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ADVANCED TAXATION REVISION KIT

PAST EXAMINATION PAST PAPERS WITH
SUGGESTED ANSWERS

TOPICALLY ARRANGED

Updated With
APRIL 2026
Past Paper with Answers

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TOPIC 1**TAXATION OF PARTNERSHIP BUSINESSES****QUESTION 1****April 2026 Question One B**

Balala and Halali have been in a partnership since 1 January 2023, sharing profits and losses in the ratio of 3:2. On 1 July 2025, they admitted Busita as a partner and the profit-sharing ratio became 2:2:1. On 1 October 2025, the firm was converted into a limited liability company, Zawadi Ltd. The partners had not been keeping proper books of account.

The following reconstructed information is available for the year ended 31 December 2025:

Summary of bank transactions:

Receipts and payments account for the year ended 31 December 2025

Receipts	Sh."000"	Payments	Sh."000"
Balance brought forward (1 January 2025)	5,200	Trade creditors	28,400
Receipts from trade debtors	54,000	Rent (including deposit)	4,200
Cash sales (banked)	12,800	Purchase of Mercedes Benz	9,600
Sale of old delivery van	1,100	Neon sign and digital security system	2,400
		Legal fees	800
		General office expenses	8,500
		Staff salaries (Net of PAYE)	14,200
		Balance carried forward (31 December 2025)	<u>5,000</u>
	<u>73,100</u>		<u>73,100</u>

Additional Information:

1. Technical analysis revealed that total sales and purchases were found to be undercast by 20% in the reconstructed records.
2. Trade debtors as at 1 January 2025 and 31 December 2025 were Sh.4.5 million and Sh.7.2 million respectively, while trade creditors were Sh.3.1 million and Sh.4.8 million respectively.

3. General office expenses included: Sh.400,000 donation to a registered political party; Sh.250,000 for e-TIMS accounting server and Sh.600,000 for a non-resident consultant's digital system support.
4. Partner salaries before conversion: Sh.3.6 million (allocated equally). After conversion, directors' fees paid amounted to Sh.1.2 million.
5. During the year, the partners withdrew goods for personal use originally included in bulk purchases. These were valued at cost price of Sh.600,000 for Balala and Sh.400,000 for Halali.
6. Zawadi Ltd. issued 12% debentures of Sh.10 million to an external investor upon its conversion on 1 October 2025.
7. Restructuring and Capital Gains Tax: On 1 October 2025, the partnership transferred freehold land (Cost Sh.15 million, market value Sh.25 million) to Zawadi Ltd. The partners maintained identical shareholding proportions in the new company.
8. Social Health Insurance Fund (SHIF): Staff salaries include Sh.450,000 in contributions made by the firm to the SHIF on behalf of employees.
9. e-TIMS Compliance: Purchases worth Sh. 2.8 million were from a small-scale supplier who did not issue e-TIMS invoices. The firm issued its own tax invoices as provided under Section 23A of the Tax Procedures Act.

Required:

- (i) A statement showing the adjusted taxable profit or loss for the Partnership and Zawadi Ltd. for the year ended 31 December 2025 in a columnar format. (12 marks)
- (ii) Total taxable income for each partner for the year ended 31 December 2025. (2 marks)

QUESTION 2**December 2025 Question Two B**

Patrick and John are partners operating a partnership business Jomani Enterprises and sharing profits and losses equally. The business operates through two independent branches; the head office branch in Nakuru and Kericho branch. The partners have received a tax assessment from the Revenue Authority with a taxable income of Sh.684,000 each for the year ended 31 December 2024. They have provided the following details to help in responding to the tax assessment:

1. The following balances were extracted from the books of the partnership on 31 December 2024:

PART B

SUGGESTED

SOLUTION AND ANSWERS

TOPIC 1

TAXATION OF PARTNERSHIP BUSINES

QUESTION 1

April 2026 Question One B

Balala, Halali and Busita / Zawadi Ltd.:

Workings:

Item	Sh."000"
Credit sales: receipts from debtors + closing debtors - opening debtors 54,000 + 7,200 - 4,500	56,700
<i>Add:</i> Cash sales banked	<u>12,800</u>
Recorded sales	69,500
<i>Add:</i> Undercast by 20%	<u>13,900</u>
Actual sales	<u>83,400</u>
Credit purchases: Payments to creditors + closing creditors - opening Creditors 28,400 + 4,800 - 3,100	30,100
<i>Add:</i> Undercast by 20%	<u>6,020</u>
Actual purchases	36,120
<i>Less:</i> Goods withdrawn by partners	<u>(1,000)</u>
Cost of sales	<u>35,120</u>
Gross profit (83,400 - 35,120)	<u>48,280</u>

(i) Statement of adjusted taxable profit or loss for the year ended 31 December

2025:

Particulars	Partnership 9 months Sh."000"	Zawadi Ltd. 3 months Sh."000"
Gross profit apportioned by time	36,210	12,070
Less allowable expenses:		
Rent	(3,150)	1,050)
Legal fees	(600)	(200)
General office expenses excluding political donation and capital item 8,500 - 400 - 250	(5,887.50)	(1,962.50)
Staff salaries including SHIF contribution	(10,650)	(3,550)
Directors' fees after incorporation	-	(1,200)

Debenture interest: $12\% \times 10,000 \times 3/12$	-	(300)
Investment allowances: Mercedes Benz restricted to Sh.3,000; eTIMS server; neon sign and digital security system	(789.4)	(263.1)
Adjusted taxable profit before partner salaries	15,133.10	3,544.40
Add back/disallow partner salaries	3,600	_____
Adjusted taxable profit	<u>18,733.10</u>	<u>3,544.40</u>

- Donation to a registered political party is not an allowable deduction for income tax purposes.
- Purchases without supplier eTIMS invoices are allowed where the firm issued self-issued tax invoices under section 23A of the Tax Procedures Act.
- The non-resident digital system support fee is treated as allowable on the assumption that withholding tax obligations were accounted for; otherwise it would be disallowed until the withholding tax is remitted.
- The old delivery van proceeds are treated as capital in nature. No balancing adjustment is made as the cost or tax written down value was not provided.
- The transfer of freehold land to Zawadi Ltd. is treated as a restructuring transaction. Since the partners maintained identical ownership proportions, no capital gains tax is included in the business income computation; stamp duty implications may arise separately.

