

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA(U) EXAMINATIONS

### LEVEL TWO

#### PRINCIPLES OF TAXATION-PAPER 8

THURSDAY, 20 JUNE 2002

#### INSTRUCTIONS TO CANDIDATES

1. Time allowed: **3 hours**.
2. Attempt **all** questions in Sections **A** and **B** and **one** question from Section **C**.
3. Section **A** has twenty compulsory multiple-choice questions each carrying 1 mark.
4. Section **B** has three compulsory questions, each carrying 20 marks.
5. Section **C** has two questions and only one question is to be attempted. Each question carries 20 marks.
6. **Tax rates** are provided on the last page.
7. Please read further instructions on the answer book.

**SECTION A****Question 1**

- (i) Enock Mugisha makes and sells shoes. His accounting year ends on 31 December each year. In October 2000, he received an order for football shoes from Sports Club Villa, which were to be delivered and paid for in February 2001. Enock duly delivered the consignment of football shoes in February 2001 and was paid Shs 4,500,000 for the deal.

In which period should the amount earned from this deal be brought to income tax?

- a) Shs 4,500,000 brought to tax in financial statements of 31 December 2000.
  - b) Shs 2,700,000 brought into the financial statements of 31 December 2000 and Shs 1,800,000 brought into the financial statements of 31 December 2001.
  - c) Shs 4,500,000 brought into the financial statements of 31 December 2001.
  - d) Shs 1,800,000 brought into the financial statements of 31 December 2000 and Shs 2,700,000 brought into the financial statements of 31 December 2001.
- (ii) ABC Ltd. had a specific bad debt provision of Shs 15,000,000 made against the company's trade debts during the year of income ending 31 December 2001. The specific provision was charged to the income statement for the year to 31 December 2001. The company wrote off a bad trade debt of Shs 9,500,000 in the year 2001. This debt had been provided for as a specific debt in the year 2000.

What amount should be allowed as a tax-deductible expense in the year of income 2001?

- a) Shs 15,000,000
- b) Shs 9,500,000
- c) Shs 24,500,000
- d) Shs 5,500,000

- (iii) Draper Ltd acquired a loan of US \$ 100,000 during the year of income 1999. At the time of acquiring the loan the exchange rate was US \$1:Shs1,200. The loan was repaid in 2000 when the exchange rate was US \$1:Shs1,300. On 31 December 1999, the exchange rate was US \$1:Shs1,270

How much should Draper Ltd claim as a tax-deductible expense in respect of the above transaction in the year of income ended 31 December 2000?

- (a) Shs 3,000,000.
  - (b) Shs 7,000,000.
  - (c) Shs 5,000,000.
  - (d) Shs 10,000,000.
- (iv) Which of the following is not a deductible expense for income tax purposes?
- a) Input VAT in respect of exempt supplies.
  - b) Input VAT in respect of hotel accommodation for a person dealing in sale of electrical equipments.
  - c) Capital expenditure of Shs 95,000 incurred on the purchase of an electricity stabilizer.
  - d) Legal fees for the acquisition of a company motor vehicle.
- (v) Which of the following principles of taxation is not attributed to Adam Smith?
- a) Elasticity.
  - b) Convenience.
  - c) Economy.
  - d) Certainty.
- (vi) What is the time limit within which a taxpayer is allowed to object to an income tax assessment?
- a) 45 days from the date of issue of the assessment.
  - b) 30 days from the date of issue of the assessment.
  - c) 15 days from the date of issue of the assessment.
  - d) 90 days from the date of issue of the assessment.

