

UNIVERSITY OF SWAZILAND  
DEPARTMENT OF ACCOUNTING  
SUPPLEMENTARY EXAMINATION PAPER  
ACADEMIC YEAR 2006

DEGREE/ YEAR OF STUDY : B.COM IV  
TITLE OF PAPER : TAXATION  
COURSE CODE : AC405  
TIME ALLOWED : THREE (3) HOURS

- INSTRUCTIONS
1. TOTAL NUMBER QUESTIONS ON THIS PAPER: FOUR [4]
  2. ANSWER ALL 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

Zethu Limited is a newly established manufacturing company that manufactures soft drinks and is situated at Matsapha Industrial Site. The Finance manager of Zethu Limited is John Brown who has recently been hired from the USA. John Brown has produced the following income statement of the company.

### ZETHU LIMITED

#### PROFIT AND LOSS FOR THE YEAR ENDED 30 JUNE 2005

	Note	E	E
Sales			1,650,000
Opening stock		250,000	
Purchases		950,000	
		<u>1,200,000</u>	
Closing stock		-350,000	
Cost of goods sold			850,000
Gross profit			800,000
OTHER INCOME			
Dividends from Swazi companies		6,501	
Dividends from Non Swazi companies		35,250	
Interest from deposits with Nedbank		65,300	
Insurance proceeds	1	<u>55,000</u>	
			<u>162,051</u>
			962,051
EXPENSES			
Accounting fees		5,530	
Advertising		8,750	
Bank charges		375	
Directors' remuneration		144,000	
Depreciation of assets	1	90,000	
Donations	2	10,000	
Housing cost	3	55,000	
Legal expenses	4	2,000	
Salaries and wages		150,000	
Motor vehicle expenses		11,500	
Research expenses carried by UNISWA	5	35,000	
Repairs and maintenance		43,000	
New patents	6	25,000	
Subscription fees	7	8,970	
Staff year end Christmas party		5,000	
Dividends paid to shareholders on company register		25,000	
Transfer to reserves		18,000	
			<u>637,107</u>
Net profit of the year			<u><b>324,944</b></u>

**Notes**

1.	Insurance proceeds	
	Loss of stock	E 5,000
	Car destroyed in an accident that originally cost E110,000 and had a tax value of E46,406 at the time of the accident but claimed	E50,000
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		E55,000
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**FIXED ASSETS**

**Depreciation rate**

	Freehold land	4% Buildings	20% Motor vehicle	20% Plant & Machinery	Total
Cost at 1 July 2004	300,000	200,000	110,000	300,000	910,000
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Total cost at 30 June 2005	300,000	200,000	110,000	300,000	910,000

Accumulated depreciation - 1 July 2004	-	24,000	44,000	60,000	128,000
Depreciation charge based on cost	-	8,000	22,000	60,000	90,000
Disposals	-	-	-	-	0
Accum. Depreciaiton at 30 June 2005	-	32,000	66,000	120,000	218,000

Net book value at 30 June 2005	300,000	168,000	44,000	180,000	692,000
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Net book value at 30 June 2004	300,000	176,000	66,000	240,000	782,000
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**Wear and tear allowance rates**

	0	4%	25%	10%	Total
Tax written down value at 1 July 2004	300,000	76,000	61,875	135,000	572,875
Wear and tear	-	8,000	15,469	13,500	36,969
Tax written down value at 30 June 2005	300,000	68,000	46,406	121,500	535,906

- Donations were all in respect of aids awareness educational training that was staged by the Nursing council of Swaziland in the country for all workers.
- The housing cost was incurred in establishing a dwelling of six flats for six of the company's employees.
- Legal costs of E2,000 were paid to R & B lawyers for debt collection of the company's long outstanding debts.
- The research costs paid to UNISWA was for a product research that the Zethu Ltd introduced towards year end.
- The new patents have a life span of 5 years.

7. John Brown is a member of ACCA and paid for her professional membership fees during the year that amounted to E8,970.

**REQUIRED**

Using the income statement of Zethu Limited that the Finance Manager John Brown has produced, you are required to compute the tax payable by the company for the year of assessment ended 30 June 2005.

(35 marks)

**QUESTION 2**

- (a) What are the conditions for which a company can be granted a tax holiday?

(5 marks)

- (b) Harry Smarts who is the Finance Director of Smarts & Co who's company was granted a tax exemption status provides you the following information and needs your advise:

	1	2	3	4	5
<b>Taxable income</b>	2001	2002	2003	2004	2005
Taxable Income	100,000	110,000	120,000	140,000	200,000
Wages	12,500	18,750	25,000	25,000	37,500
Fixed Assets (w.d.v)	75,000	110,000	110,000	110,000	110,000

Additional information:

Expatriate lost included in wages amount to 20%

Fixed Assets are recorded at written down value

Required:

Calculate taxable income bearing in mind that the company want to utilize its tax exemptions in full every year.

(25 marks)

Total marks

(30 marks)

**QUESTION 3**

What do you understand by the term "gross income"

(15 marks)

**QUESTION 4**

Practice Note 157, specifically show benefits which are exempt from taxation.

Give any five of those exempt benefits with explanations supporting your answers,

(20 marks)

<b>RATES OF NORMAL TAX IN THE CASE OF PERSONS OTHER THAN COMPANIES</b>				
<b>Taxable income</b>		<b>Rate of tax</b>		
Exceeds	But does			
	Not exceed			
E	E	E		
0	30,000	0	+12%	OF THE EXCESS OVER 0
30,000	45,000	3600	+20%	OF THE EXCESS OVER 30,000
45,000	60,000	6600	+25%	OF THE EXCESS OVER 60,000
60,000	75,000	10350	+30%	OF THE EXCESS OVER 75,000
75,000		14,850	+33%	OF THE EXCESS OVER 75,000

**\*A TAX CREDIT OF E 2400 P.A. IS AVAILABLE TO ALL TAX PAYERS.**

**CORPORATION TAX RATE IS 30%**

**TAXABLE BENEFITS**

<b>Taxation of benefits in kind for 2004/ 2005 Tax year</b>	<b>Amounts to included in taxable income</b>
Provision of domestic servants	40% of benefit value
Utilities	40% of cost of utility
Soft loans	40% 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
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#### 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