

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER, MAY 2007

DEGREE/DIPLOMA AND YEAR OF STUDY: B COM IV/IDE B COM YEAR 6

TITLE OF THE PAPER : TAXATION
COURSE CODE : AC 405(M)2007/IDE AC405(M)2007
TIME ALLOWED : THREE (3) HOURS
INSTRUCTIONS

- 1 There are four (4) questions in this paper. Attempt all of these questions.**
- 2 The marks awarded for a question are indicated at the end of each question.**
- 3 Show your workings.**

NOTE: You are reminded that in assessing your work account will be taken of accuracy of the language and the general quality of expressing together with layout and presentation of your answer.

Special Requirement: Tax tables, and Standard values of farm animals attached

QUESTION 1:

Mr. Peter Shongwe had the following income particulars for the year ended 30th June 2007.

A. INCOMES

		E
1	Director's fees from a Swazi company	10,000
2	Interest income from FNB bank's fixed deposit	5,000
3	Interest income from a savings account with Swazi bank	6,000
4	An annual gross rental income from a house at Piggs Peak The repair and maintenance of the house was E9,000	48,000
5	Sold 45 bulls at E3,500 per a bull	157,500
6	Sold 30 cows at E3,000 per a cow	90,000
7	Sold 50 rams at E500 per a ram	25,000
8	Sold 20 ewes at E300 per an ewe	6,000
9	Sold 10 stallions at E20,000 per a stallion	200,000
10	Sold 5 mares at E15,000 per a mare The stallions and mares were of a special breed racing horses	75,000
11	Sold 190 tons of maize at E1,000 per ton	190,000
12	Sold 145 tons of beans at E3,000 per a ton	435,000
13	Sold forest timber and other forest products worth	750,000

Other disposals

1	The owner slaughtered and consumed with his extended family 2 bulls and 2 rams	
2	The owner slaughtered and distributed as rations to his farm employees 2 bulls and 2 rams	
3	The owner distributed as farm rations to his employees 10 tons of maize, and 5 tons of beans	
4	30 tons of maize were used as animal feed stuff, and 10 tons of beans were used as animal feed stuff.	

B. OPENING STOCK OF ANIMALS AC 405(M)2007/IDE AC405(M)2007 Page 3 of 10

1	30 bulls valued at the standard price of a bull
2	20 cows valued at the standard price of a cow
3	15 tollies and heifers (2 year old) valued at the standard price of a 2 year old heifer. At the end of the year they matured into cows.
4	5 rams valued at the standard price of a ram
5	4 ewes valued at the standard price of an awe
6	2 stallions at the standard price of a stallion
7	1 mare at the standard price of a mare
8	6 jacks (over 3 year old) at the standard price of a jack
9	4 jennies (over 3 year old) at the standard price of a jenny

C. PURCHASE OF ANIMALS

		E per an animal
1	20 bulls @ t	2,500
2	20 cows @	2,000
3	60 rams @	350
4	20 ewes @	200
5	15 stallion (special sports breed) @	10,000
6	14 mares (Special sports breed) @	9,000

D. FARM BIRTH AND FARM PRODUCTS

1	10	calves under 1 year old
2	25	kids of goats
3	25	lambs
4	6	foals of horses
5	4	donkey foals under 1 year
6	250	tons of maize was produced, 190 tons were sold, 10 tons were used as rations to employees, and 30 tons were used as animal feed stuff. The average cost (fair value) of maize was agreed by the Commissioner to be E700 per a ton. The market value was E1,000 per a ton
7	160	tons of beans were produced, 145 tons were sold, 5 tons were used as rations to employees, and 10 were used as animal feed stuff. The average cost (fair value) of beans was agreed by the Commissioner to be E2,000 per a ton. The market value was E3,000 per ton

E. DEVELOPMENT EXPENDITURE AC 405(M)2007/IDE AC405(M)2007

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		E
1	Unrecovered forest development expenditure b/f from last year	<u>200,000</u>
	OTHER FARMING DEVELOPMENT EXPENDITURES	
1	Eradication of noxious plants	70,000
2	The prevention of soil erosion	100,000
3	Dipping tanks	60,000
4	Dams, irrigation channels, and pumping pipes	160,000
5	Fences	80,000
6	Agricultural warehouses/godowns	220,000
7	Farm house for the owner	150,000
8	2 houses for agricultural employees each E70,000	140,000
9	Building of roads and bridges	130,000
10	The carrying of electric power from the SEB main transmission line to the farm	<u>90,000</u>
		<u>1,200,000</u>

F. PURCHASE OF/INSTALLATION OF CAPITAL EQUIPMENT ETC

		E
1	Purchase of 2 tractors each at E155,000 (to be used for 2 shifts a day)	310,000
2	Purchase of agricultural implements (to be attached to tractors and be used for 2 shifts a day)	150,000
3	Construction of a slaughter house, to house a slaughter plant (to be used for 2 shifts a day)	150,000
4	Purchase and installation of a slaughtering plant (to be used for 2 shifts a day)	<u>200,000</u>
		<u>810,000</u>