- (vii) What is the maximum period allowed under the law, within which the filing date of an income tax return can be extended?
- a) 45 days.
  - b) 30 days.
  - c) 15 days.
  - d) 90 days.
- (viii) What is the due date of corporation tax payable under an income tax assessment?
- a) 30 days.
  - b) 45 days.
  - c) 15 days.
  - d) 90 days.
- (ix) AK Ltd has been in business for 10 years. They submitted their financial statements for the year to 31 December 2000 on 1 July 2001. The tax assessors have adjusted AK Ltd's taxable profits to Shs 350,000,000. The company paid provisional tax in respect of the year of income 2000 of Shs 95,000,000. AK Ltd. did not receive a filing date extension of its tax return from Uganda Revenue Authority.
- What extra tax including penalty is AK Ltd. required to pay to conclude the 2000 tax year?
- a) Shs 105,000,000.
  - b) Shs 10,000,000.
  - c) Shs 14,200,000.
  - d) Shs 10,400,000.
- (x) Menvu Ltd is a large-scale distribution company dealing in general merchandise. Its financial statements for the year to 31 December 2000, which were filed on 31 March 2001, were examined by Uganda Revenue Authority assessors and an agreed chargeable income of Shs. 250,000,000 ascertained. The company had paid provisional tax of Shs 30,000,000 in respect of the year of income 2000.

How much under provisioning penalty is Menvu Ltd expected to pay for the year 2000?

- a) Shs 9,000,000.
- b) Shs 15,000,000.
- c) Shs 7,500,000.
- d) Shs 750,000.

- (xi) Which of the following payments is not subject to Withholding Tax?
- a) Payment of interest by a financial institution to a resident person.
  - b) Payment of dividends by a company to an individual.
  - c) Payment for a supply of goods by the Ministry of Health to an individual.
  - d) Payment of dividends by a company to a tax-exempt organisation.
- (xii) A taxable person can be allowed to account for VAT on a cash basis provided that his annual turnover does not exceed Shs.....
- a) 200,000,000.
  - b) 100,000,000.
  - c) 50,000,000.
  - d) 400,000,000.
- (xiii) Over how many years is the cost of an industrial building written off in the accounts of a taxpayer under the Income Tax Act 1997?
- a) 25 years.
  - b) 20 years.
  - c) 4 years.
  - d) Useful life of the building.
- (xiv) Which of the following countries does Uganda have double taxation treaties with?
- (i) Kenya.
  - (ii) Tanzania.
  - (iii) Norway.
  - (iv) South Africa.
- a) (i) and (ii).
  - b) (iii) and (iv).
  - c) (i), (ii) and (iv).
  - d) (i), (ii), (iii) and (iv).
- (xv) What is the minimum monthly penal tax payable by a taxpayer who files an income tax return late?
- a) 2% of the tax due.
  - b) 2% of the tax payable during the year under assessment.
  - c) Shs 20,000.
  - d) Shs 200,000.

- (xvi) What is the maximum annual turnover beyond which a taxpayer cannot be allowed to pay income tax under the Presumptive Tax regime?
- a) Shs 50,000,000.
  - b) Shs 35,000,000.
  - c) Shs 20,000,000.
  - d) Shs 100,000,000.
- (xvii) Which of the following expenses is allowed for tax purposes?
- a) Specific bad debt provisions made against trade debtors of a company.
  - b) Bad debts written off in respect of non-trade debts.
  - c) Specific bad debts provision made against a loan given to a sister company by a general merchandize company.
  - d) Specific bad debt provision made by a financial institution in respect of loans to its customers.
- (xviii) What is the minimal penal tax in respect of filing a VAT return late?
- a) Shs 20,000.
  - b) Shs 150,000.
  - c) Shs 200,000.
  - d) 2 % of the tax due.
- (xix) Which of the following income is not exempt from income tax?
- a) Foreign sourced employment income derived by a resident individual, on which foreign income tax has been charged.
  - b) Pension.
  - c) Proceeds of a life insurance policy paid by a person carrying on a life insurance business.
  - d) A lump sum payment made by a non-resident retirement fund to a member of the fund.
- (xx) What is the withholding tax rate on interest income?
- a) 20%.
  - b) 30%.
  - c) 15%.
  - d) 4%.

