INTERNATIONAL UNIVERSITY OF EAST AFRICA
'Learning to Succeed'

FACULTY OF BUSINESS MANAGEMENT

END OF SEMESTER EXAMINATIONS - DECEMBER 2025

PROGRAMME: BBA
YEAR/SEM: YEAR 3/SEMESTER 1
COURSE CODE: ACC 3103
NAME: INCOME TAX(ACCOUNTING)

DATE:
TIME:

INSTRUCTIONS TO CANDIDATES:

SECTION A

Compulsory

Question 1:

Atanayitayita Breweries Limited (ABL) is a beverage manufacturing company making beer, water, and other non

alcoholic drinks in Uganda. The company is located at the source of the Nile River in Buikwe district in eastern

Uganda with a mini plant in Mbarara in western Uganda. The following is ABL's statement of profit or loss and other

comprehensive income for the year ended 31 December 2022:

	Notes	Shs'000'
Revenue		5,443,140
Cost of sales		(2,330,972)
Gross profit		3,112,168
Other incomes	1	342,000
		3,454,168
General and administrative expenses	2	(1,754,211)
Other operating expenses	3	(614,822)
Depreciation of property plant and equipment		(342,771)
Depreciation of right-of-use assets	4	(117,901)
Selling, distribution & marketing expenses	5	(102,001)
Profit before tax		522,462

Notes:

1. Other incomes

(i) Foreign exchange gain Shs 53 million 50% of which was not realised at the time of reporting.

(ii) Advance payment received from distributors for which supplies are to be made of Shs 69 million.

2. General and administrative expenses include amortised goodwill of Shs 153 million. The initial recognised goodwill in 2019 at the time of brand acquisition was Shs 778 million expected to last over 5 years.

3. Other operating expenses include:

(i) Costs incurred to procure a batch of 15,000 empty crates from a local manufacturer Shs 300 million. Diminution value of these is considered to be 10%.

(ii) Shs 89 million used to procure barley seed distributed to farmers who are yet to make good on their deliveries.

(iii) The acquisition of Enterprise Resource Planning software of Shs 25 million with an estimated useful life of 5 years.

(iv) Shs 54 million used to procure factory wear, hard hats, and protective boots for staff.

(v) Shs 85 million used for regional end of year staff event.

4. Depreciation of right-of-use relates to the acquisition of the right to use an international beer brand for 10 years acquired at Shs 372 million.

5. Selling, distribution and marketing include national club sponsorship of Shs 89 million, additional sponsorship to the national rugby team, and Shs 25 million worth of products given to staff.

6. The tax written down values as at 1 January 2022 were as follows:

	Shs '000'
Class I	543,327
Class II	217,652
Class III	168,760

7. The following items were added during the year to the plant in Mbarara:

	Shs ‘000’
Factory Machinery	442,556
Distribution trucks	1,288,901
Water pumping facility	332,776
Office furniture and fittings	44,531

8. The company constructed a new warehouse at the mini-plant in Mbarara which was put to use on the 1 July 2022. The cost of constructing this warehouse was Shs 652 million.

9. The company also has old buildings constructed in both Mbarara and Buikwe in 2019 at a qualifying cost of Shs 809 million and Shs 722 million respectively.

Required:

Compute the chargeable income and tax obligation of ABL for the period ended 31 December 2022.

In reference to the Income Tax Act Cap. 340 explain the meaning of scientific expenditure and any three items that are not included in scientific expenditure. (40 marks)

Question 2:

Question One:

Decker Steel Mills Ltd deals in the manufacture of steel products. The company is situated in Mbale and commenced business on 1 January 2018. The company is duly registered for all taxes in Uganda. The following is Decker Steel Mills Ltd’s statement of comprehensive income for the year of income ended 31 December 2020:

	Note	Shs ’000’
Income:		
Gross turnover		2,234,000
Cost of sales		(873,000)

