

UGANDA MARTYRS UNIVERSITY
FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT
BAM III FINAL ASSESSMENT
TAXATION AND TAX MANAGEMENT
Date: 27th April 2010
Time: 9am – 12pm

INSTRUCTIONS

1. Answer Only Four Questions.
2. Use of relevant notes and provisions of tax Laws will enrich your answers.
3. Do not write on Question Paper

Question One:

Kisanja Ltd is a VAT registered company. Its transactions for the period January to April 2004 are as follows:

	Jan Shs '000'	Feb Shs '000'	March Shs '000'	April Shs '000'
Opening Debtors	10,000	7,000	8,000	9,000
Closing Debtors	7,000	8,000	9,000	4,000
Sales for the period excluding VAT	20,000	15,000	13,000	14,000
Opening Creditors	5,000	8,000	3,000	7,000
Closing Creditors	8,000	3,000	7,000	4,000
Payments to trade creditors	14,000	10,000	12,000	13,000

The company deals only in iron sheets and proper tax invoices support all its purchases. All figures are VAT inclusive unless indicated otherwise.

Required:

- a) Compute the monthly VAT liabilities for Kisanja Ltd for the months using both invoice and cash basis accounting. (20 marks)
- b) Give ten examples of exempt supplies (5 marks)

Question Two:

Hon. General Alhaji Mbase Boona is a Ugandan resident person who resides in Muyenga, a suburb of Kampala City and works for Bombo Army headquarters. He has commercial properties from which he collects rental income. Some of the properties are located in Pretoria, South Africa while some are located in Kampala. During the year to 30th June 2001, Hon. Mbase's rental records revealed the following:

	S. Africa Property (S.A. Rand)	Uganda Property (UG. Shs)
Rental income	35,000	79,000,000
Expenses:		
Ground rent	1,200	1,500,000
Water and electricity	5,000	1,200,000
Cleaning and Maintenance	1,000	3,500,000
Security	500	950,000
General Repairs	7,000	19,000,000
Depreciation	<u>1,750</u>	<u>3,900,000</u>
	<u>16,450</u>	<u>30,050,000</u>
Net rental Profit	18,450	48,950,000

Additional Information:

- The exchange rate between the Uganda shilling and South African Rand was shs. 200 to R 1 during the period.
- He also earned a net transport income of shs. 12,500,000 from his minibus during the year to 30th June 2001. When the motor licence of the minibus was being obtained, he was instructed by the URA official to pay a provisional tax of shs. 500,000. This amount was paid on 1st January 2001.
- He earned a net interest income of shs. 5,000,000 during the year to 30th June 2001. Withholding tax was deducted by Bank of Baroda and remitted to URA.
- During the same year, he was given dividends amounting to shs. 35,000,000 from shares he holds in a Kenyan company operating in Tanzania.
- He is also employed by Saracen as defense consultant. Saracen is a Ugandan company located in Kampala and mainly deals in war engineering and theft therapy. For the year to 30th June 2001, his employment terms were as follows:
 - Monthly salary shs. 3,500,000
 - A full time company car, which was purchased at shs. 20,000 000 on January 2000. He was the first person to use the car in the company on 1:1 basis.
 - Monthly cash allowances for utilities amounted to shs. 350,000.
 - A company house whose market value is shs. 900,000. The honorable pays a monthly rental fee of shs. 100,000 to his employer.
 - During the year to 30th June 2001, Mbase paid PAYE on his employment income amounting to shs. 8,400,000.

Required:

- State the tax returns Hon. General Mbase was required to file with URA. During the year to 30th June 2001 and then the respective due dates. (22 marks)
- Compute the amount of tax he is required to pay for the year to 30th June 2001 (3 marks)

Question Three:

Emmanuel Gubika bought an existing business, New ways fashions on 30th December 2006. Below is a summarized Trading and profit and loss account for the year ended December 2007.

	Shs '000'	Shs '000'
Sales		201,600
Cost of sales		<u>53,900</u>
Gross profit		147,700
Investment and other income		<u>9,100</u>
		156,800
Rent and rates	25,400	
Lighting	3,200	
Wages and salaries	22,500	
Insurance	1,100	
Motor vehicle expenses	5,200	
Postage, stationary, and Telephone	800	
Repairs and premises	4,900	
Advertising	3,200	
Bad debts	2,100	
Donations	500	
Depreciation vehicles	3,900	
Depreciation fittings	2,000	
Depreciation Office Machinery	3,000	
Legal and professional charges	<u>3,300</u>	<u>81,000</u>
Net Profit		<u>75,700</u>

- Being new on the market, Gubika bought some dresses costing shs. 100,000 but these were not sold by the end of the year because they were off-season. In line with the conservative accounting concept, the accountant took the value of these stocks at zero as no customer during the period ever valued them more than that. These dresses would however be sold for not less than shs. 300,000 during the next season.
- Repairs include purchases and installation of new display fittings costing shs. 4,000,000
- Depreciation relates to a delivery van of shs. 4,000,000. While office machinery had a book value of shs. 490,000 and office fittings and furniture were acquired on 1st July 2007.
- Sales of shs. 201,600,000 are invoiced values of goods sold and delivered during the year. The figure excludes shs. 2,000,000 for goods which were sold and invoiced but never delivered to the buyer. Donations were made to Sanyu Babies Home.
- All bad debts were specific. 50% of the bad debts written off related to employees.

