

COURSE CODE: AC405 (M) 2005

UNIVERSITY OF SWAZILAND  
DEPARTMENT OF ACCOUNTING  
MAIN EXAMINATION PAPER

- DEGREE/ YEAR OF STUDY : B.COM IV
- TITLE OF PAPER : TAXATION
- COURSE CODE : AC405
- TIME ALLOWED : TWO (2) HOURS
- INSTRUCTIONS
1. TOTAL NUMBER QUESTIONS ON THIS PAPER: FOUR [4]
  2. ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS.
  3. THE MARKS AWARDED FOR A QUESTION/ PART ARE INDICATED AT THE END OF EACH QUESTION/ PART OF QUESTION.
  4. ALL CALCULATIONS ARE TO BE MADE TO THE NEAREST LILANGENI.
  5. WHERE APPLICABLE, SUBMIT ALL WORKINGS AND CALCULATIONS.
  6. TAX TABLES ARE ATTACHED.

NOTE: YOU ARE REMINDED THAT IN ASSESSING YOUR WORK, ACCOUNT WILL BE TAKEN OF ACCURACY OF THE LANGUAGE AND THE GENERAL QUALITY OF EXPRESSION, TOGETHER WITH THE LAYOUT AND PRESENTATION OF YOUR FINAL ANSWER.

THIS PAPER SHOULD NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

**QUESTION 1**

Crystal Clear (Pty) limited a refrigerator manufacturing company has submitted the following income statement in its 2003 tax returns.

**DETAILED INCOME STATEMENT FOR THE  
YEAR ENDED 30 JUNE 2004**

	E	E
Sales		1,500,000
Cost of sales		<u>(790,000)</u>
Gross profit		710,000
<b>Other income:</b>		
Dividends from investments with Swazi companies	20,000	
Interest income from deposits with Nedbank Swaziland Limited	<u>15,000</u>	
		<u>35,000</u>
Total income		<u>745,000</u>
<b>Expenses</b>		
Advertising	20,000	
Audit fees	35,000	
Donations to Save the children fund	5,000	
Donations to UNISWA to conduct research for new product of the company	30,000	
Repairs and maintenance	43,000	
Salaries and wages	120,000	
Directors' remuneration	52,500	
Depreciation of machinery	100,000	
Motor vehicle expenses	27,000	
Rent paid for six (6) staff houses	<u>78,000</u>	
		<u>510,500</u>
Net profit		<u><u>234,500</u></u>

**Notes**

1. It has been agreed with the commissioner of taxes that the company is engaged in a process of manufacturing of exports.
2. Included in motor vehicle expenses are private expenses incurred by one of the directors in dating his girlfriend that he intends getting married to that amounted to E2,500.
3. Improvements on land used for the plant which were stated on the lease agreement that have not been charged to the income statement incurred during the year of assessment ended 30 June 2003 amounted to E30,000.
4. 25% of the audit fees were in respect of handling the director's personal tax matters by the auditors.
5. The machinery that is used in the manufacturing process was purchased during the year of assessment at the beginning of the year for E500,000 and is being depreciated at 20% which is the same as the wear and tear rate for tax purposes.
6. Agreed assessed losses brought forward from 2002 year of assessment were E29,875.

**REQUIRED:**

Using the information and relevant notes to the income statement compute the tax payable by the company for the year ended 30 June 2003.

Total (40 marks)

**QUESTION 2**

The Finance Manager of Swaziland Brewers Romanda Brown has asked for your advice as a tax specialist to assist her in preparing the taxation schedules for the year ended 30 June 2004. Romanda knows that the onus of proving the non taxability of an amount lies with her. She is unsure of the factors that the court will take account of in deciding whether an item of expenditure is capital or of a revenue nature. Discuss 5 of these factors giving examples to support your argument. (30 marks)

Total (30 marks)

**QUESTION 3**

Harry Senzani who is from Malawi is employed by the Coca Cola Swaziland as a Finacail Reporting Specialist. The following schedule has been provided to you as a Consultant to assist with filling his tax return for the year of assessment ended 30 June 2004.

