

# **PUBLIC ACCOUNTANTS EXAMINATIONS BOARD**

*A Committee of ICPAU*

## **CPA(U) EXAMINATIONS**

### **LEVEL TWO**

#### **TAXATION – PAPER 11**

**FRIDAY 23 AUGUST, 2024**

#### **INSTRUCTIONS TO CANDIDATES**

1. Time allowed: **3 hours 15 minutes**.

The first 15 minutes of this examination have been designated for reading time. You may not start to write your answer during this time.

2. Section **A** has one compulsory question carrying 40 marks.
3. Section **B** has **four** questions and only **three** are to be attempted. Each question carries 20 marks.
4. Tax rates are provided on page 11.
5. Write your answer to each question on a fresh page in your answer booklet.
6. Please, read further instructions on the answer booklet, before attempting any question.



## SECTION A

*This Section has one compulsory question to be attempted*

### Question 1

Blue Skyz Hotel (BSH) is a private company incorporated in Uganda that owns the Clouds Hotel. The hotel provides accommodation, a restaurant, conference facilities, and club entertainment to the public. Located on the hills of Naguru in Kampala, the hotel building provides a high ground suitable for the set-up of telecommunication masts. In June 2020, BSH entered into a ten-year contract with African Tower Corporations (ATC) to host one telecom mast and two radio transmission masts on the rooftop of its Cloud Hotel buildings.

Below is BSH's statement of profit or loss and other comprehensive income for the year ended 31 December 2023:

	Notes	Shs '000'
Revenue		6,977,436
Cost of sales		<u>(4,869,732)</u>
Gross profit		2,107,704
Other operating income	1	50,783
Operating expenses	2	(15,300)
Administrative expenses	3	(721,477)
Other general expense		<u>(8,520)</u>
Operating profit		1,413,190
Finance income		70,771
Finance cost	4	<u>(33,650)</u>
Profit before tax		<u>1,450,311</u>

Notes to the financial statements:

1. Included in other operating income is:

	Shs '000'
Revenue from ATC	40,626
Interest earned from treasury bills	<u>10,157</u>
	<u>50,783</u>

2. Included in operating expenses are the following:

	Shs '000'
Depreciation	3,060
Bad debts	765
Provisions for bad and doubtful debts	1,224
Royalties paid to Blue Skyz International	1,683
Legal fees	918
Utility bills	2,295

- |  |               |
|--|---------------|
|  | Shs '000'     |
| Communication and transport                                | 1,836         |
| Building repairs and maintenance                           | 1,530         |
| Payment to suppliers with no e-invoice                     | 765           |
| Fines paid to KCCA <sup>1</sup> for sound limit violations | <u>1,224</u>  |
|  | <u>15,300</u> |
3. Administrative expenses include:
- |  |                |
|--|----------------|
|  | Shs '000'      |
| Salaries and wages   | 389,598        |
| Professional accounting fees   | 21,644         |
| Acquisition of new accounting software with an estimated life of 5 years | 36,074         |
| End of year staff party  | 101,007        |
| Penalties for failing to maintain proper books of accounts               | 57,718         |
| Payment to a public relations firm to build brand recognition            | <u>115,436</u> |
|  | <u>721,477</u> |
4. Finance costs relate to interest on a loan acquired to construct a new hotel wing of Shs 26,920,000 and bank charges and fees of Shs 6,730,000.
5. Information relating to property plant and equipment is as follows:  
The opening written down values as at 1 January 2023 are as follows:
- |           |           |
|-----------|-----------|
|           | Shs '000' |
| Class I   | 158,630   |
| Class II  | -         |
| Class III | 1,852,340 |
6. Additions and disposals during the year:
- Additions:
- One heavy duty standby generator acquired at Shs 74 million.
  - Conference furniture including desks, chairs, and a podium at a collective sum of Shs 12.3 million.
  - Wall projectors of Shs 5.9 million, four computers each at Shs 4.5 million, and one heavy duty photocopier of Shs 18.5 million.
- Disposals:
- |                    |           |
|--------------------|-----------|
|                    | Shs '000' |
| Assorted furniture | 6,200     |
| Old generator      | 3,100     |
7. The company's hotel building had a qualifying amount of Shs 825 million in 2015 when it was first put to use. During the year, the company borrowed Shs 400 million to construct an extension to the hotel, the extension was

<sup>1</sup> Kampala City Council Authority



completed and put to use on 1 July 2023. The associated interest of the borrowing amounted Shs 26,920,000.

