



# MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

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## UNIVERSITY EXAMINATIONS 2024/2025

### THIRD YEAR FIRST SEMESTER EXAMINATION FOR DEGREE OF BACHELOR OF COMMERCE

#### BFC 3326: ADVANCED TAXATION

DATE: JANUARY 2025

TIME: 2 HOURS

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**INSTRUCTIONS: Answer Question ONE and any other TWO questions.**

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#### QUESTION ONE (30 MARKS)

- a) Discuss tax Planning citing any four avenues of tax Planning (5 marks)
- b) Explain the various types of returns of income (4 marks)
- c) What do you understand by installment tax system? (4 marks)
- d) Discuss PAYE and explain who is liable for PAYE (5 marks)
- e) Differentiate between tax evasion and tax avoidance, and enumerate some of the methods used in checking of tax evasion. (5 marks)
- f) A manufacturer acquires raw materials for Sh.200, 000 on which VAT is levied at 16%, At each stage of the chain 25% conversion costs are incurred and a 30% mark up is made. Required calculate the VAT collected each stage (7 marks)

#### QUESTION TWO (20 MARKS)

- a) Mrs Ouma is a married person. In the year 2020 he and his wife had the following income.
  - i. Salary Sh400, 000 (PAYE Sh.90,000)
  - ii. Net income from rent Sh150, 000.
  - iii. Free Company car 2500cc
  - iv. Dividend received from equity bank shares Ksh 30,000 (withholding tax shs.4, 500)



- v. The wife is employed as a teacher at a salary of shs, 20,000 per month, (PAYE shs 5,000)
- vi. Wife's income from a shop she operates at Kianjai market, her net income was Sh.150,000.

**Required**

- (i) Calculate Mr and Mrs Ouma's taxable income for the year 2020, (8 Marks)
- (ii) Calculate their tax liability for the year 2020 (8 Marks)
- b) State and explain any three allowable and disallowable deductions from employment income (6marks)

**QUESTION THREE (20 MARKS)**

- a) M/S Watu; Wote; Wao are partners trading as WWW Enterprises. They share profits and losses in the ratio 3:3:4 respectively. In the year 2020 they reported a loss of shs 350,000 after charging the following items:

Depreciation	Sh250,000
Salaries to partners: Watu	Sh.550,000
Wote	Sh.450,000
Wao	Sh.350,000
Interest on capital: Watu	Sh.450,000
Wao	Sh.350,000
Commission Wote	Sh. 250,000
Stationery	Sh. 300,000
Office expenses	sh. 250,000

**Required**

- (i) Calculate the adjusted partnership profit or loss and its distribution among the partner (10 Marks)
- (ii) Calculate the tax liabilities for the partners (5marks)
- b) Expenses are allowed only if incurred wholly and exclusively in the production of income. State expenses that are allowed by the Act (5 Marks)

**QUESTION FOUR (20 MARKS)**

- a) What are capital allowances and why are they important? (5Marks)



b) KK Co. Ltd. a company dealing in Electronics prepares its accounts to December each year. The following information relates to the year ended 31st December 2020.

(i) Written down value of assets brought forward for income tax purpose:-

	<b>Class 1</b>	<b>Class 111</b>	<b>Class IV</b>
	37½%	25%	12 %
Written down b/d	sh. 375,000	sin. 275,000	sh. 97,000

(ii) Disposals during the year:

	<b>Cost (sh)</b>	<b>NBV (sh)</b>	<b>Sales (sh)</b>
Lorry	380,000	275,000	200,000
Motor Car (for directors)	2,100,000	1,000,000	800,000

(iii) Additional during the year;

	sh.
Mercedes Benz Sport car for director	3,000,000
Second-hand tractor	100,000
Shop fittings	80,000
Computers	450,000
Telephone system	82,000
Trailer used by tractor	80,000

### Required;

Calculate the wear and deductions due to the company for 2020. (15marks)

### QUESTION FIVE (20 MARKS)

- a) Discuss the establishment of KRA and its core function (8marks)
- b) Discuss the following special business units regarding the taxation Act
  - i. Petroleum company in Kenya (5marks)
  - ii. Amateur sporting clubs (3marks)
  - iii. Insurance companies (2marks)
  - iv. Trustees (2marks)

