

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER, MAY 2006

DEGREE/DIPLOMA AND YEAR STUDY : DIP. COM III

TITLE OF PAPER : PRINCIPLES OF TAXATION AND
AUDITING

COURSE CODE : AC 304 (M) 2006

TIME ALLOWED : THREE (3) HOURS

- INSTRUCTIONS**
1. TOTAL NUMBER OF QUESTIONS ON THIS PAPER: SIX (6)
 2. ANSWER QUESTION 1 (ONE) IT IS COMPULSORY AND ANY OTHER OTHER 1 (ONE) QUESTION IN SECTION A. ALSO ANSWER ANY OTHER 2 (TWO) QUESTIONS IN SECTION B. TOTAL QUESTIONS TO BE ANSWERED ARE 4 (FOUR).
 3. THE MARKS AWARDED FOR A QUESTION/PART ARE INDICATED AT THE END OF EACH QUESTION/PART OF QUESTION.
 4. WHERE APPLICABLE, SUBMIT ALL WORKINGS AND CALCULATIONS.

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.

SPECIAL REQUIREMENTS: NONE

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

RATES OF NORMAL TAX FOR INDIVIDUALS AC304(M)2006 Page 2 of 5

TAXABLE INCOME	RATES OF INCOME
0 to 30,000	0+12% of the excess over 0
30,000 to 45,000	3,600+20% of excess over 30,000
45,000 to 60,000	6,600+25% of the excess over 45,000
60,000 to 75,000	10,350+30% of the excess over 60,000
75,000	14,850 + 33% of the excess over 75,000
2005/2006 General Tax Rebate E2,400	
2005/2006 Certain benefits are taxed at 60% of the benefit value	

TAXATION OF TAXABLE BENEFITS PRACTICE NOTE NO 157 EFFECTIVE FROM 1.7.2005

1.1 FREE AND SUBSIDISED HOUSING

Where a benefit provided by an employer to an employee consists of accommodation or housing, the value of the benefit is the open market rent of the accommodation or housing, reduced by any payment made by the employee for the benefit.

Provided that where the **employer owns the accommodation or housing**, the value of the benefit is the rental benefit value of the accommodation or housing determined in accordance with the table in schedule A, below. The valuations depend on the size and location of the house.:

SCHEDULE A (EXPLANATIONS)

In this schedule, the locations are designed in categories A, B, C, and detailed as follows:

- Area A: is accommodation or housing situated in the residential areas of Mbabane Municipal area, Waterford, Pine Valley, Coates Valley, Extension 6, Madonsa Township, Thomasdale and within ten kilometers from the old Mbabane/Manzini road.
- Area B: is accommodation or housing situated in the residential areas of Manzini and surrounds; except Coates Valley, Extension 6, Madonsa Township and Thomasdale.
- Area C: is accommodation or housing situated in the major agricultural and industrial sectors and other towns

- 1.2 Where an employer rents from an employee the employee's private residence and then grants such employee free or cheap occupation thereof, the rental is deemed to be a taxable benefit, the value of the benefit to the employee is the rental received.
- 1.3 Where an employer provides accommodation or housing to employees on a sharing basis, the rental benefit value shall be determined pro rata.

SCHEDULE A, B, C:

Rental category	Floor area	Area A Taxable benefit per month	Area B Taxable benefit per month	Area C Taxable benefit per month
Prime location 3-5 bedrooms 2-3 bathrooms Double garage Servant quarters Secure perimeters 1,500 sq.m and above lot	250 sq.m and above	E 4,607	E 3,915	E 2,740
As above, but smaller	200 sq.m and above	4,145	3,524	2,465
3 bedrooms 2 bathrooms a garage Servant quarters Secure perimeter 700 sq.m and above lot	159 sq.m and above	3,686	3,133	2,193
Lesser than prime location 3 bedrooms 1-2 bathrooms 700 sq.m and above lot	120 sq.m and above	3,190	2,710	1,899
2-3 bedrooms 1 bathroom or shower	100 sq.m. and above	2,393	2,033	1,422
2-3 bedrooms 1 bathroom or shower	70-100 sq.m	1,612	1,370	960
2-3 bedrooms 1 bathroom or shower	40-70 sq.m	1,330	1,129	790
1 bedroom	70 sq.m and above	910	773	542
1 bedroom	Under 70 sq.m	761	648	452
Bedsitters	Under 70 sq.m	531	452	317
Quarters	Under 70 sq.m	213	180	110