Gross profit		1,361,000
Other operating income	1	67,000
Net operating income		1,428,000
Expenses:		
Marketing and distribution costs	2	(204,200)
Administration expenses	3	(577,664)
Depreciation		(116,000)
Provisions for bad debts	6	(20,000)
Loss on disposal of computers		(13,000)
Profit before tax		497,136

Notes:

1. Included in other income are foreign exchange gains comprising:

	Shs '000'
Realized gains	5,300
Unrealised gains	15,250

2. Marketing and distribution expenses included the following:

	Shs '000'
Cost of billboards and signage	43,000
Repairs to billboards and signage	3,200

Corporate soccer league costs for manufacturing companies 13,000

Cost of two distribution trucks of 8 tonne capacity each 145,000

204,200

3. Administration expenses include the following:

	Shs '000'
Taxes expensed	36,234
Stamp duty on transfer of land	50,000
Entertainment	26,100
Start-up costs (note 4 below)	158,000
Subscription to Manufacturers Association	5,000
Donations to an NGO for orphans	15,200
Scientific research costs (note 5 below)	160,200
Personnel costs	126,000
Cost of furniture	930
	577,664

4. Start-up costs of Shs 158 million included in administration expenses were

incurred in January 2018 when the company started manufacturing. The
accountant had not considered them in the financial statements until
2020.

5. Scientific research costs included in administration expenses relate to research on

improved methods of manufacturing and were incurred in March 2020.

6. Movement in provisions for bad and doubtful debts.

Shs '000'

Increase in provisions for trade debts	7,923
increase in provision for non-trade debts	2,345
Increase in provisions for redundancy during machine breakdowns	9,732
	20,000

7. Taxes paid / charged during the year.

	Shs '000'
Provisional taxes paid	256,000
Tax credit brought forward	35,400
Withholding tax paid on import of raw materials	17,300
Output VAT charged on goods sold	23,000

8. The following information relates to the non-current assets held by the company:

Expenditure on new factory:	Shs '000'
Purchase of land	300,000
Compensation of squatters	56,000
Construction	579,000
Plant and machinery	480,000
Bribes to Municipal Council officials	26,000

The factory was first put to use on 1 January 2018.

Tax written down values as at 1 January

2020 include:

	Shs '000'
Class I	153,000
Class II	95,000
Class III	123,000

During the year ended 31 December 2020 the following transactions took place:

	Shs '000'
Installed computer network	95,000
Purchased a Mercedes Benz for the managing director	230,000
Purchase of furniture	12,000
Disposal of old computers (net book value Shs 45 million)	32,000
Extension to the factory to serve as a warehouse put to use on 1 July 2020.	267,000

Required:

a) Compute the chargeable income and tax payable by Decker Steel Mills Ltd for the year ended 31 December 2020. ***[35 marks]***

b) State the dates when the company was required to submit provisional tax return and to furnish a return of income for the year ended 31 December 2020. ***[5 marks]***

SECTION B

Answer three Questions Only

Question 1:

Alpha Computers Limited (ACL) is a value added tax (VAT) registered company dealing in the supply, sales, and servicing of Information Technology Equipment. During the month of July 2023, the company had the following transactions:

1. Acquired license to supply locally developed computer programs valued at Shs 62.5 million.
2. During the month, ACL developed an online study platform for an academic institution and charged Shs 6 million for the service.
3. Purchase of integrated facial recognition devices worth Shs 33 million.
4. Acquisition of 15 email filter licenses worth Shs 600,000.
5. ACL also developed an online content for a commercial online seller and charged Shs 5.2 million for the services.
6. During the month, ACL also provided maintenance service to 5 automated teller machines and invoiced Shs 8 million for the service.
7. ACL used 6 all-in-one computers from its own stock to start a new branch in Mbarara. Each computer is commercially sold at Shs 6.5 million.
8. ACL also designed and customised a records database for a local hospital at a fee of Shs 12.5 million.
9. Purchased 3 high-end printers at a total cost of Shs 18 million.
10. Received payment of Shs 4.8 million for web hosting services provided in the month of June.

Note:

All purchases are VAT exclusive and sales are VAT inclusive where applicable.