G. THE EXPENSES TO DATE AC 405(M)2007/IDE AC405(M)2007 Page 5 of 10

	E	E
Administrative and general expenses (all allowable)		95,000
Depreciation expense:		
Agricultural warehouse 10%*E220,000	22,000	
Houses for employees E140,000*4%	5,600	
House for the owner E4%*150,000	6,000	
Tractors E310,000*25% (the tractor was used for 2 shifts)	77,500	
Agricultural implements E150,000*25% (attached to the tractor)	37,500	
Slaughtering plant E200,000*10%	20,000	
Slaughtering house E150,000*10%	<u>15,000</u>	
		183,600
Fertilizer		35,000
Food stuff for livestock (other than beans and maize indicated in D)		27,000
Grain bags		5,000
Maintenance and repair:		
Farm buildings	3,000	
Farm implements	7,000	
Tractors and equipments	15,000	
Slaughter plant	<u>9,000</u>	
		34,000
Purchase of livestock animals (refer to section C)		391,000
Purchase of maize and bean seeds		56,000
Petrol,diezel,oil,and grease		55,000
Transport outwards and inwards		60,000
Rations for workers (other than meat,maize,and beans indicated in D)		45,000
Spray		9,000
Veterinary costs		15,000
Wages of farm employees		130,000
TOTAL EXPENSES		1,140,600

REQUIRED :

- A. Utilising the standard values compute the livestock opening stock in monetary values. (5 marks)
- B. Compute the ending stock of animal livestock and produce in physical quantities, and utilising the standard values/fair values compute the ending livestock and produce in monetary values. (5 marks)
- C. Determine the taxable income and tax payable of Mr Shongwe. (30 marks)
- Total for the question (40 marks)

QUESTION 2:AC405(M)207/IDE AC405(M)2007 Page 7 of 10

Matsapha Trading (Pty) Ltd Company had the following Profit and Loss for the year ended 31.12.2006

	E	E
SALES		5,500,000
Opening stock	400,000	
Purchases	<u>3,200,000</u>	
Available for sale	<u>3,600,000</u>	
Less closing stock (Note 1:reduced by provision for fall in stock prices)	1,100,000	
COST OF SALES		<u>2,500,000</u>
GROSS PROFIT		3,000,000
OTHER INCOME		
Dividends from Swazi Companies	130,000	
Interest revenue	97,000	
Insurance proceeds (Note 2)	30,000	
Profit on sale of plot of land (Note 3)	300,000	
		<u>557,000</u>
		3,557,000
EXPENSES		
Wages and salaries	750,000	
Accountancy fees	90,000	
Bank charges	15,000	
Losses (Note 4)	170,000	
Advertment	25,000	
Directors fees	100,000	
Depreciation of assets (Note 5)	342,500	
Donation (Note 6)	75,000	
Dwelling housing cost (Note 7)	320,000	
Legal fees (Note 8)	10,000	
Motor vehicle expenses	300,000	
Research expenses (Note 9)	70,000	
Repairs and maintenance	150,000	
Bad debt expense (Note 10)	16,000	
Expenses c/f	2,433,000	

AC405(M)207/IDE AC405(M)2007 Page 8 of 10	E	E
EXPENSES CONTINUED	2,433,000	
Subscription fees (Note 11)	32,000	
New franchise (Note 12)	100,000	
Canteen costs (Note 13)	113,000	
Staff end of the year party	8,000	
Medical subscription	24,000	
TOTAL EXPENSES		<u>2,710,500</u>
NET PROFIT		<u>846,500</u>

NOTE 1: The closing stock was reduced by a provision for fall in value of stock prices of E350,000

NOTE 2: The insurance proceeds came from the fidelity guarantee claim of E30,000 .

NOTE 3: The profit on sale of a plot of land. The cost of the plot was E200,000 but the sales value was E500,000.

NOTE 4: The loss was due to the following factors:

- a. Loss on advances to employees who resigned and left the employment, E15,000.
 - b. Loss due to a guarantee of a bank loan to powerful person, E30,000.
 - c. Cash loss by a petty cashier E50,000. The fidelity guarantee insurance cover was limited to E30,000.
 - d. Loss due to defalcation by the Director of Finance who is also one of the major shareholders of the company, E75,000.
- Total cumulative loss is $E15,000 + 30,000 + 50,000 + 75,000 = 170,000$.

