

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER  
JULY 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 (S) (Full Time)**  
**IDE AC 304 – 1 & 2 (S) (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**



## AC 304 (S) / IDE AC 304 – 1 &amp; 2 (S) 2009/2010

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## SCHEDULE A:

Rental category	Floor area	Area A Taxable benefit per month	Area B Taxable benefit per month	Area C Taxable benefit per month
<b>Prime location</b> 3-5 bedrooms 2-3 bathrooms Double garage Servant quarters Secure perimeters <b>1,500 sq.m and above lot</b>	250 sq.m and above	<b>E</b> 4,607	<b>E</b> 3,915	<b>E</b> 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 <b>700 sq.m and above lot</b>	159 - 199 sq.m	3,686	3,133	2,193
<b>Lesser than prime location</b> 3 bedrooms 1-2 bathrooms <b>700 sq.m and above lot</b>	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. Khumalo, 62 years old, had the following income particulars for the year ended 30.6.2009.

1. Mr. Khumalo was employed on 1.9.2008 as a Director of Finance of a Mbabane based company. His basic salary was E15,000 per month.
2. On 1.10. 2008, he was allocated a BMW vehicle which was valued at E220,000 after 10% sales tax was added to the cost. 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 1.1.2009 he received a loan of E2,700 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. Khumalo's basic salary to a statutory pension scheme and Mr. Smith also contributes a 5% per month of his basic salary to that scheme.
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 and E7,000 from Swaziland quoted company.
12. He received E10,000 from gambling. He goes often to the Royal Swazi Sun Casino for gambling.

**EXPENSES / PAYMENTS OF MR. SMITH**

13. He paid E7,000 to an approved provident fund.
14. He paid E3,600 to a fund under law relating to unemployment insurance.
15. He paid a life insurance premium with Royal Insurance Corporation for E16,000.
16. He donated E12,000 to his displaced relatives in Zimbabwe.
17. He paid E8,000 to an approved pension scheme.
18. He paid E8,000 to Mbabane clinic on account of his wife.
19. He contributed E360 to SNPF.
20. He paid E80,000 as PAYE tax paid in advance.

**Required:**

**Compute the tax payable/refundable by or to Mr. Khumalo for the year ended 30<sup>th</sup> June 2009.**

**(Question 1: Total marks 35)**

**QUESTION 2:**

Write short notes on:

- |       |   |                  |
|-------|---|------------------|
| (i)   | Horizontal Equity                         | <b>(3 marks)</b> |
| (ii)  | Graded Tax and Excise Tax                 | <b>(4 marks)</b> |
| (iii) | Tax Avoidance and Tax Evasion             | <b>(4 marks)</b> |
| (iv)  | Notice of Assessment and Payment of Taxes | <b>(4 marks)</b> |

**(Question 2: Total marks 15)**

**(Auditing Part)****QUESTION 3:**

(a) ISA 500 *Audit Evidence* explains types of audit evidence that the auditor can obtain.

**Required:**

State, and briefly explain, seven types of audit evidence that can be obtained by the auditor. **(13 marks)**

(b) Discuss the qualities of the following types of audit evidence, giving two examples of each form of evidence:

(i) Evidence originated by the auditors. **(6 marks)**

(ii) Evidence created by the third parties. **(6 marks)**

**QUESTION 4:**

You are the audit manager in the audit firm of Dark & Co. One of your audit clients is NorthCee Co, a company specialising in the manufacture and supply of sporting equipment. NorthCee have been an audit client for five years and you have been audit manager for the past three years while the audit partner has remained unchanged.

You are now planning the audit for the year ending 31 December 2007. Following an initial meeting with the directors of NorthCee, you have obtained the following information.

(i) NorthCee is attempting to obtain a listing on a recognised stock exchange. The directors have established an audit committee, as required by corporate governance regulations, although no further action has been taken in this respect. Information on the listing is not yet public knowledge.

(ii) You have been asked to continue to prepare the company's financial statements as in previous years.

(iii) As the company's auditors, NorthCee would like you and the audit partner to attend an evening reception in a hotel, where NorthCee will present their listing arrangements to banks and existing major shareholders.

(iv) NorthCee has indicated that the fee for taxation services rendered in the year to 31 December 2005 will be paid as soon as the taxation authorities have agreed the company's taxation liability. You have been advising NorthCee regarding the legality of certain items as 'allowable' for taxation purposes and the taxation authority is disputing these items.

(v) Finally, you have just inherited about 5% of NorthCee's share capital as an inheritance on the death of a distant relative.

**Required:**

- (a) Identify, List and explain the relevance of, any factors which may threaten the independence of Dark & Co's audit of NorthCee Co's financial statements for the year ending 31 December 2007. *(15marks)*
- (b) Briefly explain how each threat should be managed. *(10 Marks)*

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**END**