Required:

a) Compute the VAT payable or claimable by ACL for the month of July 2023.

b) In accordance to the VAT act cap 349, explain the circumstances under which the commissioner is required to refund taxes to the taxpayer.

c) Explain the circumstances under which a taxpayer is allowed to make adjustments to a tax invoice.

Question 2:

Ronald Mufumbiro is a Ugandan flight captain flying for Kamwokya Airlines. Ronald has been working with the airline as a Senior First Officer for the past six years and got promoted to Captain in January 2023. The following are the terms of his engagement in the new rank and other gains in the month of January 2023.

1. Monthly retainer of $ 800 and flight allowance of $ 150 per international flight and $ 100 per regional flight. In the Month, Ronald made 6 international flight and 3 regional flights.
2. In the month, Ronald was engaged as a Training Captain for the airline's training school in Soroti. He was paid Shs 3.2 million for the assignment.
3. The Airline reimbursed him fuel for his travels to and from the airport of Shs 420,000 of which only Shs 220,000 related to actual work travels.
4. Ronald also received 2 pairs of a four-striped Pilot uniform from the airline valued at Shs 450,000 per pair.
5. The airline gave Ronald $ 300 for "warm clothing allowance" a special kind of clothing allowance given once in three years to buy winter clothing.
6. For each of the 6 international flights in the month, Ronald was given $ 200 for lodging and accommodation. The airline does not require accountability for this allowance.
7. The airline provides accommodation for all flight pilots, Ronald's apartment in Magere is valued at a monthly rent of Shs 1.2 million.
8. During each flight, Ronald and the entire crew are served with meals valued at Shs 20,000 per flight.
9. Additional monthly benefits include airtime of Shs 150,000 and internet data bundles of Shs 250,000.
10. He also attended a routine medical check-up for which the airline paid Shs 850,000.

Additional information:

The exchange for the month was $ 1: Shs 3,500

Required:

(a) Compute Ronald's chargeable income and tax liability for the month of

January 2023. (15 marks)

b) In accordance with the provisions of the Income Tax Act Cap. 340 give the instances where employment income may not be included in the chargeable employment income. (5 marks)

Question 3:

a) Although governments have the right to impose taxes on citizen as an avenue to raise government revenue for development and provision of public goods, taxes should be administered in a way that creates minimum pain to the payer. According to the taxpayers' charter, explain the rights of taxpayers in the process of tax collection. (6 marks)

b) In accordance to the Income Tax Act Cap 340, explain the circumstances under which withholding tax is considered a final tax and the implication of withholding tax being a final tax. (4 Marks)

c) Mr Matayo Katumba (MK) is a retired civil servant who provides professional services on a consultancy basis. For the year ended 30 June 2023, Matayo earned:

1. Shs 12 million in gross income from providing tax advisory services to Avengers Company Limited.
2. Shs 9.4 million from the provision of Mobile Money services.
3. Shs 1.1 million from a bet on an English Premier League game.

Required:

Compute the withholding tax applicable to each of the incomes earned by MK in the year ending 30 June 2023**. (15 marks)**

Question 4:

(a) Muriffe John (MJ) is the sole shareholder and managing director for Muriffe Investments Limited (MIL). During the year ended 31 December 2022, the company disposed of one of its saloon cars used by MJ at Shs 142 million; this vehicle had been acquired a year before at Shs 163 million.

Required:

Determine the gain or loss on the disposal of the vehicle and the applicable capital gains tax, if any. (8 marks)

(b) Tax is the most important form of government revenue used not only to pay for public goods and services but also a key ingredient in the social contract between citizens and the economy.

Based on your knowledge of taxa

(i) Fundamental principles of ethics for tax practitioners in Uganda. (6 marks)

(ii) At least **Six** Key sources of non-tax revenue in Uganda (6 marks)

Question 5:

Property Wide Limited owns a twenty (20) storey-building whose construction began in January 2014. It was completed in January 2015 at a cost of UShs 5 billion.

