

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
SUPPLEMENTARY EXAMINATION PAPER, JULY 2007

DEGREE/DIPLOMA AND YEAR STUDY : DIP. COM III

TITLE OF PAPER : PRINCIPLES OF TAXATION AND
AUDITING

COURSE CODE : AC304 (S) 2007/ IDE AC304(S) 1&2 2007

TIME ALLOWED : THREE (3) HOURS

- INSTRUCTIONS**
1. TOTAL NUMBER OF 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. 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.**

**AC304(S)2007/IDE AC304(S) 1&2
RATES OF NORMAL TAX FOR INDIVIDUALS**

| 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 |
| 2006/2007 General Tax Rebate E2,400 | |
| 2006/2007 Certain benefits are taxed at 80% 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:

**TAXATION OF TAXABLE BENEFITS PRACTICE NOTICE NO 157 OF 1.7.03, & 1.7.05
FREE AND SUBSIDISED HOUSING**

SCHEDULE A:

| 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 to 249 sq.m a | 4,145 | 3,524 | 2,465 |
| 3 bedrooms 2 bathrooms a garage Servant quarters Secure perimeter 700 sq.m and above lot | 159 to 199 sq.m | 3,686 | 3,133 | 2,193 |
| Lesser than prime location 3 bedrooms 1-2 bathrooms 700 sq.m and above lot | 120 to 158 sq.m | 3,190 | 2,710 | 1,899 |
| 2-3 bedrooms 1 bathroom or shower | 100 to 119.m. | 2,393 | 2,033 | 1,422 |
| 2-3 bedrooms 1 bathroom or shower | 70 to 99 sq.m | 1,612 | 1,370 | 960 |
| 2-3 bedrooms 1 bathroom or shower | 40-69 sq.m | 1,330 | 1,129 | 790 |
| 1 bedroom | 69 sq.m and above | 910 | 773 | 542 |
| 1 bedroom | Under 69 sq.m | 761 | 648 | 452 |
| Bedsitters | Under 69 sq.m | 531 | 452 | 317 |
| Quarters | Under 69 sq.m | 213 | 180 | 110 |

PRIVATE USE OF MOTOR VEHICLES

The value of the benefit is calculated as follows:

$$(X * A * B / C) - D$$

Where,

X. Is the year of assessment 2005/2006 equals 16 %

EMPLOYEE USING PERSONAL VEHICLE ON EMPLOYER,S BUSINESS

$$A = \frac{B - (C * D)}{E}$$

QUESTION 1:

Mr Ntokozo Kunene had the following income particulars for the year ended 30.6.2007.

SALARY AND BENEFITS

1. Salary of E10,500 per month from 1.9.2006.
2. His employer provided from 1.10.2006 a three bedrooms house in a lesser than prime location of Fairview, Manzini. The lot area of the house was 750 sq m, and the floor area of the house was 150 sq m. Ntokozo Kunene contributed E350 per month towards the upkeep of the house.
3. The employer provided (from 1.10.2006) free electricity and free water at the Fairview house.
4. The employer provided (as from 1.10.2006) telephone (valued at E500 per month), a security guard (at E1,000 per month), a gardener (at E500 per month), and a maid (at E900 per month).
5. The employer provided a uniform of no distinct design and no condition that it must be worn on duty. The uniform was worthy E3,500.
6. From 1.9.2006 Mr. Ntokozo Kunene was to use his personal vehicle on employer's and personal business. The vehicle cost E120,000 and was of a 1800 cc capacity. For this Mr Kunene got a E4,500 monthly cash allowance but did not keep a mileage record of his travels.
7. On joining his new company (on 1.9.2006) Mr Ntokozo was given an interest free loan of E2,700 to be recovered in three equal instalments. The discount rate of the Central bank was 12% p.a.
8. His employer provided a monthly 25% statutory pension contribution of Mr Kunene's basic salary. Mr Kunene contributed a 5% per month of his basic salary to the scheme..
9. His employer contributed a 5% of Mr Kunene's basic salary towards Swazi Medical Aid Scheme. Mr Kunene was also supposed to contribute a 5% of his monthly basic salary towards the medical scheme.

OTHER INCOMES

1. Received a net of E50,000 from his farming activities at the Swazi National Land.
2. Received a net of E35,000 from exports of small handcraft to South Africa and Europe. His small handcraft exports had an approved status.
3. As a resident tax payer he got a gross interest income of E6,000 from a unit trust with Standard bank.
4. As a resident tax payer he received a gross dividend income of E3,500 from a Swazi quoted company.
5. He received E4,000 from FNB Savings Bank account.
6. He inherited E60,000 cash from his late grandfather.
7. He received E30,000 rent revenue from his Durban (South Africa) rented house.

EXPENDITURES OF MR NTOKOZO KUNENE

1. Mr Kunene had on 1.7.2006 bought a tractor at a cost of E150,000. It was used at the Swazi National land. It was used on a 24 hours basis.

2. In the year 2004/2005 he had incurred a small handcrafts export promotion campaign of E30,000.
3. He contributed E3,000 to a drought disaster relief fund gazetted in the official gazette.
4. He paid E4,000 as a life insurance premium with Lobamba Royal Insurance Corporation.
5. He contributed E7,000 to an approved (rather than statutory) pension fund..
6. He paid a monthly 5% deduction from his basic salary to a statutory pension scheme.
7. He paid another monthly 5% deduction from his basic salary to a medical scheme.
8. He paid E7.500 house mortgage interest expense for his main personal residential house.
9. The expenses of his South African house was E13,000.
10. He paid E24,850 as PAYE Tax paid in advance..

REQUIRED :

On submission of his personal return compute the net tax payable by Mr Ntokozo Kunene for the year ended 30.6.2007.

(30 marks)

QUESTION 2:

REQUIRED:

In Swaziland's taxation of income the receipts and accruals of capital nature are excluded. Discuss what is generally meant by the receipts and accruals of capital nature.

(20 marks)

Total for the section

(50 marks)

SECTION B:AUDITING

QUESTION 3:

REQUIRED

- 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 4:

- 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)

Total for the section

(50 marks)

TOTAL FOR THE PAPER

(100 marks)