8. The provisional tax paid during the year ended 31 December 2023 was Shs 55 million and withholding tax from clients during the year amounted Shs 122 million.

**Required:**

- (a) Advise BSH on their chargeable income and tax liability if any for the year ended 31 December 2023.
- (32 marks)**
- (b) The Uganda Revenue Authority has established a client service charter to guide the relationship between the taxpayers and itself.

**Required:**

Explain the rights and obligations of taxpayers in accordance with the URA client service charter.

**(8 marks)**

**(Total 40 marks)**

## SECTION B

*Attempt three of the four questions in this Section*

### Question 2

Katesi Joe and her friend Mugisha Grey jointly carry on the business of human resource consulting as MK Consultants. The firm was formed five years ago and although no formal partnership agreement was signed between the two, the firm was registered as a partnership. At the time of formation, Joe contributed Shs 30 million while Grey contributed Shs 20 million as the startup capital of the firm. The partners agreed to share the profits and losses in proportion to the capital introduced.

Joe is a full-time employee of Kingston Heights a flight training school located in Kajansi on Entebbe Road. Joe only dedicates part of his time to the firm for which he is paid an agreed fixed retainer fee of Shs 1.8 million per month.

The firm's statement of profit or loss and other comprehensive income for the year ended 31 December, 2023 is as below:

	Notes	Shs '000'
Revenue	1	325,620
Staff costs		(112,530)
External expenses		(56,221)
Administrative expenses		(28,100)
Other operating income		57,810
Licensing and certifications		(6,500)
Finance cost		(2,100)
Depreciation and amortisation		(13,915)
Profit before tax		<u>164,064</u>

Additional information:

- Revenue is comprised of the following:

	Shs '000'
Headhunting and executive recruitment	146,529
Outsourcing and payroll management	48,843
Training and development	58,612
Psychometric tests and assessments	<u>71,636</u>
	<u>325,620</u>

- 50% of the training and development fee relates to advance payment for an ongoing process not yet completed.

3. Other operating income include:

	Shs '000'
Interest from unit trust investments	46,248
Interest from fixed deposits	<u>11,562</u>
	<u>57,810</u>

4. Administrative expenses include:

	Shs '000'
Stationary	2,715
Interest paid to Joe	6,000
Interest paid to Grey	4,000
Travel expenses	6,335
Telephone and communication	<u>9,050</u>
	<u>28,100</u>

5. Travel allowances paid to both Joe and Grey were not included in their employment benefits and were non-accountable.

6. The tax written down values at the beginning of the year were as follows:

	Shs '000'
Class I	64,250
Class II	-
Class III	110,600

7. No additions were made to either asset class during the period.
8. The partnership made a loss in the previous year of Shs 32 million.
9. At Kingston Heights, Joe earned the following incomes during the year:
- Monthly gross pay of Shs 6.8 million.
  - Transport allowance of Shs 450,000 per month.
  - Annual flight instructor license fee of Shs 525,000.
  - Monthly airtime and data of Shs 200,000.

**Required:**

- (a) Compute the partnership distributable profits for the year ended 31 December, 2023 and the share of profits by each partner.

**(12 marks)**

- (b) Determine Joe's employment income and tax liability for the year ended 31 December 2023.

**(4 marks)**

- (c) In accordance with the Income Tax Act Cap 340, explain to Joe the different forms of tax assessment.