In December 2016, the building was sold to Kent Limited at UShs 11 billion. Kent limited transferred UShs 8 billion to Property Wide's account as part payment.

A recent (2017) valuation of the building revealed its market value to be UShs 15 billion which is far above what Kent Limited incurred in respect of the building.

Kent limited decided to sell the first and second floors to a one Singh in January2018. Singh agreed to pay UShs 900 million to conclude the transaction.

During the month of December 2018 fire gutted the floors Singh had purchased. Fortunately, Singh received an insurance compensation of UShs 1 billion for the burnt floors. He then reconstructed the floors at a cost of UShs 2 billion. Ignore any capital allowances allowed under Section 29 of the income Tax Act.

Required:

a) Explain the circumstances under which a taxpayer is deemed to have disposed of an asset as per the Income Tax Act CAP 340. ***[5 marks]***

b) Compute the capital gain tax (CGT), if any that would result from the transactions

between:

i) Property Wide Limited and Kent Limited; and ***[2 marks]***

ii) Kent Limited and Singh and comment on the tax treatment.

[3 marks]

c) Compute the cost base of the replaced first and second floors of the building; ***[5 marks]***

d) Explain the transactions where the disposal of a business asset neither gives rise to a gain

nor loss. ***[5 marks]***

Question 6:

a). Mr. Mukwasi operates a shop in Busia Town Council where he sells general merchandise He records of transaction for his small business and he maintains a receipt book showing sales made. During the year ended 31 December 2021, the following were his transactions

His gross takings totaled UShs 88,400,000, He paid salaries to the shop attendant of UShs 4,000,000, paid rent of UShs 15,800,000 and other expenses totaling UShs 10,000,000.

During the year, he also imported some items from Kenya and paid duties to URA at Busia border post totaling UShs 2,486000 including withholding tax of UShs 432,100.

Required:

Compute the tax payable by Mr. Mukwasi for the year ended 31 December 2021.

[6 marks]

b) Ms Stella Kinene imports motor tyres from Hong Kong. Recently she purchased tyres at

purchase price of $35,000.

Import duty on tyres is 25%;

Excise duty – 50%

Value Added Tax- 18%

Withholding Tax – 6%

Environmental Levy – 2.5%

Ms Stella contracted BaYusuf Haulers' to transport the cargo from Mombasa to Kampala at a cost of Sh. 25,000,000

At the time of importation the exchange rate is $ 1= Sh. 3,700.

Required:

i). Determine the Total Tax Payable by Stella, the importer ***. [10 marks]***

ii) It is established that the consignment had 1000 tyres, and each tyre has a market price of Sh.

1,000,000 in Kampala. What profit or loss will Ms Stella make if all tyres are sold on arrival? ***[4 marks]***

Question 7:

a) Although governments have the right to impose taxes on citizen as an avenue to raise government revenue for development and provision of public goods, taxes should be administered in a way that creates minimum pain to the payer. According to the taxpayers' charter, explain the rights of taxpayers in the process of tax collection. ***[6 marks]***

b) In accordance to the Income Tax Act Cap 340, explain the circumstances under which withholding tax is considered a final tax and the implication of withholding tax being a final tax. *[6 marks]*

c) Mr Matayo Katumba (MK) is a retired civil servant who provides professional services on a consultancy basis. For the year ended 30 June 2023, Matayo earned:

1. Shs 12 million in gross income from providing tax

advisory services to Avengers Company Limited.

2. Shs 9.4 million from the provision of Mobile Money services.
3. Shs 1.1 million from a bet on an English Premier League game.

