

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING AND FINANCE

MAIN EXAMINATION PAPER

MAY 2011

ACADEMIC YEAR 2010/2011

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 six (6) questions, <u>answer all</u>.
	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: CALCULATOR

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. Sydney Dlamini commenced employment on 01.07.2009 as a Tax Manager in a reputable Mbabane Audit firm. He was 65 years of age as at 30.06.2010. His income particulars for the year ended 30.06.2010 were as follows :

SALARIES AND BENEFITS

1. His basic salary was E42,000 per month from 01.07.2009 to 30.06.2010.
2. On 01.07.2009 his employer provided him a car which had a 2400cc and had a value of E360,000 before sales tax of 14%. She contributed E800 per month for its maintenance.
3. His employer provided him an annual car allowance of E48,000 and it was considered E2,200 per month was adequate.
4. On 01.09.2009 he was allocated a 4 bedroom house in a prime location of Pine Valley, Mbabane. The house had a lot size of 1,600 sq.m and a floor area of 250 sq.m. He contributed E 1, 200 per month towards its upkeep.
5. On 01.09.2009 his employer provided and paid for the following services : utilities at E1,500 per month, gardener at E 800 per month and a house maid at E1,300 per month.
6. The employer paid E30,000 as school fees (within an approved bursary scheme) for Sydney's children, and E10,000 as transport cost to school for Sydney's children.
7. On 01.08.2009 his employer extended a E100,000 loan at 10% interest rate, while the Central Bank discount rate was 20%.
8. The employer contributed 20% of Sydney's basic pay as pension with the Swaziland Royal Insurance Corporation.
9. Sydney received a Christmas bonus of E28,000 from his employer.
10. Sydney was voted the Best Performer in his department and because of the vote he received a voluntary award of E5,000.
11. Sydney used to get his firm paid lunches at Hua Li Restaurant in Mbabane and these lunches cost the firm E30,000.

OTHER INCOME PARTICULARS

- 12. He inherited his father’s bank account with First National Bank Swaziland (Mbabane main branch).The balance was E150,000.
- 13. He rented out a house in Mbabane for E40,000 and its annual maintenance was E12,000.
- 14. He sold a plot in Mbabane for E450,000 yet it had cost him E200,000 in the year 2001.
- 15. He earned the following investment incomes : E6,000 dividend income from a Swaziland unquoted company, E9,000 interest from permanent fixed period shares with Swaziland Building Society, E2,000 interest from Nedbank Swaziland and E4,000 interest from a savings account with Standard Bank Swaziland.

EXPENSES / PAYMENTS

- 1. He paid E6,000 premium to an unemployment insurance fund.
- 2. He paid E10,000 premium to an approved pension scheme.
- 3. She incurred medical expenditures amounting to E10,000 at Mbabane Clinic.
- 4. He paid interest expense of E32,000 for his mortgage with Swaziland Building Society.
- 5. He had paid E275,000 as PAYE tax paid in advance.

Required:

On submission of his personal return, compute the tax payable by / refundable to Mr. Sydney Dlamini for the tax year ended 30.06.2010. **(45 marks)**

QUESTION 2:

Briefly discuss what is meant by tax avoidance and tax evasion. Give **two** examples of each. **(5 marks)**

(Auditing Part)**QUESTION 3:**

ISA 500 Audit Evidence states that the auditor can choose from **eight** broad categories of evidence in deciding which audit procedures to use. Briefly discuss these **types of evidence** and give an example for each. **(12 marks)**

QUESTION 4:

In developing an overall audit plan, auditors use **five types of tests** to determine whether financial statements are fairly stated. Briefly discuss them. **(10 marks)**

QUESTION 5:

Identify three corporate governance oversight and other control environment factors that reduce fraud risks. **(18 marks)**

QUESTION 6:

International Standard on Auditing 560 Subsequent Events explains the audit work required in connection with subsequent events.

The fieldwork for the December 31, 2010, audit of Sinenhlanhla Gold Manufacturing Company was finished February 19, 2011, and the completed financial statements, accompanied by the signed audit reports, were mailed March 6, 2011. In each of the highly material independent events (a through e), state the appropriate action (1 through 4) for the situation and justify your response. The alternative actions are as follows:

1. Adjust the December 31, 2010, financial statements.
2. Disclose the information in a footnote in the December 31, 2010, financial statements.
3. Request the client to recall the December 31, 2010, statements for revision.
4. No action is required.

The events are as follows:

- a) On May 15, 2011, the auditor discovered that a debtor of Sinenhlanhla Gold Manufacturing Company went bankrupt on January 15, 2011, due to declining financial health. The sale had taken place July 15, 2010.

- b) On May 15, 2011, the auditor discovered that a debtor of Sinenhlanhla Gold Manufacturing Company went bankrupt on April 2, 2011. The sale had taken place October 15, 2010, but the amount appeared collectible at December 31, 2010, and February 19, 2011.
- c) On February 15, 2011, the auditor discovered that a debtor of Sinenhlanhla Gold Manufacturing Company went bankrupt on February 1, 2011. The most recent sale had taken place August 2, 2009, and no cash receipts had been received since that date.
- d) On January 20, 2011, Sinenhlanhla Gold Manufacturing Company settled a lawsuit out of court that had originated in 2007 and is currently listed as a contingent liability.
- e) On November 30, 2010, the auditor discovered an uninsured lawsuit against Sinenhlanhla Gold Manufacturing Company that had originated on August 28, 2010.

(10 marks)

END