**(4 marks)**

**(Total 20 marks)**



### Question 3

Garrison Enterprise Limited (GEL) is a supplier of electrical and hardware supplies. The company was incorporated in June 2023 and registered for value added tax (VAT) in December of the same year. GEL imports most of its supplies including raw materials used in the making of paint one of its flagship products. The summary of sales, purchases, and administrative expenses for the month of March 2024 are as follows:

1. The managing director took cement from the hardware shop valued at Shs 18 million for use on his construction works in Kasangati.
2. Made supplies worth Shs 22 million to Rock Contractors specifically for the construction of a mini-hydro power station in Gulu.
3. Good worth Shs 12.5 million were destroyed in an accident from Malaba to Kampala. The VAT paid on these goods was Shs 2,250,000.
4. Received advance payment of Shs 16.8 million for orders to be supplied in the month of April 2024.
5. Signed a contract to manufacture special texture paint for the construction of Peak Apartments in Munyonyo. The value of the order is Shs 118 million.
6. Bought a 5-ton truck for delivering hardware for customers within Kampala. The cost of the truck was Shs 33 million.
7. A customer who was yet to pay Shs 6 million passed on and there is no way of recovering the amount.
8. Made exports to the Democratic Republic of Congo worth Shs 17 million.
9. Local cash sales to customers in Kampala of Shs 43 million from which GEL issued a trade discount of 5%.
10. Kima Cement delivered stock worth Shs 45 million. These are yet to be invoiced by Kima Cement.
11. During the month, GEL recorded the following administrative expenses:

	Shs
Staff Salaries	12,520,000
Telephone expenses	235,000
Fuel for distribution	2,113,000
Packaging materials	1,005,000
Electricity for office	221,000
Water for office	85,000

Additional information:

- All the imports, local purchases, and expense payments are VAT inclusive, where applicable.
- All exports and local sales are VAT exclusive, where applicable.



- Offset brought forward from the month of February 2024 was Shs 825,000.

**Required:**

- (a) Advise the management of GEL on the VAT payable /claimable for the month of March 2024.

**(16 marks)**

- (b) The managing director of GEL is aware that there are penalties for not following the provisions of the VAT Act Cap 349 but is not sure what these penalties are and how they can affect his business.

**Required:**

Explain to the managing director the penalties imposed for noncompliance with the VAT Act Cap 349.

**(4 marks)**

**(Total 20 marks)**

**Question 4**

- (a) Rashida Traders Limited (RTL) is an importer of wine, spirits, and foreign beer for retail in markets within East Africa. RTL has special arrangements with Fourth Stake Winery in South Africa, Peak Brewery in Brazil, and Arthur Winery in France.

In the month of February 2024, RTL imported a consignment of alcoholic beverages and spirits from Peak Brewery in Brazil and paid \$<sup>2</sup> 122,000. At the factory, RTL paid for special packing using non-returnable wooden boxes of \$ 820, transportation from the factory to the port was \$ 125, and port handling charges at the port of Santos of \$ 205.

RTL also paid \$ 406 for shipment from Port Santos to Port Elizabeth in South Africa. Additional port handling charges at Port Elizabeth were 1,900 South African rands. The shipment from South Africa to the Port of Mombasa was \$ 1,620, port handling charges at the Port of Mombasa were \$ 250 and demurrage of \$ 109.

Transportation from Mombasa to Kampala including road charges and weigh bridge limit penalties were Shs 425,000.

Additional information:

1. Insurance from the factory to the port of Mombasa was \$ 1,660 and from Mombasa to the warehouse in Kampala Shs 640,000.

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<sup>2</sup> United States dollar

2. The paid amount doesn't include an advance payment of 10% made at the time of placing the order; this amount doesn't show on the final invoice.
3. As a requirement for the exportation of foods and beverages, RTL paid standard authority \$ 310 as an inspection fee for the consignment before shipment.
4. The exchange rate at the time of importation was as follows:  
\$ 1: Shs 3,600.  
1 South Africa Rand: Shs 205.
5. Tax rates are provided below:

Import duty	35%
Withholding tax	6%
Value added tax	18%
Excise duty	40%
Infrastructure levy	1.5%

**Required:**

- (a) Advise RTL on customs value and taxes payable on the importation.

**(14 marks)**

- (b) A Common market is economic integration in which each member country applies uniform external tariffs and eliminates trade barriers for goods, services, and factors of production between them.

**Required:**

Explain the advantages and disadvantages of a common market.

**(6 marks)**

**(Total 20 marks)**



**Question 5**

Gypsy Transporters Limited (GTL) is a resident company set up in 2015 to offer transportation services for heavy earth-moving equipment for oil explorations. The company owns a fleet of heavy equipment carriers and heavy-duty trucks all deployed in western Uganda.