Required:

Compute the withholding tax applicable to each of the incomes earned by MK in the year ending 30 June 2023**.** ***[8 marks]***

Question 8:

Kayunga Ltd commenced business in processed cooking oil in November 2022. On 1st

June 2023, the company was registered for VAT. The company recorded the following

transactions from 1 November 2022:

i) 1st November 2022: Purchased office equipment Shs 25 million.

ii) 2nd November 2022: Purchased trading stock Shs 70 million.

iii) December 2022: Sold stock Shs 50 million.

iv) 2 February 2023: Purchased trading stock Shs 40 million.

v) 15 February 2023: Purchased office machines Shs 20 million.

vi) 15 June 2023: Exported maize flour Shs 150 million from Tanzania

to South Sudan through Uganda. The company had diversified their
business to include the export foodstuffs during the month of June
2023.

vii) July 2023: Purchased a new Toyota Prado for the Managing Director Shs

250 million.

viii) 15 July 20123: Purchased 5 computers Shs 15 million and a printer Shs 2

million.

ix) 31 July 2023: Received invoices for telephone bills Shs 4 million and electricity bill Shs 6 million.

All sales are VAT exclusive where applicable, while purchases are VAT inclusive.

Required:

a) Advise Kayunga Ltd on the VAT implications for each of the above transactions. ***[15 marks]***

b) Explain what you understand by 'taxable value of an import of goods'. ***[2 marks]***

c) Describe the circumstances under which a refund of tax may be made to diplomats,

consular missions and international organizations under the VAT Act Cap 349.

[3 marks]

Question 9:

Mr. Okol is a professional accountant who has been employed by BB Breweries

Ltd. He has a 3 year contract term of service running from 1st October 2021. As

part of his entitlements, the following accrued to Mr. Okol for the year ended 30

September 2022:

i) Monthly salary Shs 15 million.

ii) Medical bill Shs 7 million for his dental surgery at a private clinic. The company has a medical scheme for all employees with RAA Hospital.

iii) His two children attended a short course at an international school and paid course fees of Shs 5 million per child.

iv) He was provided with a security guard at Shs 300,000 per month as per his entitlement. However, due to the prevailing insecurity then, he engaged an additional two security guards at Shs 350,000 per guard per month and paid himself.

v) He was offered a loan of Shs 120 million at an interest rate of 28% p.a. The statutory rate ruling for that year was 27%.

vi) He was paid travel allowance for his spouse of Shs 4.5 million. The contract is silent about travel allowances for spouses.

vii) The company provides meals to employees at the canteen. Okol's brother who was still looking for a job would occasionally have lunch at the company's canteen under Okol's request to the canteen manager. During the year Okol's brother consumed meals worth Shs 700,000.

viii) Okol is also entitled to a car maintenance allowance of Shs 1.5 million per month. During the year he bought himself a Toyota RAV4 at a cost of Shs 50 million.

x) Okol is a partner in ZX Certified Public Accountants. The other partner is Xavier. The partners share profits or losses in the ratio 3:2 respectively. For the year ended 30 September 2022, the firm made a profit of Shs 135 million. The partnership paid salaries of Shs 7 million and Shs 6 million to Zaidi and Xavier respectively which was not included in the profits. The capital allowances accruing to the firm amounted to Shs 8.5 million. A

depreciation charge of Shs 6.2 million was made in the financial statements. Interest paid on the capital contribution for the period amounted to Shs 2.3 million and Shs 1.4 million to Okol and Xavier respectively.

Required:

a) Compute Okol's taxable employment income for the year ended 30th September 2022, giving reasons as to why you have omitted / included the amounts. ***[10 marks]***

b) Compute the partnership's taxable profits / losses attributable to each partner for the

year ended 30 September 2022***. [6 marks]***

c) Determine Okol's total tax liability for the year ended 30 September 2022. ***[4 marks]***

Question 10:

ASK & Co. is a firm that deals in providing accounting and taxation services. Its partners Andrew, Simon and Kellen share: profits in the ratio of 2:3:4, respectively. The three have spent over 183 days in Uganda. The partners would also want to get a clear understanding of the ethical, issues concerning them as tax practitioners.

