

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
SUPPLEMENTARY EXAMINATION PAPER JULY, 2010

DEGREE/DIPLOMA AND YEAR STUDY :B COMM V/IDE B COMM LEVEL 7

TITLE OF PAPER :ADVANCED TAXATION
COURSE CODE :AC 405 (S) 2010/IDE AC405(M)2010

TIME ALLOWED :THREE (3) HOURS

- INSTRUCTIONS**
1. TOTAL NUMBER OF QUESTIONS ON THIS PAPER: THREE (3)
 2. ANSWER ALL QUESTIONS.
 3. THE MARKS AWARDED FOR A QUESTION/PART ARE INDICATED AT THE END OF EACH QUESTION/PART OF QUESTION.
 4. WHERE APPLICABLE, SUBMIT ALL WORKINGS AND CALCULATIONS.

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 THE LAYOUT AND PRESENTATION OF YOUR FINAL ANSWER.

SPECIAL REQUIREMENTS: STANDARD VALUES OF ANIMALS ATTACHED
: CUSTOMS DUTY TARRIF RATES

THIS PAPER IS NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

QUESTIN 1: AC405(S)2010/1DE AC(405)2010

Renco (Pty) Ltd manufactures radios for the local and export markets. The following is a draft income statement for its year of assessment ended 31 March 2010.

		E
Sales		3,250,700
Dividends (note 1)		150,000
Insurance proceeds (note 2)		<u>339,000</u>
Income		3,739,700
Less: Expenses		
Opening inventory (note 3)	202,500	
Purchases	1 973,000	
Less: Closing inventory (note 3)	(296,000)	
Other expenses (all deductible for tax purposes)	611,800	
Depreciation (note 4)	154,653	
Interest paid on overdraft	62,205	
Repair of machines partially destroyed	96, 000	
Dividends declared (note 6)	<u>250,000</u>	
Net profit before tax		<u>3,054,158</u>
		685,542

NOTES

1. Dividends consist of the following:	E
Dividends declared by A Ltd on 15 April 2009 and received on 15 May 2009.	60,000
Dividends declared by B Ltd on 15 October 2009 and received on 14 November 2009	<u>90,000</u>
	<u>150,000</u>

A Ltd declared a further dividend on 15 March 2010. Renco's (Pty) Ltd received an amount of E35,000 on 12 April 2010.

2. In the early hours of the morning of 31 December 2009 a portion of the factory was partially destroyed in a fire. The following amounts were received from the insurer.	E
Loss of profits due to the fire	64,000
Machine A – partially destroyed by the fire	225,000
Machine B - partially destroyed by the fire	<u>50,000</u>
	339,000

3. Inventory on hand (at cost price)	31.3.2010	31.3.2009
	E	E
Finished products	200,000	160,000
Raw materials	74,000	32,000
Consumables stores	<u>22,000</u>	<u>10,500</u>
	<u>296,000</u>	<u>202,500</u>

4. Depreciation was calculated on the following assets:

The machines were used in a two (2) shift basis

	Cost price E
Machine A : (purchased and brought into use on 3rd April 2009 and partially destroyed in the fire of 31st December 2009 - see note 2 above)	400,000
Machine B: (purchased and brought into use on 1st November 2009 And partially destroyed in the fire of 31st December 2009 - see note 2)	100,000
Machine C: This machine was purchased on 1 st December 2009	25,000
Computer printer (purchased and brought into use on 1 August 2009)	2,000
Cost of plant :Was fully installed by 1 st April 2009.It qualified for the initial allowance And wear and tear write-off under section 14 of the 1975 Income Tax Order	2,100,000
Delivery vehicle (purchased and brought into use on 1 November 2009)	185 000

5. The write-off periods and rates of wear and tear are according to section 14 of the 1975 Income Tax Order.

6. Renco (Pty) Ltd declared the following dividends:

An interim dividend of R50 000 on 30 June 2009 and a final dividend of R200 000 on 31 March 2010.

7. Renco (Pty) Ltd had a tax loss brought forward from year 2008/2009 of E300,000..

REQUIRED :

Calculate the Corporation tax payable by Renco (Pty) Ltd for its year of assessment ended 31 March 2010.

(30 marks)

QUESTION 2:

TAXATION OF A FARMER, BANTU GULWAKO

Bantu Gulwako is 50 year old. He purchased a wattle plantation in the Mankayane area of Swaziland during the 2008/2009 year of assessment. Chemicals extracts from the bark of the wattle tree are exportable valuables as leather tanning solutions. At best, because of the antiseptic properties of the wattle tree the trunks of the wattle could be used as non rot poles or roof rafters in the house construction industry. At the worst, they could be used uneconomically as fencing posts, or as firewood. During the 2009/2010 year of assessment Mr Bantu Gulwako purchased a sugar cane farm from the Simunye area of Swaziland.

