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**UNIVERSITY OF SWAZILAND**  
**DEPARTMENT OF ACCOUNTING**  
**SUPPLEMENTARY EXAMINATION PAPER JULY,2011**

**DEGREE/DIPLOMA AND YEAR STUDY** : B COMM IV

**TITLE OF PAPER** :ADVANCED TAXATION

**COURSE CODE** :AC405(S)2011/ IDE AC405(S)2011

**TIME ALLOWED** :THREE (3) HOURS

- INSTRUCTIONS**
1. TOTAL NUMBER OF QUESTIONS ON THIS PAPER: THREE (3)
  2. ANSWER ALL QUESTION.
  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:** NONE

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

**QUESTION 1:**

SIMUNYE LTD a Wholesaler Company is a company based at Simunye township-Simunye.It Presented the following profit and loss statement to you.

SIMUNYE LTD  
PROFIT AND LOSS FOR THE YEAR ENDED 30.6.2010

	NOTE	E	E
Sales			4,000,000
Opening stock		400,000	
Purchases		<u>2,100,000</u>	
		2,500,000	
Less closing stock		<u>-500,000</u>	
Cost of sales			<u>-2,000,000</u>
Gross profit			<u>2,000,000</u>
<b>OTHER INCOME</b>			
Dividends from Swazi companies		20,000	
Dividends from South African companies		60,000	
Interest from deposits with Standard Bank		70,000	
Insurance proceeds	1	<u>100,000</u>	
			<u>250,000</u>
			2,250,000
<b>EXPENSES</b>			
Accounting fees		50,000	
Audit fees		120,000	
Advertising		15,000	
Bank charges		16,000	
Directors' remuneration		135,000	
Depreciation of assets	2	270,000	
Donation	3	120,000	
Housing cost	4	90,000	
Legal expenses	5	5,000	
Salaries and wages		340,000	
Motor vehicle expenses		77,000	
Research carried by Faculty of Agriculture ,Uniswa	6	130,000	
EXPENSES C/F		1,368,000	

	NOTE	E	E
INCOME B/F			2,250,000
EXPENSES B/F		1,368,000	
Repair and maintenance		40,000	
New patents	7	80,000	
Subscription fees	8	30,000	
Staff year end party		20,000	
Dividends paid to shareholders on company register		100,000	
Transfer to reserves		<u>110,000</u>	
			<u>1,748,000</u>
NET PROFIT FOR THE YEAR			<u>502,000</u>
NOTES		E	
1. Insurance receipt for fidelity guarantee insurance		100,000	
The Royal Swaziland Insurance Corporation refunded the company for the stolen money by the former company's cashier. She stole E100,000. The company was refunded E100,000			

## Note 2. DEPRECIATION OF ASSETS

Depreciation rate	0	4%	20%	20%	Total
Type of asset	Free hold land	Buildings	Motor vehicles	Plant & machinery	
Cost at 1.7.2009	900,000	600,000	330,000	900,000	2,730,000
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
Total cost at 30.6.2010	<u>900,000</u>	<u>600,000</u>	<u>330,000</u>	<u>900,000</u>	<u>2,730,000</u>
Accumulated depreciation 1.7.2009	0	72,000	132,000	180,000	384,000
Depreciation charge on the cost price	0	24,000	66,000	180,000	270,000
Disposal	0	0	0	0	0
Accumulated depreciation at 30.6.2010	0	<u>96,000</u>	<u>198,000</u>	<u>360,000</u>	<u>654,000</u>
Net book value at 30.6.2009	<u>900,000</u>	<u>528,000</u>	<u>198,000</u>	<u>720,000</u>	<u>2,346,000</u>
Net book value at 30.6.2010	<u>900,000</u>	<u>504,000</u>	<u>132,000</u>	<u>540,000</u>	<u>2,076,000</u>
Tax wear and tear allowance rates	0	4%	25%	10%	Total
Tax written down value at 1.7.2009	900,000	228,000	185,625	405,000	1,718,625
Wear and tear 2010?					

3. Donation of E120,000 was in respect of:
  - i. E70,000 for Aids awareness staged by the NERCHA of Swaziland and supported by the Ministry of Health.
  - ii. E50,000 for an aid of a private High School/
4. The housing cost of E90,000 was for establishing of one (1) dwelling flat of the employee of the company.
5. Legal costs of E5,000 for a company's outstanding debt collection.
6. The research cost of E130,000 was for a product that the company introduced.
7. The new patents of E80,000 have a life span of 10 years.
8. It is for the company's 5 accountants' ACCA professional membership fees, and hire of a professional lecturers.

**REQUIRED :**

Compute the company tax payable for the year ended 30.6.2010. You can use either the short add deduct method or the long restatement method **(30 marks)**

**QUESTION 2:**

Nyanza Sugar Company Limited farms sugar cane,bananas,livestock and general produce in Malkerns -Swaziland.During the tax year ended 30 June,2011 the following were the receipts,accruals and expenditures of the company.