Required:

- Calculate New Ways Fashions taxable income (22 marks)
- New Ways Fashions Tax Liability (3 marks)

Question Four:

Doreen Nakapanka has been employed with the Archdiocese of the Church of Uganda as an accountant for the last 17 years. On 1st June 2008 she retired due to old age and domestic pressures. She was compensated an equivalent of 36 months basic salary. Below are her emoluments for the month of May 2008:

i. Basic salary	300,000
ii. Traveling and transport allowance	100,000
iii. Housing allowance	240,000
iv. Medical allowance	270,000
v. Entertainment allowance	6,000

Additional information:

1. The employer paid Doreen's medical expenses (in form of medical insurance) worth Shs. 20,000 per month.
2. Doreen had a part-time job as a lecturer at YWCA earning shs. 210,000 per month. No tax was deducted at source before she received her payments.
3. For the month of May 2008, she received dividends worth shs. 4,000,000 from Uganda Grain Millers Ltd, a resident company.
4. Doreen spends shs. 120,000 per month as transport expenses between her home and her work place.
5. She uses a company car for private use two days a week, paying to her employer's shs. 20,000 per month. The car she used for the month of May had a market value of shs. 10,000,000
6. On May 1st 2008, Doreen acquired a 1 month loan from her employer with a principal of shs. 1,500,000 at 2% annual interest. The statutory rate as at July 1st 2007 was at 12%
7. As a reward for her exemplary service, Doreen acquired 20 shares of Uganda Clays Ltd. at shs.4,500 each, her employer financing 60% of the cost.
8. During the month of May, renovations were made at her office and she was given an old table fan with a market value of shs. 6,000.
9. Doreen enjoys services of two guards and a house boy each paid shs. 40,000 by her employers. To qualify for this scheme, she paid shs. 10,000 per month to her employers.
10. She had not taken her annual leave on retirement; she was compensated shs. 200,000 on May 20th 2008.

Required:

Compute Doreen's taxable income for the month of May 2008 and her tax liability as well. (25 marks)

Question Five:

Write Brief notes on the following: (5 marks each)

- a) Income tax returns
- b) Tax assessments
- c) Self assessments
- d) Objections
- e) Appeals

Question Six:

- a) Define the term taxation and explain any three main characteristics of a tax. (4 marks).
- b) Explain the six (6) main objectives of taxation. (12 marks).
- c) Mr. Gupta is an Indian resident operating a well stocked super market in Masaka. His chargeable income for the year ended 30th July 2008 was Shs 4,000,000. How much personal tax should he pay to URA? (3 marks)
- d) Musa trading as Kansaga enterprises, made a trading profit of shs. 30 million for the financial period ending 31 December 2003. Musa is also employed at a consolidated pay of shs 1,100,000 per month for the entire period. How much tax is payable to URA by Musa for the year? (3 marks)
- e) Mukwaya receives a monthly pay of shs 700,000 and earns a taxable lump sum payment of shs. 8,500,000 during that year. Compute Mukwaya's tax liability. (3 marks)

Question Seven:

Describe the major types of capital deductions/allowances using relevant examples and particular provisions of the Income Tax Act. (25 marks)

Question Eight:

a) MM Co. Ltd, a manufacturer of plastic products, incurred construction costs on its industrial building. During installation of machinery, the company further incurred shs. 20,000,000 on alterations to the building. The company commenced production on 1st July 2007.

On 1st October 2007 the company completed an extension to the existing building at a cost of shs. 40,000,000 which was immediately installed with some machinery to produce high grade plastics.

On 1st April 2009 another industrial building which cost shs. 50,000,000, was commissioned. This is used to manufacture toys and part of it (approximately 5%) is an office block.

Required:

Assuming the accounting date of MM Ltd is 30th June; compute industrial building deductions for the year ending 30th June 2007/2008, 30th June 2008/2009, 30th June 2009/2010, and 30th June 2010/2011. (15 marks)

b) Juma F. Mangeni and sons Ltd is a transport company. It had the following W.D.V as at 1st July 2005:

Class I	Shs. 3,000,000
Class II	Shs. 20,000,000
Class III	Shs. 8,000,000
Class IV	Shs. 2,000,000

The company's accounting date is 30th June. During the year ended 30th June 2006, the following transpired:

- i) Bought a BMW car for the MD at shs. 35,000,000
- ii) Sold the old computer for shs. 1,000,000 and replaced it with a new one at a cost of shs. 8,000,000
- iii) Bought a 70-seater Isuzu bus at a price of shs. 120,000,000. Only shs. 80,000,000 were paid. The balance being payable in a years time.
- iv) Old office furniture was auctioned for shs. 2,250,000 and replaced with a new and better furniture at a cost of shs. 8,000,000

Required:

Compute Wear and Tear for the year ended 30th June 2006 and determine the WDV at that date. (10 Marks)

THE END