In January 2023, one of its heavy-duty carriers Sino-truck overturned and was damaged beyond repair, the book value of the truck at the time of the accident was Shs 315 million. The truck was comprehensively insured at Shs 400 million and the compensation was paid. The cost of a similar truck is Shs 650 million.

In the same month, the company decided to dispose of its company car used by the managing director for official company business at Shs 188 million. The Land-Cruiser Prado was purchased by GTL in January 2019 at Shs 400 million.

Additionally, GTL is also engaged in the provision of passenger transport services and goods freight services. For the year 2023, GTL has deployed the following fleet in the region:

- Five 10-ton truck carriers.
- Eight mini buses each with a carrying capacity of 30 passengers.
- Six vans each with a carrying capacity of 14 passengers.

**Required:**

- (a) (i) Determine the cost base of the replacement of the Sino-truck.  
(4 marks)
- (ii) Advise the management of GTL on the tax implication of the transactions above.  
(12 marks)
- (b) Explain to the management of GTL the circumstances under which no gain or loss is taken into account on the disposal of a business asset in determining the chargeable income of a business.  
(4 marks)

**(Total 20 marks)**



## Rates of Tax

### Resident Individuals

Chargeable income	Rate of tax
Not exceeding Shs 2,820,000 (Shs 235,000 pm)	Nil
Exceeding Shs 2,820,000 (Shs 235,000 pm) but not exceeding Shs 4,020,000 (Shs 335,000 pm)	10% of the amount by which chargeable income exceeds Shs 2,820,000 (Shs 235,000 pm)
Exceeding Shs 4,020,000 (335,000 pm) but not exceeding Shs 4,920,000 (Shs 410,000 pm)	Shs 120,000 (10,000 pm) plus 20% of the amount by which chargeable income exceeds Shs 4,020,000 (Shs 335,000 pm).
	(a) Shs 300,000 (Shs 25,000 pm) plus 30% of the amount by which chargeable income exceeds Shs 4,920,000 (Shs 410,000 pm) and
Exceeding Shs 4,920,000 (Shs 410,000 pm)	(b) Where the chargeable income of an individual exceeds Shs 120,000,000 (Shs 10,000,000 pm) an additional 10% charged on the amount by which chargeable income exceeds Shs 120,000,000 (Shs 10,000,000 pm).

### Non-resident Individuals

Chargeable income	Rate of tax
Not exceeding Shs 4,020,000 (Shs 335,000 pm)	10%
Exceeding Shs 4,020,000 (335,000 pm) but not exceeding Shs 4,920,000 (Shs 410,000 pm)	Shs 402,000 (Shs 33,500 pm) plus 20% of the amount by which chargeable income exceeds 4,020,000 (Shs 335,000 pm).
Exceeding Shs 4,920,000 (Shs 410,000 pm)	(a) Shs 582,000 (Shs 48,500 pm) plus 30% of the amount by which chargeable income exceeds Shs 4,920,000 (Shs 410,000 pm) and
	(b) Where the chargeable income of an individual exceeds Shs 120,000,000 (Shs 10,000,000 pm) an additional 10% charged on the amount by which chargeable income exceeds Shs 120,000,000 (Shs 10,000,000 pm).

### Small Business Taxpayers

Gross turnover	With records	Without records
Not exceeding Shs 10 million	NIL	NIL
Exceeding Shs 10 million but does not exceed Shs 30 million per annum.	0.4% of annual turnover in excess of Shs 10 million.	Shs 80,000
Exceeding Shs 30 million but does not exceed Shs 50 million per annum.	Shs 80,000 plus 0.5% of annual turnover in excess of Shs 30 million.	Shs 200,000
Exceeding Shs 50 million but does not exceed Shs 80 million per annum.	Shs 180,000 plus 0.6% of annual turnover in excess of Shs 50 million.	Shs 400,000
Exceeding Shs 80 million but does not exceed Shs 150 million per annum.	Shs 360,000 plus 0.7% of annual turnover in excess of Shs 80 million.	Shs 900,000