

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER
MAY 2010

ACADEMIC YEAR 2009/2010

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) (Full Time)**
IDE AC 304 – 1 & 2 (M) (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
E0 to E60,000	E0 + 20% of the excess over E0
E60,001 to E80,000	E12,000 + 25% of excess over E60,000
E80,001 to E100,000	E17,000 + 30% of the excess over E80,000
E100,001	E23,000 + 33% of the excess over E100,000

PRIVATE USE OF MOTOR VEHICLES PROVIDED BY THE EMPLOYER:

The year of assessment 2008/2009: 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 kilometre:

Up to 1600cc	54c per km
1600cc to 2000cc	76c per km
Over 2000 cc	85c per km
- (iii) Deemed Business Mileage: 6,000 kilometres
- (iv) Deemed Total Mileage: 24,000 kilometres

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 - 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

(Taxation Part)

QUESTION 1:

Mr. S. Vilakati, 51 years old, was employed as a Operations Manager of a Manzini based reputable company from 1.07.2008. His income particulars for the year ended 30th June, 2009 were as follows.

1. His basic salary per month was E11,000.
2. With effect from 01.11.2008, he was housed in a company three bed roomed house within the 10 km from the old Mbabane/Manzini road. The house floor area is 220 sq. m. He contributed E400 per month for the house keep.
3. He had a responsibility allowance of 10% of the basic pay.
4. The employer paid E10,500 as school fees for his children. He also paid E5,000 as transport cost for the children.
5. He was, on 1.10.2008, allocated a 2200 cc motor vehicle for both official and private use. It cost the company E150,000 before sales tax 14%.
6. He was advanced E15,000 (as entertainment allowance) to entertain foreign clients but accounted for only E11,000. He returned the balance money (E4,000) to the employer.
7. The employer provided a uniquely designed uniform to him without any condition that it must be worn all the time at the place of work.
8. The employer paid E7,000 medical expenses on behalf of him.
9. The employer paid E1,500 as a refund to him when he used his personal money for an official trip.
10. The employer contributed E180 to SNPF per annum and he also contributed to E180 to SNPF per annum.
11. He received a gift from his father worth E60,000.
12. He received E14,000 interest from deposit with Swaziland Development and Savings Bank, and E13,000 dividends from Swaziland quoted shares.
13. He rented out flats to students at Kwaluseni. The annual rental was E15,000.

(Question 1 – cont.)

EXPENSES/PAYMENTS

14. On 1.7.2008 he took a building society loan of E50,000 at a cost of 20% p.a.
15. On 1.11.2008 he paid out an insurance premium of E4,500 for life policy with Swaziland Royal Insurance Corporation.
16. He paid E2,500 as premium for unemployment insurance with a Manzini Insurance Corporation.
17. He paid E5,000 as alimony to his former wife.
18. The repair costs for the Kwaluseni flats were E3,000.
19. He paid E2,000 traffic fine.

Required:

Compute the net tax payable (or refundable) by Mr. S. Vilakati for the year ended 30th June 2009.

(35marks)

QUESTION 2:

- (A) What is Vertical Equity? What are the problems related to vertical equity?
(9 marks)
- (B) Write short note on:
“Tax Revenue and Non Tax Revenue”
(6 marks)

(Question 2: Total marks 15)

(Auditing Part)**QUESTION 3:**

You are a manager in the audit firm of Dlamini & Co; and this is your first time you have worked on one of the firm's established clients, Stark Co. The main activity of Stark Co is providing investment advice to individuals regarding saving for retirement, purchase of shares and securities and investing in tax efficient savings schemes. Stark is regulated by the relevant financial services authority. You have been asked to start the audit planning for Stark Co, by Mr Son, a partner in Dlamini & Co. Mr Son has been the engagement partner for Stark Co, for the previous nine years and so has excellent knowledge of the client. Mr Son has informed you that he would like his daughter Zoe to be part of the audit team this year; Zoe is currently studying for her third year papers for her Accounting qualification. Mr Son also informs you that Mr Far, the audit senior, received investment advice from Stark Co during the year and intends to do the same next year.

In an initial meeting with the finance director of Stark Co, you learn that the audit team will not be entertained on Stark Co's boat cruise this year as this could appear to be an attempt to influence the opinion of the audit. Instead, he has arranged a balloon flight costing less than one-tenth of the expense of using the boat cruise and hopes this will be acceptable. The director also states that the fee for taxation services this year should be based on a percentage of tax saved and trusts that your firm will accept a fixed fee for representing Stark Co in a dispute regarding the amount of sales tax payable to the taxation authorities.

Required:

- (a) (i) List the threats to independence which may affect the auditor of Stark Co. *(6 marks)*
- (ii) For each of the threats, discuss how the effect of the threat can be mitigated. *(12 marks)*
- (b) Contrast the role of internal and external auditors. *(7 marks)*

(Total marks 25)

QUESTION 4:

Audit evidence can be obtained using various audit procedures, such as inspection. Apart from this procedure, explain FIVE other procedures used in collecting audit evidence and discuss how the auditor will benefit from using each procedure. *(25 marks)*

END