**SECTION B****Question 2**

Trinity Accountants and Auditors is owned by Mr. Balongo. An extract of the business practice's financial statements for the year 2000 is as follows:

## Income and Expenditure Account

<b>Income</b>	<b>Shs</b>
Accountancy Fees	75,000,000
Audit fees	60,000,000
Commission on rental collection	20,500,000
Bank deposit account interest	2,500,000
UMA lottery ticket winning	<u>2,000,000</u>
	<u>160,000,000</u>
<b>Expenditure</b>	
Salaries	45,000,000
Rent, Rates & Taxes	12,600,000
Depreciation	3,200,000
Diminution on small office implements / equipment	560,000
Entertainment	3,450,000
Loan interest	10,800,000
Other expenses (Tax Deductible)	<u>19,000,000</u>
	<u>94,610,000</u>
<b>Net Profit</b>	<b><u>65,390,000</u></b>

**Notes:**

- a) Interest on the loan of Shs 10,800,000 is for a Standard Chartered Bank loan obtained on concessionary terms to construct an own office block due to be completed in December 2002.
- b) The following non-current assets were bought in January 2000:
  - 2 Saloon cars at a cost of Shs 20,000,000 each.
  - 1 Cross Country Vehicle (Prado) at a cost of Shs 45,000,000.
  - Office tables and chairs at Shs 2,500,000.
  - Computer Software at Shs 5,000,000.
  - Computer stabilizer at Shs 95,000.
  - 2 Computer laptops at a total cost of Shs 4,400,000.

- c) Non-current assets sold during the year were:
- Furniture was disposed off at Shs 9,500,000.
  - Saloon car sold at Shs 15,000,000. The car was bought in 1999 at Shs 25,000,000.
- d) The firm had won a job to be the auditors for Clays International Ltd for 5 years, but the company changed her mind and opted for an out-of-court settlement of Shs 10,500,000 for breach of contract. Mr Balongo is of the opinion that this receipt is not taxable on him because the firm carried out no work and no invoice had been issued to Clays International Ltd. This amount has been excluded from the income of the firm in the financial statements.
- e) Rent, rates and tax  
The rent, rates and tax amount of Shs 12,600,000 includes Pay As You Earn (PAYE) tax paid of Shs 4,500,000 following a URA audit which showed some inadequacies in the firm's operation of the PAYE scheme.
- f) Salaries  
The salaries figure of Shs. 45,000,000 is analysed as follows:
- |                                   | <b>Shs</b>               |
|-----------------------------------|--------------------------|
| Net Salaries paid to Staff        | 27,500,000               |
| PAYE deducted and remitted to URA | 10,500,000               |
| NSSF Employee Contribution        | 2,100,000                |
| NSSF Employer Contribution        | 3,700,000                |
| Interest on late payment of PAYE  | <u>1,200,000</u>         |
| <b>Total</b>                      | <b><u>45,000,000</u></b> |
- g) Tax Written Down Values as at 31 December 1999
- |           | <b>Shs</b> |
|-----------|------------|
| Class I   | 7,500,000  |
| Class II  | 2,000,000  |
| Class III | 20,000,000 |
| Class IV  | 5,500,000  |
- h) The firm paid provisional tax of Shs 4,500,000 during the year.
- i) Mr Balongo has no other sources of income apart from his monthly drawings of Shs 2,500,000 he gets from the practice. These monthly drawings have not been included in the business expenses of the firm.
- j) Trinity Accountants and Auditors was in 1999 gazetted by the Commissioner General of Uganda Revenue Authority to file its annual income tax returns using the self-assessment method.



**Required:**

- a) Compute the tax payable by Trinity Accountants and Auditors for the year ended 31 December 2000.

**(18 marks)**

- b) State the due date of the tax payable by Trinity Accountants and Auditors.

**(2 marks)****(Total 20 marks)****Question 3**

Mr. Patel Lai repossessed Kampala Tropical Hotel in July 1999. The building was constructed in 1957 and at the time of repossession it was in a very poor state. Mr. Patel fled Uganda in 1972 during the economic war and later decided to come back to the country after the aggressive investment campaign championed by the President of Uganda. At the time of repossession, the government valuer valued the hotel building and a fair value of Shs 80,000,000 was agreed as fair compensation to the Ugandan to whom the hotel had been allocated.