	Freehold land	Building	Motor vehicles	Plant and machinery	Computers	TOTAL
Rates of depreciation	0%	4%	25%	20%	25%	
	E	E	E	E	E	E
Cost at 31.12.2005	750,000	1,000,000	500,000	700,000	150,000	3,100,000
Additions for the year						
Disposals for the year	<u>-200,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-200,000</u>
TOTAL COST 31.12.06	<u>550,000</u>	<u>1,000,000</u>	<u>500,000</u>	<u>700,000</u>	<u>150,000</u>	<u>2,900,000</u>
PROVISION FOR DEPRECIATION 31.12.05	0	120,000	125,000	140,000	37,500	422,500
Depreciation charge for the year based on cost	<u>0</u>	<u>40,000</u>	<u>125,000</u>	<u>140,000</u>	<u>37,500</u>	<u>342,500</u>
Provision for depreciation 31.12.06	<u>0</u>	<u>160,000</u>	<u>250,000</u>	<u>280,000</u>	<u>75,000</u>	<u>765,000</u>
NET BOOK VALUE 30.6.06	<u>550,000</u>	<u>840,000</u>	<u>250,000</u>	<u>420,000</u>	<u>75,000</u>	<u>2,135,000</u>

WEAR AND TEAR ALLOWANCES

	Freehold land	Buildings	Motor Vehicles	Plant and machinery	Computer	Total
Rates	0	4%	25%	20%	33.3%	
	E	E	E	E	E	E
Tax written value 31.12.05	750,000	620,000	375,000	210,000	100,000	2,055,000

NOTE 6: Donations

a.	To a government supported hospital project,	E30,000
b.	To a human rights active group	E15,000
c.	To a Lubombo area famine relief gazetted in a government gazette.	E10,000
d.	To a Christian group planing to visit Rome and Israel.	<u>E20,000</u>
	Total donations	<u>75,000</u>

NOTE 7:Housing costs.The company constructed 4 dwelling houses at E80,000 per house,which added up to E320,000.

NOTE 8:The company incurred E10,000 in form of legal costs relating to the four dwelling houses.

NOTE 9: Research cost money paid to UNISWA Faculty of Agriculture,Luyengo for a research relating to a horticulture farm owned by the company.

NOTE 10. Bad debt expense.A E6,000 general provision of 5% on the company,s trade debtors was charged to profit and loss.

NOTE 11:Annual subscription fees:

a.	Annual subscription fees to ACCA For 4 of the Finance Department Accountants	E20,000.
b.	Annual subscription fees to the Swaziland Chamber of Commerce,	E12,000.
	Total	E32,000

NOTE 12:Franchise costs.The new franchise costing E100,000 was to benefit the company for 5 years.

NOTE 13:The canteen cost were as follows:

a.	Food costs at the company Head office,s canteen.	E86,000
b.	Hotel expenses at a posh hotel for entertainment of top company officials	<u>E27,000</u>
	Total	E113,000

REQUIRED :Compute the corporation tax liability payable of the Matsapha Trading (Pty) Company for the year ended 31.12.2006.

(30 marks)

QUESTION 3:

- A. In Swaziland how is the residence of an individual natural person defined? (10 marks)**
- B. In Swaziland how is the residence of a company defined? (5 marks)**
- Total for the question (15 marks)**

QUESTION 4:

Briefly explain the following terms in relation to the income Tax Order 1975.

- A. Taxpayer Identification Number? (5 marks)**
- B. Tax Holidays (10 marks)**

Total for the question (15 marks)
TOTAL FOR THE PAPER (100 marks)

TAX TABLES: 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	
112006/2007 Certain benefits are taxed at 80% of the benefit value	

THE STANDARD VALUES OF LIVESTOCK

Description of livestock		Standard value Emalangen
Cattle	Bulls (uncastrated male cow)	720
	Oxen (castrated male cow used for draught)	440
	Cows (fully grown female of a bovine animal)	440
	Tollies and Heifers 2years (heifer a young cow especially one that has not had more than one calf)	280
	Tollies and Heifers 1 year	200
	Calves under 1 year	120
Sheep	Wether (castrated ram-old English)	60
	Rams (uncastrated male sheep)	100
	Ewes (female sheep-old English)	40
	Lambs (young sheep)	10
Goats	Fully grown	40
	Kids under 1 year	10
Horses	Stallion 4 years and over (uncastrated adult male horse)	600
	Mares 4 years and over (female horse)	400
	Gelding 3 years and over (castrated horse)	300
	Colts and fillies 3 years (colt-young male horse)	300
	Colts and fillies 2 years	200
	Colts and fillies 1 year	150
	Foals under 1 year (young male horse)	60
Donkeys	Jacks over 3 years (Jack ass-male ass)	15
	Jacks under 3 years	10
	Jennies over 3 years (jennies-female donkeys)	15
	Jennies under 3 years	10
	Foals under 1 year (foal-young of a horse or related animal)	5

Standard values continued

Description of livestock		Standard value Emalangen
Mules	Over 4 years (mule-generally offspring of a female donkey and male horse, but could be offspring of male donkey and female horse)	300
	3 years to 4 years	200
	2 years to 3 years	150
	Under 2 years	60
Pigs	Over 12 months	250
	Under 12 months	50
Poultry	Over 9 months	5