

**UNIVERSITY OF SWAZILAND**  
**DEPARTMENT OF ACCOUNTING**  
**MAIN EXAMINATION PAPER, MAY 2009**

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

**TITLE OF THE PAPER** : **ADVANCED TAXATION**  
**COURSE CODE** : **AC 405(M)2009/ IDE AC405(M)2009**  
**TIME ALLOWED** : **THREE (3) HOURS**  
**INSTRUCTIONS**

- 1** **There are three (3) 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: None**

**QUESTION 1: COMPUTATION OF CORPORATION TAX PAYABLE AC405(M)2009**

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Matsapha Industrial Bank had the following profit and loss for the year ended 30.6.2009

**MATSAPHA INDUSTRIAL BANK  
PROFIT AND LOSS FOR THE YEAR ENDED 30.6.2009**

	E	E
<b>INCOME</b>		
Loan interest income	Note 1	73,610,000
Short term deposit interest income		10,730,000
Interest income from bond funds		27,220,000
Dividend income		1,250,000
Commissions income		2,570,000
Commitment fees		130,000
Other income		<u>4,280,000</u>
<b>TOTAL INCOME</b>		<u>119,790,000</u>
<b>EXPENDITURE</b>	Note 2	
Bond issue costs	Note 3	2,340,000
Share issue costs	Note 4	300,000
Interest expense on fixed rate loans		21,450,000
Interest on flexible rate loans		15,270,000
Administrative expenses	Note 5	22,970,000
Bad debts written off		11,750,000
Depreciation (of fixed assets) expense	Note 6	2,960,000
Provision of specific doubtful debts		<u>11,860,000</u>
<b>PROFIT FOR THE YEAR</b>		<u>88,900,000</u>
<b>APPROPRIATIONS</b>		
Proposed dividends		-10,000,000
Transfer to special reserve		-5,000,000
<b>RETAINED PROFIT FOR THE YEAR</b>		<u>15,890,000</u>

## NOTES TO THE ACCOUNTS

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## Note 1 :

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INCOME is brought into the accounting period on the following basis;

- a. Interest on long term advances and commitment fees are recognised on accrual basis net of provisions against interest for which recovery is considered doubtful.
- b. The excess arising from restructuring of a loan between its carrying book value and the restructured amount deferred and amortised over the period the loan is repaid bears an interest income. If there is a deficit it will be written against the profit and loss in the year of restructuring.
- c. Dividends are taken into account in the year in which they are received.

## Note 2:

## EXPENSES

Charges on borrowing are accrued at the year end.

Note 3 : THE COST OF THE BOND issue in the year was E2,340,000.

Note 4. THE COST OF SHARE FLOATATION in the year was E300,000.

## Note 5: THE COST OF ADMINISTRATION

	E
Salaries	11,000,000
Pension and other benefits	5,600,000
Vehicle maintenance expenses	1,200,000
Office expenses	1,211,000
Travelling expenses	2,100,000
Entertainment of business customers	550,000
General entertainment of senior staff	350,000
Canteen food expenses	330,000
Write off of departed staff loan	150,000
General expenses (unspecified)	110,000
Donation to "NERCHA" (National Emergency Response on AIDS) to help orphans	250,000
Donation to Swazi National High School to extend class rooms	<u>119,000</u>
	<u>22,970,000</u>

**NOTE 6 :CALCULATION OF DEPRECIATION EXPENSE AC405(M)2009**  
**FIXED ASSETS** **Page 4 of 7**

COST	Industrial buildings	Plant and equipment	Motor vehicles	Furniture and fittings	Total
	E	E	E	E	E
1 <sup>st</sup> July,2008	36,540,000	4,860,000	2,440,000	8,290,000	52,130,000
Additions	820,000	200,000	280,000	840,000	2,140,000
Disposals	=	=	<u>-150,000</u>	=	<u>-150,000</u>
Balance 30.6.2009	<u>37,360,000</u>	<u>5,060,000</u>	<u>2,570,000</u>	<u>9,130,000</u>	<u>54,120,000</u>
<b>PROVISION FOR DEPRECIATION</b>					
1 <sup>st</sup> July,2008	33,100,000	3,650,000	1,290,000	6,620,000	44,660,000
Charge for the year	1,830,000	460,000	340,000	330,000	2,960,000
Disposal	=	=	<u>-140,000</u>	=	<u>-140,000</u>
30.6.2009	<u>34,930,000</u>	<u>4,110,000</u>	<u>1,490,000</u>	<u>6,950,000</u>	<u>47,480,000</u>
<b>NET BOOK VALUE</b>					
1 <sup>st</sup> July,2008	2,430,000	950,000	1,080,000	2,180,000	6,640,000
30.6.2009	3,440,000	1,210,000	1,150,000	1,670,000	7,470,000
<b>WEAR &amp; TEAR ALLOWANCES</b>					
Tax written value 1.7.2008	1,500,000	600,000	1,080,000	2,200,000	5,380,000
Rate of initial allowances	?	?	?	?	?
Annual wear and tear rates	4%	20%	25%	10%	
Initial allowance 2009	?	?	?	?	?
Wear and tear 2009	?	?	?	?	?