Before repossession, Mr Patel had formed a company called Kampala Tropical Hotel Ltd, which he used as a vehicle to acquire the hotel building. During the period July 1999 to June 2000, Mr Patel acted as the company director.

From July 1999 to 31 December 1999 the company carried out extensive improvements and renovations to the hotel and bought a lot of assets. The company incurred the following expenses: -

	<b>Shs</b>
(i) Renovations (Buildings)	350,000,000
(ii) Improvements (Buildings)	150,000,000
(iii) Drainage system	55,000,000
(iv) Demolition work to facilitate installation of air conditioner	7,500,000
(v) Air conditioners	200,000,000
(vi) Computers	40,000,000
(vii) Heavy duty cookers	15,000,000
(viii) Heavy duty refrigerators	200,000,000
(ix) Furniture and fittings	120,000,000

The following motor vehicles were also bought:

- i) Service van at Shs 25,000,000.
- ii) 10 cross country vehicles (Pajeros) each at Shs 50,000,000 to take tourists around.
- iii) One cross country benz at Shs. 95,000,000 for Mr. Patel's exclusive use as a director.
- iv) 2 pick-ups each at Shs 35,000,000.

The Minister of Finance approved the hotel as an industrial building in December 1999.

The hotel was opened for business on 1 January 2000 and Kampala Tropical Hotel Ltd carried on business up to 30 June 2000 when it produced its first financial statements.

The details of Mr Patel's entitlements and receipts during the period July 1999 to June 2000 are as follows:

- i) Monthly directors fees of Shs 4,000,000
- ii) The company paid Shs 350,000 as a premium for the Group Medical Insurance Scheme on his account and family.
- iii) The company paid his driver a gross monthly salary of Shs 150,000. The company withheld Pay As You Earn (PAYE) from the driver's salary and remitted it to URA.
- iv) Mr Patel received gross interest income of Shs 2,500,000 from his Savings Account in Stanbic Bank.

Mr Patel paid tax of Shs 500,000 on 30 March 2000 to URA as his personal tax when URA tax assessors visited his offices and threatened to close his business operations if he does not pay any tax.

### Required

- a) Compute the Capital Deductions due to Kampala Tropical Hotel Ltd for the year of income ending 30 June 2000. **(15 marks)**
  - b) Compute the income tax Mr. Patel is liable to pay for the year ended 30 June 2000. **(5 marks)**
- (Total 20 marks)**

Give any assumptions taken in your computations.

**Question 4**

Kaloli Ltd registered for VAT on 1 October 2001. The company started trading in March 2001 and deals in electrical appliances. The company had the following transactions from March 2001 to December 2001.

	<b>Shs</b>
15 March 2001: Bought a Computer for cash for business use	5,000,000
20 April 2001: Bought office furniture for cash	7,000,000

Bought stock for resale as follows:

<b>Tax Invoice Date</b>	<b>Shs</b>	<b>Payment Date</b>
15 April 2001	5,000,000	16 April 2001
15 August 2001	35,000,000	14 September 2001
20 October 2001	15,000,000	12 December 2001

The sales were as follows:

	<b>Sale invoices issued</b>	<b>Cash received from current sales and debtor payments</b>
	<b>Shs</b>	<b>Shs</b>
April 2001	3,000,000	2,000,000
May 2001	1,000,000	1,000,000
June 2001	500,000	1,000,000
July 2001	-	-
August 2001	5,000,000	6,000,000
September 2001	3,000,000	3,000,000
October 2001	<u>9,000,000</u>	<u>7,000,000</u>
	<u><u>21,500,000</u></u>	<u><u>20,000,000</u></u>

The following extra information is available:

- The sales invoice values and cash receipts from current sales plus debtors are VAT inclusive where applicable.
- The purchase prices quoted are VAT exclusive.
- All purchases of the company are made from VAT registered suppliers who issued valid tax invoices to the company.
- Standard gross mark-up on all its sales is 25%.
- The company paid VAT in respect to hotel accommodation for its director during the month of October 2001 of Shs 450,000.
- The company bought second hand computers from Tanzania during the month of October 2001 at a cost of US\$ 25,000,000. The VAT paid in Tanzania in respect of the computer is equivalent to Shs 2,500,000. At the Customs Entry point into Uganda, the company paid extra VAT of Shs 4,675,000.

