

**MAKERERE UNIVERSITY BUSINESS SCHOOL**

**COURSE WORK ASSIGNMENT FOR THE DEGREE OF  
BACHELOR OF COMMERCE OF MAKERERE UNIVERSITY ACADEMIC YEAR  
2025/2026**

**COURSE NAME:** INCOME TAX  
**COURSE CODE:** FIN3221  
**SEMESTER:** II

**YEAR OF STUDY:** III  
**DATE ISSUED:** 18<sup>th</sup> March 2026  
**DATE To be collected:** 25<sup>th</sup> March 2026

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**INSTRUCTIONS:**

1. The assignment should be done in groups of not exceeding five (5) students.
2. It should be type set in the format & size here below.
  - Font type: Times New Romans
  - Font size: 12
  - Line spacing: 1.15
  - Number of pages: Not more than 5 (excluding the cover page)
3. You will hand in the assignment to your respective course leaders not later than **Wednesday 25<sup>th</sup> March 2026**

**Case Study: Kato Holdings Limited**

Kato Holdings Limited (KHL) is a Ugandan resident company incorporated in 2018. The company operates several businesses including a supermarket chain in Kampala, a construction division undertaking government infrastructure projects, rental commercial property in Ntinda and Kololo, and an import business sourcing electronics from China.

The company prepares financial statements using the accrual accounting method. Its accounting year runs from 1 January to 31 December. However, the Ugandan year of income for tax purposes runs from 1 July to 30 June. In July 2023 the company applied to the Commissioner General of the Uganda Revenue Authority (URA) for permission to use its accounting year (January–December) as a substituted year of income.

**Events during the year ended 31 December 2024**

1. Supermarket Operations

<b>Particulars</b>	<b>UGX</b>
Opening stock	350,000,000
Purchases	1,200,000,000
Closing stock	420,000,000
Sales revenue	2,400,000,000

URA later discovered that some closing stock valued at UGX 70,000,000 had expired and could only be sold at UGX 30,000,000.

2. On 1 January 2024 the company paid UGX 120,000,000 for a three-year warehouse lease. The accountant deducted the entire amount as an expense in 2024.

3. KHL obtained a government contract to construct a district hospital in Hoima.

<b>Particulars</b>	<b>UGX</b>
Contract price	12 billion
Estimated total cost	9 billion
Costs incurred in the first year	3 billion

The company has not recognised any revenue yet.

4. The company received an advance payment of UGX 800 million for a road construction project. The project was later cancelled, and the money refunded the following year. The accountant did not include the advance as income.

5. KHL borrowed USD 500,000 when the exchange rate was UGX 3,700. The loan was later repaid when the exchange rate was UGX 4,100.

6. The company filed its income tax return three months after the due date. URA subsequently issued a notice requesting additional information.

7. URA officers accessed the company premises, inspected records and seized some invoices. The Finance Director argued that URA had no authority to access company computers.

### **Required**

a) Explain the constitutional and statutory basis for imposing income tax in Uganda and identify the elements required for income tax liability to arise. **(5 Marks)**

b) Advice on the tax treatment of the following:

(i) Inventory valuation

(ii) Prepaid rent

(iii) Construction contract revenue recognition

(iv) Advance payment received

(v) Foreign exchange gain or loss

**(15 Marks)**

c) Discuss the administrative powers of URA and the obligations of taxpayers regarding records, returns, and compliance. **(5 Marks)**

d) Advise the Board of Kato Holdings Limited on major tax compliance risks and recommend appropriate corrective actions. **(5 Marks)**

*End of examination paper*