

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER

JULY 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 (S) (Full Time)**
IDE AC 304 – 1 & 2 (S) (Part Time)
- TIME ALLOWED** : **Three (3) Hours**
- INSTRUCTIONS**
- 1** **There are six (6) 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: 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 2007/2008: 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:

Ms. Hlobisile Lukhele was employed as a Chief Financial Officer for a reputable Manzini company from 01.09.2007. She was 43 years old on 30.06.2008. Her income particulars for the financial year ended 30.06.2008 were as follows:

SALARY AND BENEFITS

1. From 01.09.2007 up to 30.06.2008 her monthly salary as a Chief Financial Officer was E50,000.
2. On 01.09.2007 the employer provided her with a 2800cc company car which was valued at E445,000 after 14% sales tax was added to the cost.
3. From 01.09.2007 the company gave Hlobisile a fuel allowance of E5,000 per month.
4. From 01.11.2007 she was provided by her employer a four bedroom house with a lot size of 1,600 sq.m and a floor area of 270 sq.m at Madonsa Township in Manzini. She contributed E1,200 per month for the maintenance of the house.
5. From 01.09.2007 the employer provided and paid for the following services: utilities at a cost of E1,500 per month, a house maid at a cost of E1,300 per month, gardener at a cost of E1,000 per month and a security guard at a cost of E2,000 per month.
6. The employer paid E35,000 as school fees (within an approved bursary scheme) for Hlobisile’s children, and E5,000 as transport cost to school for Hlobisile’s children.
7. The company gave Hlobisile an entertainment allowance of E30,000 for the year 2007/2008.
8. The employer’s contribution to a statutory pension scheme was 20% of Hlobisile’s monthly salary.
9. The vouchers accounting for entertainment allowance amounted to E27,000 only.
10. The vouchers accounting for fuel allowance amounted to E35,000 only.

OTHER INCOME PARTICULARS

- 11. She received E22,000 as a dividend from a South African quoted company. This investment was done through a Swazi broker based in Mbabane. The money was remitted through the Mbabane branch of First National Bank Swaziland.
- 12. She also received E25,000 as interest income from permanent period shares with Swaziland Building Society, E15,000 from a savings account with Swaziland Development and Savings Bank, E5,000 from a savings account with Nedbank Swaziland and E6,000 as interest income from a fixed deposit account with Standard Bank Swaziland.
- 13. She rented out a house in Mbabane for E46,000 and its annual maintenance was E22,000.

EXPENSES / PAYMENTS

- 1. She incurred medical expenditures amounting to E10,000.
- 2. She paid E5,000 premium to an approved provident fund.
- 3. Her contribution to a statutory pension scheme was 10% of her basic pay.
- 4. She had paid E250,000 as PAYE tax paid in advance.

Required:

On submission of her personal return, compute the tax payable by / refundable to Ms. Hlobisile Lukhele for the tax year ended 30.06.2008. **(40 marks)**

QUESTION 2:

From 2012, the Government of Swaziland intends to introduce Value Added Tax (VAT) in Swaziland in place of Sales Tax.

- (a) Distinguish between VAT and Sales Tax. **(5 marks)**
- (b) Discuss the **five** advantages of VAT over Sales Tax. **(5 marks)**

(Total marks : 10)

(Auditing Part)

QUESTION 3:

The following are 11 audit procedures taken from an audit program:

1. Foot the accounts payable trial balance and compare the total with the general ledger.
2. Examine vendors' invoices to verify the ending balance in accounts payable.
3. Compare the balance in payroll tax expense with previous years. The comparison takes the increase in payroll tax rates into account.
4. Examine the internal auditor's initials on monthly bank reconciliations as an indication of whether they have been reviewed.
5. Examine vendors' invoices and other documentation in support of the recorded transactions in the acquisition journal.
6. Multiply the commission rate by total sales and compare the result with commission expense.
7. Examine vendors' invoices and other supporting documents to determine whether large amounts in the repair and maintenance account should be capitalized.
8. Discuss the duties of the cash disbursements clerk with him and observe whether he has responsibility for handling cash or preparing the bank reconciliation.
9. Confirm accounts payable balances directly with vendors.
10. Account for a sequence of cheques in the cash disbursements journal to determine whether any have been omitted.
11. Inquire about the accounts payable supervisor's monthly review of a computer-generated exception report of receiving reports and purchase orders that have not been matched with vendor invoice.

Required:

- a) Indicate whether each procedure is a test of control, substantive tests of transactions, analytical procedure, or a test of details of balances. **(11 marks)**
- b) Identify the type of evidence for each procedure. **(11 marks)**

(Total marks : 22)

QUESTION 4:

Distinguish between auditing and accounting. Also discuss the expertise that distinguishes auditors from accountants. (8 marks)

QUESTION 5:

Discuss four types of audits performed by auditors. (10 marks)

QUESTION 6:

Control activities are the policies and procedures that help ensure that necessary actions are taken to address risks in the achievement of the entity's objectives. Briefly discuss five control activities. (10 marks)

END