

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
SUPPLEMENTARY EXAMINATION PAPER
JULY 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 (S) 2008 (full time)**
IDE AC 304 – 1 & 2 (S) 2008 (part time - IDE)

TIME ALLOWED : **Three (3) Hours**

INSTRUCTIONS

- 1** **There are four (4) questions, answer all.**
- 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

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

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. Motsa had the following income particulars for the year ended 30.6.2007

SALARY AND BENEFITS

1. Salary of E10,500 per month from 1.7.2006.
2. A three bed room house in Fair View, Manzini (in a prime location) from 1.9.2006. The lot was 780 sq m, The floor area was 180 sq m. Mr. Motsa paid E400 per month to his employer towards this accommodation.
3. E8,000 free medical benefits from his employer.
4. E10,000 to transport his children to S. Africa for education.
5. E20,000 education fee grant from his employer to educate his children.
6. E7,000 uniform of a distinctive design with an imposed condition that it must be worn on duty.
7. On 1.10.2006 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%.
8. On 1.11.2006 he received a 2200cc L.D.V Nissan bakkie vehicle to help him in his official and personal business. The vehicle cost E100,000.
9. From 1.10.2006 he was provided by the employer the following personal services: a telephone (E500 p.m.), a cook (E700 p.m.), a gardener (E600 p.m.), and a security guard (E1,000 p.m.).
10. 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. Motsa 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.

(Question 1 – cont.)

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

EXPENDITURE OF MR MOTSA

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 maintenance for the Mbabane house was E9,000.

Required:

Compute the tax payable by Mr. Motsa for the year ended 30th June 2007 and explain why some of the information is not used in the computations.

(Total marks: 40 marks)

QUESTION 2:

Employee brings his/her 2000cc motor vehicle for use in the business of the **employer**. The original cost of the vehicle was E200,000.

Employer provides annual cash allowance to meet both fixed and running costs E 60,000 of the employee. Employee does not keep proper record.

Required: Calculate the taxable benefit.

(Total marks: 10)

QUESTION 3:

When financial statements are produced by management, there are certain assertions that management is making about the *items* in the financial statements.

Required:

Mention the assertions that are being made when items are included in financial statements. **(14 marks)**

QUESTION 4:

Required

- A. How are auditors appointed? **(6 marks)**
- B. How are the auditors remunerated? **(6 marks)**
- C. How are auditors removed? **(6 marks)**
- D. How can auditors resign? **(6 marks)**
- E. Who can be an auditor? **(6 marks)**
- F. Briefly explain the rights of an auditor under the Companies Act 1985 **(6 marks)**

(Question 4 – Total marks: 36)

(Total marks for the paper: 100)

END