1.	Salary for the year	E200,000
2.	Cost of flight ticket to assume employment paid by Coca Cola Swaziland	E5,000
3.	Sale of his stamp collection which originally cost E500	E750
4.	Prize won in a Coca Cola drinking competition	E5,000
5.	Interest on his investments:	
	SDSB	E3,000
	Building Society subscription shares	E4,000
	Treasury bonds	E5,000
6.	Dividends from Swazi Companies	E2,400
7.	Dividends from South African Companies	E3,000
8.	Gardner paid for by Coca Cola	E6,000
9.	Rent from a house purchased by Him in Johannesburg	E24,000
10.	Personal loan of E150,000 at subsidised interest of 5% and the official rate of interest on loans granted by banks is 12%.	
11.	P.A.Y.E deductions during the year amounted to	E18,000

**REQUIRED**

Calculate the tax payable by Mr. Harry Senzani for the year ended 30 June 2004.

Total (30 marks)

**QUESTION 4**

The Assessing officer at the commissioner's office who is still new disallowed an amount of E500,000 that was charged as an expense on the income statement of Ngwane Mills for the year of assessment ended 30 June 2003 that was incurred for refurbishing the milling machine. The officer contends that this is a capital expenditure item. The Finance manager is interested in lodging an objection to the Commissioner of taxes against the decision to disallow this expenditure by the Assessing Officer as the company was not going to pay any tax had it been allowed. Discuss the procedures for lodging an appeal to the commissioner of taxes on the above matter and the likely outcome based on your knowledge of the tax legislation.

Total (30 marks)

RATES OF NORMAL TAX IN THE CASE OF PERSONS OTHER THAN COMPANIES				
Taxable income			Rate of tax	
Exceeds	But does			
	Not exceed			
E	E		E	
-	12,500		0%	
12,500	16,000	0	+12%	of the excess over 12,500
16,000	16,000	0	+16%	of the excess over 16,000
20,000	24,000	1,060	+20%	of the excess over 20,000
24,000	28,000	1,860	+24%	of the excess over 24,000
28,000	32,000	2,820	+28%	of the excess over 28,000
32,000	36,000	3,940	+32%	of the excess over 32,000
36,000	40,000	5,220	+36%	of the excess over 36,000
40,000		6,660	+39%	of the excess over 40,000

**CORPORATION TAX RATE IS 30%**

#### TAXABLE BENEFITS

Taxation of benefits in kind for 2003/ 2004 Tax year	Amounts to included in taxable income
Provision of domestic servants	20% of benefit value
Utilities	20% of cost of utility
Soft loans	20% of benefit value

#### FREE AND SUBSIDISED HOUSING

	In Mbabane/ Manzini and corridor		Agricultural & Industrial Estates		Other Areas	
	Per annum	Monthly	Per annum	Monthly	Per annum	Monthly
Executive house (4 bedroomed)	8640	720	2880	240	2160	180
Medium houses (2/3 bedroomed)	5760	480	1440	120	720	60
Bedsitters to 1 bedroomed houses	4320	360	720	60	360	30

**PRIVATE USE OF MOTOR VEHICLES**

Cubic capacity of vehicle	Taxable benefit	
	Per annum	Monthly
Under 1600cc	5160	430
1600 cc to 2000cc (with value less than E60,000)	6900	575
1600cc to 2000cc (with value over than E60,000)	8640	720
Over 2000cc (with value less than E80,000)	8640	720
Over 2000cc (with value over than E80,000)	15480	1290

**PROVISION OF DOMESTIC SERVANTS**

Domestic servants	Per annum (each)	Monthly (each)
Household (cooks, maids etc)	E954	E80
Security guards	E954	E80
Gardeners	E476	E40

**UTILITIES**

	Per annum (each)	Monthly (each)
Electricity	E840	E70
Telephone	E840	E70
Gas	E390	E35
Water	E390	E35
Fuel	E390	E35