The firm's income statement for the year ended 30th June 2018 was as follows:

	UShs
'000'	
Accounting advisory fees	400,000
Tax advisory fees	300,000
Rental and property income	150,000
Less:	
Staff salaries:	120,000
Staff PAYE	12,000
Partners' salaries	

· Andrew
20,000

· Simon
35,000

Partners' PAYE	20,000
Other deductible expenses 67,000	
Personal partner expenses 15,000	
Royalties paid to an affiliated firm in Germany	25,000
Commission to government officials	16,000
Partners' professional insurance	10,000
Partners' personal insurance policies 5,000	

The accountant omitted expensing the accounting depreciation of UShs 30 million. Tax depreciation allowances on the firm's assets were UShs 25 million. In the previous tax audit, it was agreed with URA that the non-qualifying use of the partnership assets was 10%.

Required:

Compute the tax liability of the partners for the year ended 30 June 2018. Discuss the five fundamental ethical principles and explain why tax practitioners need to observe such principles. ***[20 marks]***

Question 11:

a) Mrs. Catherine Murungi operates a wholesale Shop in Kikuubo dealing in merchandise. She is also employed as an accountant with an NGO based western Uganda and has residential apartments in Konge Kampala. Results for the year ended 31 December 2018 are as shown below:

i) Her gross takings totaled UShs 223,845,000 and cost of sales was UShs 149,204,000 She paid gross salaries to shop attendants totaling UShs 21,980,000 and even paid the respective PAYE to URA. Rent for the shop was UShs 24,000,000. Other operating expenses totaling UShs 32,800,000 were incurred of which deprecation was USh 3,129,876.

ii) She took away stock worth UShs 3,860,000 for her personal use and the sister. She also used the business money to pay school fees for her son at Ritah Memorial School of UShs 4,800,000.

iii) Catherine also made drawings of UShs 8,500,000 during the year. She collected UShs 48,000,000 from her apartments and incurred expense of UShs 13,400,000 on their maintenance.

iv) During the year, she suffered withholding tax of UShs 4. 870,000 in respect of supplies to a government body. She paid provisional tax in four installments of UShs350,000 each and her capital allowances were UShs 7,124,400.

v) Catherine has also suffered PAYE of UShs12,430,000 from her annual employment income of UShs 53,390,800.

Required:

Compute the tax payable by Mrs. Catherine Murungi for the year ended 31st December 2018.

[10 marks]

b) Write short notes on the following terms as applied in taxation and tax management.

i Exempt Supply [**2 marks]**

ii Scientific Research expenditure [**2 marks]**

iii Initial allowance [**2 marks]**

iv Motor vehicle benefit included in Employment income [**2 marks]**

Short-term resident of Uganda [**2 marks]**

Question 12:

Sky View Agencies (SVA) Ltd is a value added tax (VAT) registered company dealing in the production, recycling, and supply of paper products. The company had the following transactions during the month of February 2023.

1. The company supplied paper bags on credit to a supermarket worth Shs 6.3 million.

2. SVA supplied 50 dozen of counter books at Shs 2 million.
3. The company supplied locally produced exercise books to 6 primary schools worth Shs 12.8 million.
4. During the month, SVA also supplied toilet papers produced from recycled materials worth Shs 7 million to various markets in Uganda.
5. The company also produced and supplied gift wrappers worthy Shs 5 million on credit to a supermarket in Kampala.
6. During the month, one of its stores in Mbale was flooded and papers materials valued at Shs 4 million were destroyed. VAT had been reported on these materials.
7. To customers in the DRC, SVA made supplies equivalent to Shs 12.8 million. These remained unpaid by the end of the month.
8. The toilet paper plant uses materials from the recycling unit, during the month; materials worth Shs 9.2 million were used by the plant.
9. The company also purchased a paper pulping machine from a local supplier at Shs 52 million.
10. SVA also purchased old papers for recycling from a non-registered VAT supplier at Shs 1.2 million.
11. Items worth Shs 4.4 were returned and a credit has been issued to the customer.

Additional information:

All purchases are VAT inclusive and Sales are VAT exclusive where applicable.

Required:

a) Compute the VAT payable/claimable for the month of February 2023. *[10 marks]*

b) In accordance with the VAT Act Cap 349, explain:

i) The rules governing time of supply in Uganda. *[5 marks]*

ii) The circumstances under which VAT is refundable. *[5 marks]*