (Purchased in year 2023 for Sh.3,600,000).
4. Annual medical insurance premium paid by employer Sh.140,000 to approved scheme. The scheme only covers all senior management staff.
5. Monthly entertainment allowance: Sh.30,000. He spent 60% of this on entertaining official business clients.
6. He received performance bonus on 1 October 2025 of Sh.240,000.
7. His monthly pension contribution to a registered pension scheme was Sh.25,000; while employer contribution to the scheme was Sh.30,000 per month.
8. Employer deducted Sh.6,750 per month for the affordable housing levy (AHL) and Sh.12,375 per month for Social Health Insurance Fund (SHIF).
9. Other income includes:
 - Gross dividend from Special Economic Zone (SEZ) Sh.120,000
 - Net Post Office Savings interest Sh.45,000
 - Royalties for a scientific book Sh.380,000
10. Company gave him Sh.100,000 for laboratory utensils used exclusively for official research.
11. He exercised an option to buy 3,000 shares at Sh.80 each while the market value was Sh.150 each
12. Outstanding staff loan provided by the employer of Sh.5,000,000 at 3% interest while the Prescribed interest rate was 10%
13. He paid Sh.20,000 per month to a post-retirement medical fund.
14. He paid Sh.8,000 per month towards his life insurance premium.

Required:

- (i) Compute the total taxable income for Vincent Warecha for the year 2025. (10 marks)
- (ii) Determine the net tax payable (if any) from the income computed in (c) (i) above. (2 marks)

QUESTION 2**April 2026 Question Five C**

Wema Retailers is a resident business registered for Turnover Tax (TOT). For the month of December 2025, the following transactions were extracted from the business records:

1. Cash sales of general merchandise: Sh.3,800,000.
2. Credit purchases of goods from a regular wholesaler: Sh.1,200,000.
3. Rental income from subletting two residential units: Sh.180,000.
4. Management and consultancy fees received for training services: Sh.250,000.
5. Net interest received from a fixed deposit account with a local bank: Sh.42,500.
6. Returns inwards for goods sold during the month: Sh.150,000.
7. Proceeds from the disposal of a business delivery van: Sh.900,000.

Required:

Compute the turnover tax payable by Wema Retailers for the month of December 2025.

(4 marks)

QUESTION 3**December 2025 Question Three C**

Janet Moraa is an employee of Elite Tech Limited. The following information relates to her employment income and other incomes for the year ended 31 December 2024:

1. She earned a basic salary of Sh.225,000 per month (PAYE deducted Sh.54,200 per month).
2. The employer provided her with a rented house at a monthly rental rate of Sh.40,000 for which she contributed Sh.10,000 per month towards rent. The house is fitted with an internet connection whose average monthly cost is Sh.6,800 fully paid by the employer. The house is fully furnished at a cost of Sh.480,000.
3. She contributed Sh.35,000 per month to a registered pension scheme and the employer contributed a similar amount.
4. She is provided with a company car, Toyota Prado, 3000cc which cost the employer Sh.3,500,000 as at 1 January 2024.
5. On 1 October 2024, she relocated to her own residential house purchased through a 10% mortgage loan of Sh.8,000,000 obtained on 1 April 2024.
6. On 1 July 2024, she took an education insurance policy for her two children, paying a monthly premium of Sh.9,500 for each child.
7. In November 2024, she was away from her workstation for six days on official duty, for which she received a per diem of Sh.4,800 per night.
8. Other incomes earned during the year:
 - Residential rental income (gross) Sh.720,000. The expenses related to rental property included; caretaker's salary per month Sh.12,000, drafting lease agreement Sh.19,600, installation of burglar proof doors Sh.48,000 and 10% per annum interest on mortgage loan Sh1,200,000 obtained for structural alterations to maintain existing rent.
 - Dividends (net of withholding tax) from Maara Cooperative Society Sh.51,000.

9. She paid Sh.15,000 during the year as subscription fee to her professional body.

Required:

- (i) Compute the total taxable income of Janet Moraa for the year of income 2024. (10 marks)
- (ii) Determine tax (if any) payable on the income computed in (c) (i) above. (2 marks)

QUESTION 4

December 2025 Question Five C

Alice and Kibet are partners in Betacity Traders in a general supplies business. They share profits and losses in the ratio of 2:1 respectively. The following is the statement of profit or loss of the partnership for the year ended 31 December 2024:

<u>Betacity Traders</u>		
<u>Statement of profit or loss for the year ended 31 December 2024</u>		
	Sh.	Sh.
Incomes		
Sales		10,820,000
Insurance compensation on stolen inventory		185,000
Trade bad debts recovered		132,000
Revaluation gain on land		420,000
Realised foreign exchange gain		500,000
Discount received		<u>299,000</u>
Total income		12,356,000
Less expenses:		
Purchase of goods for sale	5,220,000	
Purchase of point-of-sale equipment	395,000	
Partners salaries	1,200,000	
Legal and professional fees	1,080,000	
Repairs and maintenance	980,000	
Rent and utilities	428,000	
Interest on partners' capital	132,000	
General expenses	1,060,000	
Vehicle expenses	776,000	
Staff welfare	292,000	
Depreciation	510,000	
Partners bonus	960,000	
Audit and consulting fees	<u>124,000</u>	<u>(13,157,000)</u>
Net loss		<u>(801,000)</u>

Additional information:

1. Sales and purchases are inclusive of VAT at the rate of 16%.
2. Closing inventory was valued at Sh.210,000 while opening inventory was valued at Sh.480,000. Both were understated by 10%.