(ii) Total taxable income for each partner for the year ended 31 December 2025:

Assumption: The partner salaries of Sh.3.6 million before conversion were allocated equally to Balala and Halali as stated in the reconstructed records.

Particulars	Balala Sh."000"	Halali Sh."000"	Busita Sh."000"	Total Sh."000"
Partner salaries	1,800.00	1,800.00	-	3,600.00
Share of residual partnership profit:				
Jan - June: in ratio 3:2	9079.86	6,053.24	-	15,133.10
July - Sept: in ratio 2:2:1	<u>1,417.76</u>	<u>1,417.76</u>	<u>708.88</u>	<u>3,544.40</u>
Taxable income	<u>9,871.00</u>	<u>7,853.10</u>	<u>1,008.90</u>	<u>18,733.50</u>

QUESTION 2

December 2025 Question Two B

Working 1:

Total Purchase

		Payables a/c	
		Sh.	Sh.
			Balance b/f (142,300+112,200) 254,500
Bal c/d (458,000+172,000)	<u>630,000</u>	<i>Credit purchase</i>	<u>375,500</u>
	<u>630,000</u>		<u>630,000</u>

Total Purchase = 1,820,900 + 980,000 + 375,500
 = 3,176,400

Working 2:

Cost of sales

	Sh.
Opening stock 85,000 + 120,000	205,000
Purchases	3,176,400
Closing stock 3,400,000 + 670,000	(1,010,000)
Less: Drawings 520,000 + 430,000	<u>(950,000)</u>
	<u>1,421,400</u>

Working 3:

Sales = 1,421,400 + $\frac{30}{100} \times 1,421,400 = 1,847,820$

Working 4:

Rent expenses

		Rent expenses	
		Sh.	Sh.
			Balance b/f 55,000
			Income statement 264,700
Bank: 250,000+190,000	<u>440,000</u>		Balance c/d <u>120,300</u>
	<u>440,000</u>		<u>440,000</u>

Working 5:

Electricity

Prepaid b/f 49,200 + 22,500	71,700
Bank 130,000 + 68,000	198,000
Accrued c/d 20,000 + 30,000	<u>50,000</u>
	<u>319,700</u>

(b) i) Taxable income of the partnership for the year ended 31 December 2024**Joman Enterprises 2024 income and tax computation**

	Sh.	Sh.
Sales		1,847,820
<i>Less:</i> Cost of sales		<u>(1,421,400)</u>
Gross profit		426,420
Add: Other incomes		
Insurance compensation on stocks		<u>680,000</u>
Taxable revenue		1,106,420
Less: Allowable expenses		
Investment allowance:		
Furniture and fittings 10% (56,000 + 48,000)	10,400	
Delivery van 25% (1,280,000 × 2,830,000)	1,027,500	
Saloon car 25% × 3,000,000	750,000	
Software 25% × 240,000	60,000	
Rent expense	264,700	
Electricity expense	319,700	
Interest on loan 10% × 1,500,000 × $\frac{6}{12}$	75,000	
Commission to employees 1% × 1,847,800	18,478.2	
Stationery 67,000 + 88,000	155,000	
Legal fees	120,000	
Salaries and wages (780,000+320,000-20,000×2×12)	620,000	
Office expenses 90,000 + 30,000	<u>120,000</u>	<u>(3,540,776.2)</u>
Net taxable operating income/loss		<u>(2,434,358.2)</u>

(ii) Computation of Taxable Income for Each Partner

Details	Patrick (Sh.)	John (Sh.)	Total (Sh.)
Salaries (20,000×12)	240,000	240,000	480,000
Interest on Drawings (W1)	(15,600)	(12,900)	(28,500)
Share of Loss (Equally)	<u>(1,428,679.1)</u>	<u>(1,428,679.1)</u>	<u>(2,885,858.2)</u>
Total Taxable Income	<u>(1,204,279.1)</u>	<u>(1,201,579.1)</u>	<u>(2,885,858.2)</u>
Add Royalty income	140,000	140,000	

Workings**W1:**

Interest on Drawings 3%(520,000 + 430,000)

(iii) Advice to Partners

The assessment issued by the Revenue Authority (Sh. 684,000 each) appears is incorrect/overstated assessment. The partners should file a formal notice of objection within 30 days as during the year under review the business made a loss of sh. 2,434,358

QUESTION 3**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 $148,300 \times 80$	11,864,000
Credit	<u>4,820,000</u>
	16,684,000
<i>Less: VAT</i> [$\frac{16}{116} \times 16,684,000$]	<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
<i>Less: VAT</i> [$\frac{16}{116} \times 4,436,600$]	<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

Jaykay Enterprise Ltd. 2024 Income and tax computation			
		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>			
Investment allowances:			
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 × ¹⁰⁰ / ₁₁₆]	155,172	103,448	51,724
Motor vehicle fuel: [260 × ¹⁰⁰ / ₁₁₆]	224,138	149,425	74,713
Legal fees (138,500 - 30.5)	108,000	72,000	36,000
Interest on loan (18% × 2,500)	450, ⁵ / ₁₂ , ⁴ / ₁₂	187,500	150,000