



PAN AFRICA CHRISTIAN UNIVERSITY
BACHELORS OF COMMERCE
END OF TERM EXAMINATION
DEPARTMENT: BUSINESS
COURSE CODE: BCM 301
COURSE TITLE: PRINCIPLES OF TAXATION
ROYSAMBU CAMPUS
EXAM DATE: TUESDAY
TIME: 8:00AM - 11:00AM

INSTRUCTIONS

- This examination script consists of **five(5)** questions.
- Answer Question one and ANY three Questions.
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

QUESTION ONE

- Using relevant examples, explain any four canons of taxation in Kenya (8marks)
- The taxable income of company X residing in Kenya is Sh800,000. Determine:
 - Its tax payable (1mark)
 - The amounts and dates the tax is payable (4marks)
 - The consequences of not paying the tax payable on time (2mark)
- Describe how the following items are treated for taxation:
 - General bad debts of a company (2marks)
 - Salaries of partners in partnership (2marks)
 - Dividends received by an individual (2marks)
 - Goods purchased and then sold by a firm (2marks)
 - Life insurance by an employee (2marks)
- Explain when the Pay As You Earn (PAYE) should be paid and the consequences of not paying on time (5marks)

QUESTION TWO

- Using relevant examples, distinguish between qualified and non-qualified dividends (4marks)

- b) Citing relevant examples, explain any three factors affecting taxable capacity of a country (6marks)

QUESTION THREE

Ann, Beth and Caren are partners operating a wholesale shop in Kisumu. They share profits and losses in the ratio 2:2:1 respectively. During the year ended 31 December 2024, the partners reported a loss of Sh.8,325,000 after deducting the following:

	Sh.
Interest on capital:	
Ann	406,000
Beth	406,000
Caren	609,000
Motor vehicle running expenses	532,000
Office expenses	420,000
Repairs and maintenance	168,000
Water and electricity	238,000
Salaries and wages	3,689,000
Subscriptions to a trade association	224,000
Depreciation	960,000
Purchase of lorry	2,329,250

Additional information:

- Office expenses included cost of office cabinet of Sh.192,500.
- The partnership received Sh.910,000 being insurance recovery for stocks which were destroyed by fire in 2024. This was omitted in arriving at the reported loss above.
- Motor vehicle running expenses included Sh.21,000 per month related to personal travel by the partners.
- Included in repairs and maintenance is Sh.140,000 paid for purchase of office cabinet during the year.
- Salaries and wages included partners salaries as follows: Ann sh700,000, Beth sh735,000, Caren sh1,008,000.
- The partners had other incomes as follows: Ann sh391,230, Beth sh831,600, Caren sh(495,000).
- Capital allowances have been agreed with the Commissioner at Sh.906,000.

Required:

- The taxable profit/(loss) for the partnership business for the year 2024. (4 marks)
- Show the allocation of the profit/(loss) among the partners. (3 marks)
- Compute tax payable by each partner. (3 marks)

QUESTION FOUR

Given below were the purchases and sales made by Nich Co. Ltd during the month of July 2025.

December	1	Purchased 400 units at Sh.5,600 per unit
	1	Sold 40 units at sh.7,200 per unit

5	Sold 80 units at Sh.7,200 per unit
10	Sold 200 units at Sh.7,200 per unit
20	Purchased 300 units at Sh.6,400 per unit
25	Sold 80 units at sh.7,200 per unit
31	Sold 200 units at Sh.8,000 per unit

There was no inventory at the beginning of the month but 100 units were in stock at the end of the month. The prices were inclusive of VAT at the standard rate of 16%.

Required:

- a) Determine the Value Added Tax liability (8marks)
- b) On what date is Value Added Tax due payable? (2 marks)

QUESTION FIVE

Mr. Patel is employed by Tin Distributors Ltd. During the year of income ending September 2025, he presented to you the following information:

1. Mr. Patel earned a basic salary of sh.60,000 per month (P.A.Y.E Sh.16,000 per month)
2. He contributes 20% of his basic salary to an approved pension scheme.
3. He received an end of the year bonus payable to executive staff: sh.20,000
4. Mr. Patel is housed by his employer, in a house where the employer pays rent of Sh.5,000 per month. The house is fully furnished at a cost of sh250,000.
5. His employer pays on his behalf life insurance premium at sh.2,000 per month.
6. Interest received by Mr. Patel from Post Office Savings Bank during the year was Sh.12,000
7. Mr. Patel also own rental houses whose income was Sh.95,000 during the year.

Required:

- (a) Calculate the total taxable and tax payable income for Mr. Patel for the year of income ending September 2025.
(6 marks)
- (b) State the tax position of Mrs. Patel (3 marks)
- (c) Comment on any information that you did not use in computation of Mr. Patel's taxable income (1mark)