

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER
MAY 2009
ACADEMIC YEAR 2008/2009

- PROGRAMME OF STUDY** : **Diploma in Commerce**
- YEAR OF STUDY** : **Three (3) (Full Time)**
Level 4 (IDE – Part Time)
- TITLE OF THE PAPER** : **Principles of Taxation and Auditing**
- COURSE CODE** : **AC 304 (M) 2009 (Full Time)**
IDE AC 304 – 1 & 2 (M) 2009 (Part Time)
- 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 TAXES
E 0 to E60,000	E 0 + 20% of the excess over 0
E60,001 to E80,000	E12,0000 + 25% of excess over E60,000
E80,001 to 100,0000	E17,000 + 30% of the excess over E80,000
E100,000	E23,000 + 33% of the excess over E100,000

PRIVATE USE OF MOTOR VEHICLES PROVIDED BY THE EMPLOYER:

The year of assessment 2008/2009 equals 20%

EMPLOYEE USING PERSONAL VEHICLE ON EMPLOYER’S BUSINESS:

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 kilometer:

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

SCHEDULE A OF THE INCOME TAX ORDER 1975 (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 – 249 sq.m	4,145	3,524	2,465
3 bedrooms 2 bathrooms a garage Servant quarters Secure perimeter 700 sq.m and above lot	159 – 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 – 158 sq.m	3,190	2,710	1,899
2-3 bedrooms 1 bathroom or shower	100 – 119 sq.m.	2,393	2,033	1,422
2-3 bedrooms 1 bathroom or shower	70 – 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	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

QUESTION 1:

Mr. Smith, 50 years old, had the following income particulars for the year ended 30.6.2009.

SALARY & BENEFITS

1. Mr. Smith was employed on 1.9.2008 as a Director of Finance in a Matsapha based company. His basic salary was E15,000 per month.
2. He was allocated a BMW vehicle which cost E220,000 after sales tax of 10% on 1.10.2008. He contributed E400 per month towards mitigation of the cost of this vehicle.
3. He was sometimes acting as a Director General when the substantive Director General used to go on travel. He received total E30,000 for acting allowance.
4. He was allocated a 4 bedroom house on the 1.10.2008 in a prime location of Mbabane. The house had a lot of 1,500 sq m and a floor area of 220 sq m. He contributed E450 towards its upkeep.
5. From 1.10.2008 the employer paid the following monthly payments: for maid E1.000; for electricity E600; for water E500; and for telephone E700.
6. On 1.10.2008 he received a loan of E2,900 on which he only pay his employer 8% interest. The Bank of Swaziland official rate of interest was 12%.
7. For the year 2008/2009 the company gave him advanced E20,000 for entertainment of business customers. He accounted for only E16,000 at the end of the year.
8. The employer provides a monthly 20% contribution of Mr. Smith's basic salary to a statutory pension scheme and Mr. Smith also contributes a 5% per month of his basic salary to that scheme.

OTHER INCOMES

9. He sold a plot of land in Mbabane for E250,000. The plot cost him E175,000 in the year 2000.
10. He received E60,000 as an insurance compensation for his damaged own car.
11. He received E8,000 dividend from a South African quoted company.
12. He earned E6,000 as interest revenue from a fixed deposit with Standard Bank.
13. He received E10,000 from gambling. He goes often to the Royal Swazi Sun Casino for gambling.

EXPENSES / PAYMENTS OF MR. SMITH

1. He paid E7,000 to an approved provident fund.
2. He paid E3,600 to a fund under law relating to unemployment insurance.
3. He paid a life insurance premium with Royal Insurance Corporation for E16,000.
4. He donated E12,000 to his displaced relatives in Zimbabwe.
5. He paid E8,000 to an approved pension scheme.
6. He paid E8,000 to Mbabane clinic on account of his wife.
7. He paid E80,000 as PAYE tax paid in advance

Required:

Compute the tax payable/refundable by or to Mr. Smith for the year ended 30th June 2009.
(Total marks: 35)

QUESTION 2:

- (A) What are the main purposes for taxation? **(6 marks)**
- (B) There are various conditions that required for successful use of taxation in order to achieve its purposes of taxation. Explain the conditions required for successful use of taxation. **(9 marks)**
(Total marks: 15)

(Auditing Part)**QUESTION 3:**

Grofast Ltd was formed on 1 January 2009 in order to manufacture minicomputers. The directors are unsure as to their responsibilities, and the nature of their relationship with the external auditors. The audit partner from your audit company has asked you to visit the client and explain to the directors of Grofast Ltd the more fundamental aspects of the accountability.

You are required to explain to the directors of Grofast Ltd:

- (a) Why there is a need for an external audit? **(10 marks)**
- (b) The rights of an external auditor. **(12 marks)**
- (c) How are the external auditors of a public company appointed? **(6 marks)**
- (d) The responsibilities of the directors in relation to the accounting function of the company. **(10 marks)**

(Total marks: 38)

QUESTION 4:

Write short notes on:

- (a) Internal control **(3 marks)**
- (b) External auditors' independence **(3 marks)**
- (c) Audit evidence **(3 marks)**
- (d) Auditing standards **(3 marks)**

(Total marks: 12)

END