

# THE PUBLIC ACCOUNTANTS EXAMINATIONS BOARD

*A Committee of the Council of ICPAU*

## CPA (U) EXAMINATIONS

### LEVEL ONE

#### TAXATION – PAPER 6

**FRIDAY 31 MAY, 2019**

#### 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. This examination contains Sections **A** and **B**.
3. Section **A** is bound separately from Section **B**.
4. Attempt all the 20 multiple-choice questions in Section **A**. Each question carries 1 mark.
5. Attempt **four** of the **five** questions in Section **B**. Each question carries 20 marks.
6. Tax rates are provided on page 7 – 8.
7. Write your answer to each question on a fresh page in your answer booklet.
8. Please, read further instructions on the answer booklet, before attempting any question.

**SECTION B**

*Attempt four of the five questions in this section*

**Question 2**

- (a) Ganzi Industries Limited (GIL) is engaged in the manufacture of soap. It was established in 1995 with one factory located in Kasese industrial park. It has a warehouse in Ntinda industrial area, Kampala. GIL imports sodium hydroxide as raw material used in manufacturing soap. The company's products are distributed all over Uganda. Their profit or loss statement for the year ended 30 June, 2018 is as follows:

	Shs '000'	Shs '000'
Revenue		1,900,000
Other revenue (note 1)		100,000
Cost of goods sold		<u>(1,200,000)</u>
Gross profit		800,000
Depreciation	70,000	
Provision for doubtful debts	20,000	
Entertainment (note 2)	30,000	
Rent	40,000	
Salaries & wages	150,000	
Court fines	8,000	
Soap mixer	150,000	
Finance costs	<u>120,000</u>	<u>(588,000)</u>
Operating profit		<u><u>212,000</u></u>

Notes:

- Other revenue includes Shs40 million for unrealised foreign exchange gain.
- Entertainment relates to dinner and accommodation expenses for prospective clients in Kasese Bounty Resort Hotel.
- The company acquired a warehouse for storing its finished products at a cost of Shs 120 million in Ntinda industrial area and it was put to use on 1 October, 2017.
- The company constructed an extension to the factory in Kasese at a cost of Shs 150 million. The extension was completed in December 2016 and put to use on the 1 July, 2017.
- The tax written down values (WDV) as at 1 July 2017 for its depreciable assets are as follows:

	Shs'000'
Class 1	80,000
Class 2	200,000
Class 3	400,000
Class 4	800,000

The old factory building was first used on 1 July, 1995 and had cost Shs 500 million.

6. During the year the company acquired the following assets:
- (i) Laundry soap making machine Shs 400 million.
  - (ii) Five conveyor machines at a cost of Shs 300 million for moving materials within the factory.
  - (iii) 32 ton diesel forklift costing Shs 60 million.
  - (iv) Two 5 ton delivery trucks at Shs 80 million for transporting its goods to the market.
  - (v) Mercedes-Benz E-Class at Shs 90 million for the managing director.
  - (vi) Computers and printers at Shs 30 million.

**Required:**

Compute the corporation tax liability for GIL for the year ended 30 June, 2018.

**(16 marks)**

- (b) GIL recently hired Mr. Singh an expatriate from India to work in their quality control department. Mr. Singh is interested in understanding his residential status for tax purposes.

**Required:**

Explain to Mr. Singh who a resident individual is as provided by the income Tax Act Cap 340.

**(4 marks)**

**(Total 20 marks)**

**Question 3**

- (a) Masappe is a wholesale trader with an outlet in Kisenyi, Kampala. He deals in buying and selling of agricultural produce and other general merchandise. His business is value added tax (VAT) registered. He started as a small trader but later he acquired a loan from Magoba Savings Sacco which he used to expand his business and now exports goods to South Sudan. The following are his transactions for the month of December 2018:

Sales:

- (i) 1,000 bags of maize flour to a trader in South Sudan Shs 120 million.
- (ii) Sanitary towels and tampons for Shs 15 million.
- (iii) 4,000 boxes of laundry soap Shs 200 million VAT inclusive.
- (iv) 8,000 bags of beans and maize seeds Shs 300 million.
- (v) 3,000 bags of sugar Shs 300 million VAT exclusive.

