



FACULTY OF BUSINESS MANAGEMENT
END OF SEMESTER EXAMINATIONS - APRIL 2025

PROGRAMME: BBA

YEAR/SEM: YEAR 3/SEMESTER 1

COURSE CODE: ACC 3103

NAME: INCOME TAX(ACCOUNTING)

DATE: 2025-04-24

TIME: 9:00AM-12:00PM

INSTRUCTIONS TO CANDIDATES:

1. Read the instructions very carefully
2. The time allowed for this examination is STRICTLY three hours
3. Read each question carefully before you attempt and allocate your time equally between all the Sections
4. Write clearly and legibly. Illegible handwriting cannot be marked
5. Number the questions you have attempted
6. Use of appropriate workplace examples to illustrate your answers will earn you bonus marks
7. Any examination malpractice detected will lead to automatic disqualification.

DO NOT WRITE ANYTHING ON THE QUESTION PAPER

Section A Section A is Compulsory

Question 1:

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:

- Included in other income are foreign exchange gains comprising:

	Shs '000'
Realized gains	5,300
Unrealised gains	15,250
- 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
- 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
- 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	<u>9,732</u>
	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 Attempt any Three Questions From Section B

Question 1:

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 US\$ 88,400,000, He paid salaries to the shop attendant of US\$ 4,000,000, paid rent of US\$ 15,800,000 and other expenses totaling US\$ 10,000,000.

During the year, he also imported some items from Kenya and paid duties to URA at Busia border post totaling US\$ 2,486,000 including withholding tax of US\$ 432,100.

Required:

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

[5 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. *[6 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 2:

a) State and Explain six badges of trade as indicated in the income tax Act, 1997. *[5 marks]*

b) Define Tax Evasion and Tax Avoidance *[3 marks]*

c) Discuss the role of Taxation in developing countries as advanced by the proponents of tax Philosophy, clearly showing how it promotes development. *[5 marks]*

a) Discuss the major principles/canons of taxation as presented by the designers of tax Systems. Show any challenge faced in complying to the principles *[2 marks]*

b) State and Explain the Various sources of Government Revenue in Uganda. *[5 marks]*

Question 3:

Kawa Super Limited is a VAT registered company mainly dealing in the buying, processing and export of processed coffee. The company also engages in buying and selling of other items especially when the coffee season has not peaked. The transactions for the company during the month of March 2019 are shown below;

Imports

Date:	Particulars	Quantity (tons)	Amount (USD)
1	Sugar	50	40,000
5	Maize	100	100,000
15	Wheat	50	37,500
18	Coffee processing machines		300,000
20	Sugar	120	96,000
25	Maize	500	500,000

Local sales:

Date:	Particulars	Quantity (tons)	Amount (US\$ '000')
5	Sugar	120	450,000
10	Maize	200	600,000
17	Sugar	50	187,500
25	Wheat	40	100,000

Local purchases and expenses paid:

Date:	Particulars	Amount (US\$ '000')
2	Unprocessed coffee (kiboko)	800,000
4	Wages for casual staff	20,000
15	Processing inputs (all standard rated)	25,000
24	Water bills	15,000
28	Electricity bills	50,000
29	Telephone bills	12,000
30	Salaries	60,000
30	Transport**	30,000

Therefore the amount was paid to a VAT registered transport company.

Exports:

Date:	Particulars	Quantity (tons)	Amount (USD)
10	Sugar	250	300,000
15	Maize	400	500,000
20	Sugar	200	240,000
25	Maize	100	125,000
30	Coffee	900	900,000

Notes

- i) The exchange rate relevant for the month of March 2019 was 1 USD to US\$ 2,528,40.
- ii) All imports purchases, local sales and exports have been reported VAT exclusive.
- iii) The company has an offset brought forward from February 2019 of US\$ 51,250,300.

Required:

Compute the VAT payable / claimable by Kawa Super Limited for the month of March, 2019. **[20 marks]**

Question 4:

- a) Assuming Okelo and Sons Ltd imports wine from Australia at CIF Value of US \$ 25,000 attracting 25% import duty, 70% excise duty, VAT of 18% and withholding tax of 6%. The current Exchange rate is UGX 3,500. Compute the following: **[10 marks]**
- i) Custom Value
 - ii) Import Duty
 - iii) Excise Duty
 - iv) VAT
 - v) Withholding Tax
 - vi) Total Tax
- b) State and explain the General and Specific exemptions available on importation of goods and services. **[10 marks]**

Question 5:

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 6:

Miss Saudah Nalunkuuma has landed a job of Operations Manager (OPM) with Vine Legacy Consults Ltd. Her appointment reads in part as follows:

- i. Basic Monthly salary Sh. 7,500,000 per month.
 - ii. Professional Allowance – Sh. 150,000 per month
 - iii. Lunch Allowance – Sh. 250,000 per month
 - iv. Bonus – equivalent to two month's basic salary payable in December.
 - v. School fees payment of Sh. 1,000,000 per term will be paid for her child / dependant at a City International School. They count two school terms in a financial year.
 - vi. Transport Allowance for her spouse, Medi of Sh. 1,200,000 per year.
 - vii. She will be provided with a residential house in Ntinda. The house is part of the company houses reserved for senior managers. The house has an annual market rate of US Dollars 4,000 but she will be making a monthly contribution of Sh. 200,000 per month for the house.
 - viii. She will be provided with a house helper who will be paid Sh. 250,000 per month and a security guard who will be paid Sh. 300,000 per month.
All these will be paid by the company.
 - ix. The employer grants benefits to senior employees including Ms Saudah in the form of food ration worth sh. 500,000 per month. The company contracted Tuskys Stores to do this.
 - x. The company has a policy of encouraging Senior employees to acquire loans at a lower rate to enable them acquire property. Ms Saudah will thus be given Sh. 50,000,000 at an interest rate of 10% p.a. which she will pay back in one year.
 - xi. A medical allowance of Sh. 4,000,000 p.a. is given to all senior employees.
 - xii. The company contributes 10% of basic pay of every employee to National Social Security Fund. The employee contributes 5%.
 - xiii. The company pays for telephone bills of the OPM of sh. 2,500,000 p.a. to MTN Uganda of which 80% relates to official business.
 - xiv. A life insurance premium of Ms Sauda, her husband Medi and dependant worth Sh. 3,000,000 p.a. has already been signed with African Insurance Group.
 - xv. Ms Saudah was provided with a company car worth Sh. 60,000,000 at the time of her appointment. She agrees that she will use the motor car for 72 days in a year for private purposes and contribute Sh. 100,000 per month.
- You are told that Ms Saudah will continue receiving an alimony of Sh. 300,000 per month from her ex- husband, Mr. Wallet Kifeesi.
 - Assume an exchange rate of **USD 1 = Sh. 3,500**
 - Take Bank of Uganda borrowing rate at 21%.
 - The appointment runs from Jan 2016 to December 2018.

Required:

Compute Ms Saudah Nalunkuuma's PAYE liability for the year ending 31 December 2021, giving reasons for any item not included in the computation. **(20 Marks)**