

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER
APRIL / MAY 2008
ACADEMIC YEAR 2007/2008

PROGRAMME OF STUDY	:	Diploma in Commerce
YEAR OF STUDY	:	Three (3) (Full Time) Level 4 (IDE)
TITLE OF THE PAPER	:	Principles of Taxation and Auditing
COURSE CODE	:	AC 304 (M) 2008 (Full Time) IDE AC 304 – 1 & 2 (M) 2008 (Part Time - IDE)
TIME ALLOWED	:	Three (3) Hours
INSTRUCTIONS	1	There are four (4) questions, <u>answer all</u>.
	2	Begin the solution to each question on a new page.
	3	The marks awarded for a question are indicated at the end of each question.
	4	Show your necessary workings.

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 layout and presentation of your answer.

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

SPECIAL REQUIREMENT: NONE

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
General Tax Rebate E2,400	
Certain benefits are taxed at: 80% of the benefit value (2006/2007) 100% of the benefit value (2007/2008)	

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:

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

PRIVATE USE OF MOTOR VEHICLES

The value of the benefit is calculated as follows:
 $(X*A*B/C)-D$

The year of assessment 2006/2007 equals 18 %
The year of assessment 2007/2008 equals 20 %

EMPLOYEE USING PERSONAL VEHICLE ON EMPLOYER'S BUSINESS

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

Deemed expenditure is determined on the following basis:

- (i) Fixed costs: 25% of the original cost to the taxpayer of the vehicle in each year.
- (ii) Running costs per kilometre:

Up to 1600 cc	54c per km
1600cc to 2000cc	76c per km
Over 2000 cc	85c per km

QUESTION 1:

Mr. K Dlamini was as from 1.07.2006 employed as a Operations Manager of a Manzini based reputable company. His income particulars for the year ended 30th June, 2007 were as follows.

1. His basic salary per month was E11,000.
2. He had a responsibility allowance of 10% of the basic pay.
3. With effect from 1.11.2006 he was housed in a company three bed roomed house within the 10 km corridor of Manzini -Mbabane. He contributed E400 per month for the house keep.
4. With effect from 1.11.2006 the employer paid for the following monthly benefits: Telephone E400, maid E1,000, gardener E800, electricity E500, and water E400.
5. The employer paid E10,500 as school fees and E5,000 as transport cost for Mr. Dlamini's children..
6. He was on 1.10.2006 allocated a 2200 cc motor vehicle for both official and private use. It cost the company E150,000 before sales tax.
7. He was advanced E15,000 as entertainment allowance but accounted for only E11,000.
8. He acted as an ambassador of Spain in Swaziland. In 2006/2007 he received E90,000 for the job.
9. The employer provided a uniquely designed uniform to Mr. Dlamini. It cost E4000, but was not supposed to be worn all the time at the place of work.
10. The employer paid E7,000 medical expenses on behalf of Mr. Dlamini.
11. The employer paid E1,500 as a refund to Mr. Dlamini when he used his personal vehicle for an official trip.
12. He sold his private plot of land for E100,000. The plot had cost him E50,000.
13. He received a gift from his father worth E60,000.
14. He received E11,000 interest revenue from Swaziland Building Society subscription shares, E12,000 from deposits with Swaziland Development and Savings Bank., E10,000 from permanent and fixed shares in Swaziland Building Society, and E4,000 from deposits with Standard Bank.

(Question 1 – cont.)

15. He received E2,500 dividend from Swaziland unquoted shares, and E5,000 from Swaziland quoted shares.
16. He rented out flats to students at Kwaluseni. The annual rental was E15,000.

EXPENSES/PAYMENTS

1. On 1.7.2006 he took a building society loan of E50,000 at a cost of 20% p.a.
2. On 1.11.2006 he paid out an insurance premium of E4,500 with Manzini Royal Insurance Corporation.
3. He paid E2,500 as premium for unemployment benefit with a Manzini Insurance Corporation.
4. He paid out E16,200 as PAYE.
5. He paid E5,000 as alimony to his former wife.
6. The repair costs for the Kwaluseni flats were E3,000.
7. He paid E2,000 traffic fine.

Required:

Compute the net tax payable for the year ended 30/6/2007 and explain why some of the information is not used in the computations.

(Total marks: 40 marks)

QUESTION 2:

Mr. X carries on a manufacturing business and asks that you calculate the VAT payable by him if he gives you the following information, assumes the VAT is calculated at 14%):

- (a) Sales of inventory (including VAT): On credit E228,000; On cash E1,755.60.
- (b) Sale of fixed asset on cash (excluding VAT): E50,000
- (c) Purchases of raw materials (including VAT): On credit E102,600; On Cash E1,390.80.
- (d) Fee for sundry consulting (including VAT): E11,400.
- (e) Purchased stationer for E500 (excluding VAT), paid by cheque.

(10 marks)

QUESTION 3:

Explain the types of audit evidence. **(28 marks)**

QUESTION 4:

(A) What do the Companies' Act 1989 state about the Directors' report? **(2 marks)**

(B)

An audit program is simply a list of instructions on the work that the auditor should do on the occasion of his audit.

(i) Mention at least five advantages of using audit programs. **(5 marks)**

(ii) Mention at least five disadvantages of using audit programs. **(5 marks)**

(C)

In carrying out an audit assignment, audit firms adopt a system of standard working papers which can be used on all audits.

(a) Mention at least five advantages of using standardized working papers. **(5 marks)**

(b) Mention at least five disadvantages of standardized working papers. **(5 marks)**

(Question 4 – Total marks: 22)

(Total marks for the paper: 100)

END