Purchases and expenses:

- (i) Imported 5,000 bags of sugar Shs 500 million VAT inclusive.
- (ii) Bought a car (Toyota Spacio) Shs 20 million VAT inclusive to transport the marketing team.
- (iii) Provided meals and refreshments at Shs 30 million VAT inclusive to clients.
- (iv) Bought diapers Shs 15 million.
- (v) Paid consultancy fees Shs 9 million VAT exclusive to Kafulu and Magezi (certified public accountants) for preparing their books of account.
- (vi) Paid salaries and wages Shs 30 million.

**Required:**

Compute Masappe's VAT payable/claimable for the month.

**(10 marks)**

- (b) Explain the following terms as per VAT Act Cap 349:

- (i) Non-creditable expenses for VAT purposes. **(4 marks)**
- (ii) VAT penalties. **(3 marks)**
- (iii) VAT offences. **(3 marks)**

**(Total 20 marks)**

**Question 4**

Mr. Bobi Bobi is the managing director of Fire Power Crew (FPC) a music band based in Kampala city. He is entitled to the following:

1. Basic annual salary Shs 43 million and the following monthly emoluments:
 

	Shs '000'
Transport allowance	1,000
Medical insurance	2,000
Security guard	200
Gardener	150
2. Meals for 26 days at Serema Hotel. Each meal costs Shs 70,000 but he contributes Shs 10,000 each day.
3. Commission Shs 7 million for every wedding he performs at. He performed at 6 weddings in the year ended 30 June, 2018.
4. A company house with annual market rent of Shs 60 million. He contributes Shs 15 million annually.
5. A car with cost and market value after depreciation of Shs 50 million and Shs 40 million respectively. The car is used for both official and private purposes.

Additional information:

- (i) He contributes Shs 50,000 per month for the gardener.

- (ii) During the year ending 30 June, 2018 FPC gave him a loan Shs 59.9 million at 10% interest when the statutory rate at the time was 15%.
- (iii) On 31 January, 2018 FPC paid CentBank Shs 20 million as a repayment for Mr Bobi's loan. He is not required to refund the money.
- (iv) Mr. Bobi received a Toyota Spacio vehicle valued at Shs 25 million as an appreciation for his music contribution to the band. He is required to contribute Shs 5 million as a shared cost to the transfer process of the vehicle.
- (v) Mr. Bobi was granted a right to acquire shares in FPC under an employee share acquisition scheme for Shs 30 million.

**Required:**

- (a) Compute Mr. Bobi's chargeable income and tax liability for the year ended 30 June, 2018.

**(15 marks)**

- (b) As per the Income Tax Act Cap 340 explain the:

- (i) term employee.

**(1 mark)**

- (ii) meaning of employment.

**(4 marks)****(Total 20 marks)****Question 5**

- (a) Mr. Mpalembaaya has a permanent home in Buwaate in Wakiso district. He has a commercial building on the main street of Buwaate trading centre. The commercial building is occupied by various tenants.

The following transactions relate to the commercial building for the year ended 30 June, 2018:

Monthly rental income:

- Rental income from Mayinja Ltd Shs 5.5 million.
- Rental income from Bfan Salon Shs 6.4 million.
- Rent arrears for the period ended 30 June, 2017 due from Kiddo Ltd Shs 7.2 million.
- Rental income from Amal Family Consult Shs 4.2 million.

Monthly expenses relating to the commercial building:

	Shs '000'
Water	3,200
Electricity	3,000
Telephone	4,000
Building repairs	4,120
Ground rent	2,500
Security guard	3,910

Mr. Mpalembaaya also operates a law firm from the same building with an annual turnover of Shs 120 million. His expenses for the year ended 30 June, 2018 include:

	Shs '000'
Legal assistant's salary (per month)	500
Court filing fees	4,000
Fuel (per month)	350
Subscription for professional membership	2,000
Annual subscription to the Law Council Saving & Credit Cooperative Organisation	5,000
Law practicing certificate	2,000

Client's money banked on the firm's account pending payment for damages to another person through Mpalembaaya's firm Shs 1 million.