PART B

SUGGESTED ANSWERS AND SOLUTIONS

TOPIC 8

TAXATION OF INCOME

QUESTION 1

April 2026 Question Three C

(i) Computation of the total taxable income for Vincent Warecha for the year 2025

Description	Amount	Total (Sh.)
Basic Salary $450,000 \times 12$		5,400,000
Housing Benefit:		
Lower of 15% of employment Income	1,062,600	
Actual rent paid by employer ($100,000 \times 12$)	1,200,000	
Less: Employee contribution $15,000 \times 12$	(180,000)	1,020,000
Furniture benefit $1\% \times 12 \times 600,000$		72,000
Motor vehicle benefit:		
higher of: $2\% \times 6 \text{ months} \times 3,600,000$	432,000	
Prescribed rate $172,800 \times \frac{6}{12}$	86,400	432,000
Entertainment Allowance $30,000 \times 12$		360,000
Performance Bonus		240,000
Employee Stock Ownership (ESOP) $3,000 \times (150 - 80)$		<u>210,000</u>
Employment Income		7,737,000
Other Income:		
Dividend from SEZ (Exempted)		-
Post office saving interest SEZ (Exempted)		-
Royalties		<u>380,000</u>
Gross Taxable Income		8,114,000
Less: Deductions		
Employee Pension Contribution $25,000 \times 12$	300,000	
Affordable housing levy $6,750 \times 12$	81,000	
SHIF contribution $12,375 \times 12$	148,500	
Post-retirement medical fund $15,000 \times 12$	<u>180,000</u>	(709,500)
Total Taxable Income		<u>7,404,500</u>

(ii) Determination of Net Tax Payable

Taxable Income Band (Annual)	Rate	Tax (Sh.)
First Sh. 288,000	10%	28,800
Next Sh. 100,000	25%	25,000
Next Sh. 5,612,000	30%	1,683,600
Balance 1,404,800	32.50%	<u>456,462.50</u>
Gross Tax Liability		2,193,862.50
Less:		
PAYE Paid	135,000×12	(1,620,000)
Personal Relief	2,400×12	(28,800)
Insurance Relief (Life)	15%×(8,000×12)	(14,400)
Dividend from SEZ	Exempted	-
Withholding tax on royalties	5%× 380,000	<u>(19,000)</u>
Net Tax Payable		<u>511,662.50</u>

QUESTION 2**April 2026 Question Five C****Turnover tax payable by Wema Retailers for the month of December 2025**

Transaction	Amount (Sh.)
Cash Sales	3,800,000
Less: Returns Inwards	(150,000)
Credit Purchases	Excluded
Rental Income from residential unit	Excluded
Management Fees	Excluded
Fixed Deposit Interest	Excluded
Disposal of Delivery Van	Excluded
Total Taxable Turnover	3,650,000

Computation of Turnover Tax Payable

Turnover Tax is currently charged at a rate of **1.5%** of the gross monthly turnover.

$$\text{Turnover Tax} = \text{Taxable Turnover} \times \text{Tax Rate}$$

$$\text{Turnover Tax} = 3,650,000 \times 1.5\%$$

$$\text{Turnover Tax} = \text{Sh. } 54,750$$

Note:

Turnover Tax is a final tax and must be filed and paid by the **20th day** of the following month (January 20th, 2026). Expenses such as purchases or delivery costs are not deducted when computing TOT.

QUESTION 3

December 2025 Question Three C

(i) Income tax computation for the year of Income 2024:

	Sh.	Sh.
Basic salary		2,700,000
Housing benefit: Lower of:		
15% $\times \frac{9}{12} \times 3,841,200$	432,135	342,135
Less rent paid (10,000 \times 9)	<u>(90,000)</u>	
Rental 40,000 \times 9 = 360,000 — 90,000	270,000	
Internet connection (6,800 \times 9)		61,200
Furnished house (1% \times 9 \times 480,000)		43,200
Pension contribution: Lower of:		
Set limit	240,000	}
30% of pensionable pay (30% \times 2,700,000)	810,000	
Actual contribution	420,000	
Employers pension contributions (excess)		180,000
Motor vehicle benefit:		
2% \times 12 \times 3,500,000	840,000	}
CC Rating (Toyota Prado)	86,400	
Mortgage interest: Lower of:		
15% \times 8,000,000 $\times \frac{9}{12}$	600,000	}
Set limit (300,000 $\times \frac{9}{12}$)	225,000	
Per Diem (excess of Sh,2,000)		16,800
Subscription fees		<u>(15,000)</u>
		3,703,335
Other incomes:		<u>60,000</u>
Total taxable income		<u><u>3,763,335</u></u>