**REQUIRED: Calculate the corporation tax payable as at 30.6.2009.**

**(40 marks)**

**QUESTION 2 :**

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Lubombo Ranches Limited farms sheep in the Lubombo mountains of Swaziland. The details of its income and expenditure for the year ended 31.12.2008 is as follows:

INCOME		NOTE	E
Sheep sales			2,500,000
Rental income		1	120,000
Sale of plantation produce		2	<u>200,000</u>
			2,820,000
OPENING AND CLOSING STOCK(in money value)	Total at standard value	Total at market value	Average cost of a mature sheep
Date	E	E	E
1.1.2008	6,420	750,000	700
31.12.2008	4,800	680,000	750
EXPENDITURES			
A.ORDINARY EXPENDITURES		NOTE	
1.Sheep purchases			1,780,000
2.Diesel		3	90,000
3.Road repair and fence repair			470,000
4.Other tax deductible expenditures			55,000
5.Acquisition of a plantation		2	500,000
6.Other costs associated with operating a plantation		2	10,000
B.FARMING MACHINERY		4	300,000
C..DEVELOPMENT EXPENDITURES			
1.Development expenditures b/f			600,000
2.Construction of a dam			800,000
3.Installation of electric facilities			180,000
4.Housing for labourers		5	200,000

## NOTE 1

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The company rented a portion of its farmland to Mr R.Mamba who used the land to carry on chicken farming activities. Rentals of E120,000 were received in the current calendar year. This was not in accordance with agreement, which required that the rentals would be 15% of the farming income for any calendar year. Mr Mamba earned E1,000,000 income for the year 2008. He promised to settle the difference in March 2009, when his cash flows would be better.

## NOTE 2

- a. The company sold plantation produce for E200,000.
- b. The company acquired a plantation of 10,000 acres during the current calendar year at a total cost of E500,000.
- c. Other costs associated with operating the plantation were:

	E
Fertiliser and seedling costs	5,000
Wages	<u>5,000</u>
	10,000

## NOTE 3

The company purchased 10,000 litres of diesel for a total of E90,000. for use in its farming operations. The purchase was on 1.1.2008. As at the end of the calendar year on 31.12.2008 there were still on hand 2,000 litres.

## NOTE 4

The farming machinery was purchased on 1.1.2008 and was immediately brought in use. It was used on a two (2) shift basis.

## NOTE 5

The company erected 10 two (2) bedroomed houses to accommodate 20 farm labourers. The total cost was E200,000. Each labourer's accommodation cost E10,000.

## ADDITIONAL INFORMATION RELATING TO THE LIVESTOCK

1. The company received 200 sheep with a market value of E800 each as a donation.
2. During the year, 80 sheep with a market value of E820 each and an average cost price of E700 each were slaughtered as rations for employees on the farm.
3. During the year 180 lambs (young sheep) were born and no sheep died during the year. The market value of the lambs at birth was E100 per a lamb.

**REQUIRED :**

**Calculate the Corporation Tax payable by the Lubombo Ranches Ltd for the year ended 31.12.2008.**

(30 marks)

**QUESTION 3 :  
REQUIRED :**

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- A. Describe the choice of accounting methods in tax planning. (15 marks)**
- B. Describe what is tax planning in accounting periods. ( 5 marks)**
- C. Describe what is tax planning in equipment transactions. ( 5 marks)**
- D. Describe what is tax planning in achieving tax savings by income splitting. ( 5 marks)**

**Total marks for the question (30 marks)**

**TOTAL MARKS FOR THE PAPER (100 marks)**