SECTION A :AC304(M)2006

QUESTION 1:

L.Magagula had the following income particulars for the year ended 30.6.2006

SALARY AND BENEFITS

- (i). Salary of E10,500 per month from 1.8.2005.
- (ii) A three bed room house in Fair View, Manzini(in a prime location) from 1.9.2005.The lot was 780 sq m,The floor area was 180 sq m.Mr. Magagula paid E400 per month to his employer towards this accommodation.
 - 1. E8,000 free medical benefits from his employer.
 - 2. E10,000 to transport his children to S.Africa for education.
 - 3. E20,000 education fee grant from his employer to educate his children.
 - 4. E7,000 uniform of a distinctive design with an imposed condition that it must be worn on duty.
 - 5. On 1.10.2005 he received a loan of E2,900 on which he only pay his employer 10% interest.The Bank Of Swaziland official rate of interest was 20%.
 - 6. On 1.11.2005 he received a 2200 L.D.V Nissan bakhie vehicle to help him in his official and personal business.The vehicle cost E100,000..
 - 7. From 1.10.2004 he was provided by the employer the following personal services:a telephone (E500 p.m),a cook (E700 p.m),a gardner (E600 p.m),and a security guard (1,000 p.m).
 - 8. A daily lunch meal worth E20 for 200 days.The lunches were served in a staff canteen.

OTHER RECEIPTS

- 1. Received E80,000 as compensation for his damaged insured car.
- 2. Won a lottery of E100,000. Mr.Magagula is not a regular lottery ticket buyer.
- 3. Sold his Toyota Corolla saloon car for E40,000.It had cost him E90,000.
- 4. He received E3,500 interest income from a savings account held with Standard bank.
- 5. He received E12,000 from Swaziland Development and Saving Bank..
- 6. He received a dividend income of E6,000 from a quoted Swaziland Company.
- 7. He rented a residential house in Mbabane for E36,000 for the year ended

EXPENDITURES OF MR MAGAGULA

- 1. Medical expenses at Mphilo clinic of E5,000.
- 2. Contribution to an approved (rather than a statutory) pension fund of E8,500.
- 3. Contribution to a provident fund of E4,000.
- 4. A premium of E6,000 for a life policy with Swaziland Royal Insurance Corporation.
- 5. Paid an interest expense of E16,000 on a building society loan of E80,000 at 20%.
- 6. Paid E30,000 as tax advance in form of PAYE.
- 7. Repair and maintainance for the Mbabane house was E9,000.

REQUIRED:Compute the tax payable by Mr.L.Magagula for the year ended 30th

June,2006.NOTE:In this question you are not supposed to explain why some of the information is not being applied in the computations

(30 marks)

QUESTION 2 :AC304(M)2006

As far as tax equity is concerned describe what is:

- A. Horizontal equity? What are the problems related to horizontal equity? (15 marks)
- B. And what is vertical equity? What are the problems related to vertical equity? (5 marks)

Total for the question (20 marks)

QUESTION 3:

- A. Describe and explain what are tax evasion and tax avoidance. (5 marks)
- B. Distinguish between tax evasion and tax avoidance with suitable examples. (15 marks)

Total for the question (20 marks)

TOTAL FOR SECTION A: (50 marks)

SECTION B: AUDITING

QUESTION 4:

- A. In auditing what is the purpose of the letter of engagement? (5 marks)
- B. When is it appropriate to send this letter? (5 marks)
- C. What are the procedure involved? (5 marks)
- D. What are the contents of this letter? (10 marks)

Total for the question (25 marks)

QUESTION 5:

- A. What are the audit working papers? (5 marks)
- B. Who owns the audit working papers? (5 marks)
- C. What is the confidentiality related to these working papers? (5 marks)
- D. What is the permanent audit file, what is its content? (10 marks)

Total for the question (25 marks)

QUESTION 6:

- A. What is the Directors' report? (20 marks)
- B. What do the Companies' Act state about the Directors' report? (5 marks)

Total for the question (25 marks)

Total for the paper (100 marks)