**Required:**

- (a) Compute the tax liability payable by Mpalembaaya for the period ending 30 June, 2018. **(16 marks)**
- (b) (i) Explain who a small business taxpayer is under the Income Tax ActCap 340. **(1 mark)**
- (ii) Describe how a small business taxpayer in Uganda is taxed under the Act. **(3 marks)**
- (Total 20 marks)**

**Question 6**

- (a) Discuss the challenges faced by small and medium-size entities (SMEs) in managing their businesses. **(8 marks)**
- (b) Describe the features of public limited companies. **(8 marks)**
- (c) (i) Define the term 'joint venture'. **(1 mark)**
- (ii) Explain the factors that help to ensure success of joint ventures. **(3marks)**
- (Total 20marks)**

**RATES OF TAX****Resident Individuals**

<b>Chargeable income</b>	<b>Rate of tax</b>
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).
Exceeding Shs 4,920,000 (Shs 410,000 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 (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**

<b>Chargeable income</b>	<b>Rate of tax</b>
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**

<b>Gross Turnover</b>	<b>Tax Payable</b>
Where the gross turnover of the taxpayer exceeds Shs 50 million but does not exceed Shs 75 million per annum.	Shs 937,500 or 1.5% of the gross turnover, whichever is lower.
Where the gross turnover of the taxpayer exceeds Shs 75 million but does not exceed Shs 100 million per annum.	Shs 1,312,500 or 1.5% of the gross turnover, whichever is the lower.
Where the gross turnover of the taxpayer exceeds Shs 100 million but does not exceed Shs 125 million per annum.	Shs 1,687,500 or 1.5% of the gross turnover, whichever is the lower.
Where the gross the turnover of the taxpayer exceeds Shs 125 million but does not exceed Shs 150 million per annum.	Shs 2,062,500 or 1.5% of the gross turnover, whichever is the lower.

**Small Business Taxpayers Tax Rates where the gross turnover is below Shs 50 million****(i) Kampala City and Divisions of Kampala**

<b>Business Trade</b>	<b>Turnover</b>		
	<b>Between Shs 35 - 50 million</b>	<b>Between Shs 20 - 35 million</b>	<b>Between Shs 10 - 20 million</b>
General trade	500,000	400,000	250,000
Carpentry/metal workshops	500,000	400,000	250,000
Garages (motor vehicle repair)	550,000	450,000	300,000
Hair and beauty salons	550,000	400,000	300,000
Restaurants or bars	550,000	450,000	300,000
Drug shops	500,000	350,000	100,000
Others	450,000	300,000	200,000

**(ii) Municipalities**

<b>Business Trade</b>	<b>Turnover</b>		
	<b>Between Shs 35 - 50 million</b>	<b>Between Shs 20 - 35million</b>	<b>Between Shs 10 - 20 million</b>
General trade	400,000	300,000	150,000
Carpentry/metal workshops	400,000	300,000	150,000
Garages (motor vehicle repair)	450,000	350,000	200,000
Hair and beauty salons	450,000	350,000	200,000
Restaurants or bars	450,000	350,000	200,000
Drug shops	400,000	300,000	150,000
Others	400,000	350,000	150,000

**(iii) Towns and Trading Centres**

<b>Business Trade</b>	<b>Turnover</b>		
	<b>Between Shs 35 - 50 million</b>	<b>Between Shs 20 - 35 million</b>	<b>Between Shs 10 - 20 million</b>
General trade	300,000	200,000	100,000
Carpentry / metal workshops	300,000	200,000	100,000
Garages (motor vehicle repair)	350,000	250,000	100,000
Hair and beauty salons	350,000	250,000	100,000
Restaurants or bars	350,000	250,000	100,000
Drug shops	300,000	200,000	100,000
Others	300,000	250,000	100,000