- The company paid October 2001 wages to casual labourers amounting to Shs 1,500,000.

### Required

- a) Compute input VAT claim on stock and capital goods at registration.  
(5 marks)
  - b) Compute the company's VAT liability for the month of October 2001: -
    - i) On the assumption that the company is on invoice basis accounting.  
(7 marks)
    - ii) On the assumption that the company is on cash basis accounting.  
(7 marks)
    - iii) What is the due date for filing the October 2001 VAT return?  
(1 marks)
- (Total 20 marks)**

## SECTION C

### Question 5:

Mr. David Kafulu is a businessman who has had a humble beginning. Mr. Kafulu began by importing and selling shoes in 1999. Operating on a small scale he was able to make the following sales during the last three years.

Year	Shs
1999	7,000,000
2000	20,000,000
2001	49,000,000

Mr. Kafulu expects to make sales of Shs 80,000,000 in the current year, 2002.

In his shop, which is located in Nsimbi-Ziwome, a suburb of Kampala, he employs 2 staff by the names of Jane and Okello who earn monthly salaries of Shs 120,000 and Shs 200,000 respectively.

Mr. Kafulu has not registered with the URA for the years he has been in business and he fears that the URA officials will soon get to him and lock up his shop premises.

Mr. Kafulu is of the opinion that since he was not registered with the URA and given the fact that the URA officials did not demand any tax from him for the last three years, he is not liable to tax for those years.

Mr. Kafulu has approached you with the above facts and has decided that he would like to register with the URA with effect from the year 2002. He wishes to have his accounting date as 31 December.

### Required

Write a letter to Mr. Kafulu advising him on the following issues:

- a) The type of taxes he is to register for. Give reasons. **(5 marks)**
  - b) The returns he is expected to file with URA and their respective due dates. **(10 marks)**
  - c) Whether he faces any potential tax liabilities for the years 1999 to 2001 and the amounts payable, if any, for each year. **(5 marks)**
- (Total 20 marks)**

### Question 6

Write short notes on the following:

- a) Withholding Tax on dividend payments. **(5 marks)**
  - b) Pay As You Earn (PAYE). **(5 marks)**
  - c) Income Tax Assessment. **(5 marks)**
  - d) VAT Tax Invoice details. **(5 marks)**
- (Total 20 marks)**

## Tax Rates

### Resident Individual Income Tax Rates

Chargeable Income	Rate of Tax
Not exceeding Shs. 1,560,000	Nil
Exceeding Shs.1,560,000 but not exceeding Shs 2,820,000	10% of the amount by which chargeable income exceeds Shs 1,560,000
Exceeding Shs. 2,820,000 but not exceeding Shs 4,920,000	Shs 126,000 plus 20% of the amount by which chargeable income exceeds Shs 2,820,000
Exceeding Shs 4,920,000	Shs 546,000 plus 30% of the amount by which chargeable income exceeds Shs 4,920,000

### Presumptive Tax Rates

Gross Turnover	Tax
Where the gross turnover of the taxpayer does not exceed Shs 20,000,000 per annum	Shs 100,000
Where the gross turnover of the taxpayer exceeds Shs 20,000,000 but does not exceed Shs 30,000,000 per annum	Shs 250,000 or 1% of gross turnover, whichever is the lower
Where the gross turnover of the taxpayer exceeds Shs 30,000,000 but does not exceed Shs 40,000,000 per annum	Shs 350,000 or 1% of gross turnover, whichever is the lower
Where the gross turnover of the taxpayer exceeds Shs 40,000,000 but does not exceed Shs 50,000,000 per annum	Shs 450,000 or 1% of gross turnover, whichever is the lower