(ii) Tax payable

Item	Amount	Rate	PAYE
On the first Sh.288,000	288,000	10%	28,800
On the next Sh.100,000	100,000	25%	25,000
On the next (3,763,335 - 388,000)	3,375,335	30%	<u>1,012,600.5</u>
Gross tax payable			1,066,400.5
Less: Personal relief			(28,800)
PAYE deducted			(650,400)
Insurance relief			(17,000)
WHT Dividends			<u>(9,000)</u>
Net tax payable			<u><u>3,61,100.5</u></u>

QUESTION 4

December 2025 Question Five C

(i) Taxable profit or loss of the partnership for the year ended 31 December 2024.

Detacity Traders

Taxable profit or loss of the partnership for the year ended 31 December 2024

	Sh. "000"	Sh. "000"
Net loss as per accounts		(801,000)
Add back:		
VAT in purchases $\frac{16}{116} \times 5,220,000$	720,000	
Closing stock unaccounted for	233,333	
Legal advice: Tax dispute	140,000	
Land registration: Shop premises	160,000	
Trademark renewal	80,000	
Legal fee on loan negotiation	120,000	
Renovation of showroom	460,000	
Partitioning of reception area	220,000	
Purchase of office furniture	215,000	
Donation to a political party	180,000	
Partners personal drawings	600,000	
Provision for general doubtful debts	220,000	
Purchase of point-of-sale equipment	395,000	
Partners salaries	1,200,000	
Interest on capital	132,000	
Depreciation	510,000	
Partners bonus	<u>960,000</u>	6,545,333
Less: VAT in sales $\frac{16}{116} \times 10,820,000$	1,492,414	
Opening stock unaccounted for	533,333	
Revaluation gain on land	420,000	
Investment Allowance	<u>380,000</u>	<u>(2,825,747)</u>
Adjusted Taxable Business income		<u><u>2,918,586</u></u>

(ii) Allocation to partners:

	Alice Sh.	Kibet Sh.	Total Sh.
Salary to Partners	800,000	400,000	1,200,000
Investment on capital	88,000	44,000	132,000
Royalty	640,000	320,000	960,000
Share of profit	<u>417,724</u>	<u>208,862</u>	<u>626,586</u>
Total taxable income	<u>1,945,724</u>	<u>972,862</u>	<u>2,918,586</u>

QUESTION 5

August 2025 Question Two C

i) Computation of the total taxable income of Jamlik Wesonga for the year ended 31 December 2024

Jamlik Wesonga 2024 income and tax computation

	Sh.	Sh.
Basic salary $(250,000 + 95,000) \times 12$		4,140,000
Vehicle benefit: Quantified benefit 3500cc=	100,800	
Percentage value: $2\% \times 5.5m \times 7 =$	770,000	770,000
Leased vehicle benefit $80,000 \times 5$		440,000
Housing benefit: $15\% E.l 6,797,500 \times \frac{8}{12} = 679,750$	720,000	
:Rent by employee $90,000 \times 8 = 720,000$		
<i>Less:</i> Own contribution $20,000 \times 8$	<u>(160,000)</u>	560,000
<i>Less:</i> Mortgage interest:		
Actual amount: $2,000,000 \times 9\% \times \frac{4}{12}$	60,000	
Set limit $25,000 \times 4$	100,000	(60,000)
Interest and loan paid by employer		200,000
Life insurance benefit $(210,000 \times \frac{5}{12})$		87,500
Medical benefit (non taxable)		-
Entertainment allowance		100,000
Share benefit $10,000 (30 - 5)$		250,000
Fringe benefit (non taxable)		-
Holiday trip gift		110,000
Other incomes:		
Dividend: Listed company (Withholding tax is final)		
: Jijenge co-op society		110,000
Consultancy fee: Gross amount	2,500,000	
<i>Less:</i> Rent	(400,000)	
Marketing	(320,000)	
Salaries	(600,000)	
Wear and tear on laptops $(25\% \times 280,000)$	<u>(70,000)</u>	<u>1,110,000</u>
Taxable income		<u>8,517,500</u>

(ii) Tax payable

Item	Amount	Rate	PAYE
On the first Sh.288,000	288,000	10%	28,800
On the next Sh.100,000	100,000	25%	25,000
On the next Sh. 5,612,000	5,612,000	30%	1,683,600
Balance $(8,517,500 - 6,000,000)$	2,517,500	32.5%	<u>818,187.5</u>
Gross tax payable			2,555,587.5
<i>Less:</i> Personal relief			(28,800)
PAYE $95,000 \times 12$			(1,110,200)
Insurance relief $15\% \times 87,500$	13,125		