His 2008/2009 tax assessment form contained the following details:

	E
Assessed loss carried forward	-14,000
Wattle forest development expenditure carried forward	40,000
Tax written down value of a lorry as at 30.6.2009 (original cost E240,000)	120,000

The sugar cane farm was purchased on 1.8.2009 for E2,882,400. The breakdown of this purchase amount was:

	E
Land	2,400,000
Growing cane	56,800
Farm buildings (mostly used farming activity such as storage etc)	292,800
Tractor (tax written down value E20,000)	35,200
Produce on hand	37,600
Total	2,822,400

The tractor is used solely for his sugar farming. The lorry is used for his plantation farming.

PURCHASES

Mr Gulwako purchased the following livestock during the 2009/2010 year of assessment so as to conduct the cash sale business of selling fresh milk, cream and eggs to neighbours and people residing in the nearby villages:

	E
One quality bull	36,000
Twenty (20) cows each E9,000	180,000
Ninety nine hens	500
	<u>216,500</u>

FARMING AND OTHER ACTIVITIES AC 405(S)2010/IDE(AC405)2010 PAGE 5 OF 6

1	During the year 2009/2010 Mr Gulwako and his family consumed:	
	One cow with a market value of E9,000 (cost value of E(6,000))	
	Four hens each with a market value of E40 (cost value of E25)	
	Milk,cream,eggs,and other produce with a market value of E2,970 (cost value of E1,980)	
2	Five (5) hens died during the year 2009/2010	
3	One (1) cow died during the year 2009/2010.	
4	One (1) cow was donated to a local church.The market value was E9,000 the cost value was E6,000	
5	Mr. Gulwako has a mortgage with Swaziland Building Society for his main residential house.The interest expense of the mortgage was E30,000.	
6	Mr Gulwako paid E7,000 as a life assurance premium with Royal Swaziland Insurance Corporation	

A SUMMARY OF MR GULWAKO'S RECEIPTS AND ACCRUALS AND EXPENDITURE FOR THE 2009/2010 YEAR OF ASSESSMENT IS AS FOLLOWS:

	Wattle	Sugar	Livestock	Others
	E	E	E	E
INCOME				
Sale of agricultural produce	350,300	227,200		
Sale of milk,cream and eggs			164,580	
NORMAL EXPENDITURE				
Maintenance costs incurred	65,600	21,600	1,200	
Exploitation and selling costs incurred	24,720	14,400		
Cost of establishing a plantation	50,400			
Deductible farming operating costs	41,680	66,400	22,940	
DEVELOPMENT EXPENDITURE				
Soil erosion prevention		36,000	4,000	
New fencing			8,000	
Cost of additional boreholes		13,600	13,600	
Costs of a dipping tank			9,800	
INCOME				
Livestock sales				
-two cows			18,000	
-five calves			16,000	
Income subsidy for soil erosion		18,000	2,000	
Grazing fees			6,000	
Land rentals				118,400
Swazi dividends				10,500
Interest from local banks				8,000
CLOSING STOCK				
Growing timber				200,000
Growing cane				24,000
Produce sugar				32,800
Livestock:1 bull,15 cows,5 calves,90 hens				

Mr Muntu Gulwako has adopted the standard values as fixed by regulation.

RATES OF NORMAL TAX FOR INDIVIDUAL PERSONS OTHER THAN COMPANIES OR TRUSTS (WITH EFFECT ON JULY 2008)

TAXABLE INCOME E	RATES OF INCOME E
0 to 60,000	0+20% of the excess over 0
60,001 to 80,000	12,000+25% of excess over 60,000
80,001 to 100,000	17,000+30% of the excess over 80,000
Over 100,000	23,000+33% of the excess over 100,000
2008/2009 the tax shall be reduced by a general tax rebate of E7,200. There should be an additional amount not exceeding E2,000 if the person is over the age of 60 years on the last day of the year of assessment. The total rebate for a person who is over 60 is E9,200	

REQUIRED:

Calculate the tax payable by Mr Muntu Gulwako for the year ended 30th June 2010

(40 marks)

QUESTION 3:

REQUIRED :

- A. In the Swaziland's Income Tax Order of 1975, what is the Conditional Tax Holiday ? (10 marks)
 - B. What is tax planning in accounting periods? (10 marks)
 - C. In the Southern African Customs Union (SACU):
 - i. What do trade liberalisation and free movement of domestic imply? (5 marks)
 - ii. Customs wise, how are the goods imported from outside the common customs area treated? (5 marks)
- Total for C (10 marks)
- Total for the question (30 marks)
- TOTAL FOR THE PAPER (100 marks)**