	E	E
<b>RECEIPTS AND ACCRUALS</b>		
Sugar cane sales		2,000,000
Produce sales		1,900,000
Livestock sales		1,500,000
Banana sales:Local		600,000
Exports		3,000,000
Game animal sales		300,000
Grazing fees received		100,000
<b>EXPENSES INCURRED</b>		
Interest on farm loan paid	150,000	
Sundry deductible farming expenses	600,000	
Livestock purchased	800,000	
Prevention of soil erosion	18,000	
Sinking of a borehole	30,000	
Fencing erected	154,000	
New tractor purchased on 1.1.2011 to work on two (2) shifts	188,000	
Rations purchased:		
For farm labourers	420,000	
For share holders consumption	24,000	
Erection of farm manager,s cottage	130,000	
Commission paid to foreign agent for sale of bananas	150,000	
Salaries and wages for farm employees	700,000	
Company,s contribution to employees' N.P.F.	64,000	
Staff medical expenses	58,000	
Maintenance of grazing pastures.	60,000	

The following additional details are relevant to the tax year:

1. Products cultivated on the farm and given to farm labourers were valued at E100,000.
2. The company had moved livestock with a market value of E400,000 to a farm in Mpumalanga (South Africa) for grazing only, and not for disposal. Its standard value was E270,000.
3. Livestock on hand in Swaziland at standard values was as follows:

	1.7.2010	30.6.2011
	E	E
	200,000	140,000

4. Sugar cane with a market value of E210,000 was destroyed while being transported to the mill. The company has filed a claim against the transporter's cargo insurance. The insurance company had admitted liability and will be sending a cheque soon.
5. A balance of expenditure on development and improvement of E200,000 was brought forward from last year.
6. The Commissioner of Taxes has agreed on a wear and tear allowance of 25% per annum on the cost of all tractors.
7. The company has a farming loss brought forward of E300,000.

**REQUIRED:**

Calculate the company's tax liability for the year ended 30<sup>th</sup> June, 2011. (30 marks)

**QUESTION 3 :**

John (40 years old) and Jonas (42 years old), carry on a business partnership of Import and Export. Both are married taxpayers and they share profits in the ratio of John 60% and Jonas 40%. Their book keeper has prepared the following profit and loss statement in respect of the current tax year ended on the 30<sup>th</sup> June 2011

**PROFIT AND LOSS STATEMENT FOR THE YEAR ENDED 30.6.2011**

	NOTE	E	E
INCOME			
Gross profit			3,184,500
Bad debt recovered	1		7,000
Dividend received	2		7,500
Interest received:			
Swaziland building society's permanent shares			6,250
Standard bank savings account			5,000
First National Bank fixed deposit			<u>4,500</u>
			3,214,750
LESS EXPENDITURE			
Annuities paid relating to dependants of deceased employees	3	76,000	
Bad debt expense	4	9,000	
Bookkeeping fees		36,000	
Delivery vehicle purchased	5	72,000	
Donation made to University of Swaziland	6	30,000	
Depreciation: shop fitting at 10%		9,000	
Cash register at 10%		4,500	
Goodwill on acquisition of a business paid for	7	100,000	
Insurance paid	8	21,000	
Licences for trading and motor vehicle		1,800	
Motor running expenses		151,000	
Rent paid		72,000	
Retirement annuity fund contributions all allowable		54,000	
Staff salaries and wages		<u>144,000</u>	
EXPENSES C/D		780,300	
		E	E

INCOME			3,214,750
EXPENSES B/F		780,300	
Shares purchased in Swazi Spar as an investment		120,000	
Stationary and printing		4,900	
Sundry expenses (all allowable)		33,300	
Taxation paid (provisional payments)		<u>135,000</u>	
TOTAL EXPENSES			<u>-1,073,500</u>
NET PROFIT			<u>2,141,250</u>
NET PROFIT JOHN	60%		1,284,750
NET PROFIT JONAS	40%		856,500

## NOTES:

1. The bad debts of E7,000 were recovered from a former debtor of John when he had been trading on his own, years previously.



- 2. During the current tax year the partners decided to invest their surplus cash funds and they acquired 5,000 shares in Swazi Spa Holdings at a price of E34 per a share. The dividend earned was from this investment.
- 3. The following annuities were paid during the year to dependants of deceased former employees. The payments were not in accordance with any predetermined policy of the partnership but were made by the partners in an attempt to help the dependants of former employees.

BENEFICIALLY OF THE ANNUITY	E
1. Mrs Phakati and her 2 children	29,000
2. Mrs Phezulu and her daughter	41,000
3. Mrs Tanda Phuza, a widow of former delivery messenger	6,000
	76,000

- 4.
  - a. Of the bad debts E6,000 relates to the debts that the partners took over when they purchased the business from Swazi traders.
  - b. The balance (E3,000) of bad debts relates to the present customers who have failed to pay their accounts.
- 5. The commissioner of taxes will grant the wear and tear allowances on a reducing balance method at the rate of 10% on both the shop fittings and the cash register. He also will grant the wear and tear allowance on the motor vehicle at a rate of 20% per annum on the reducing balance method. The depreciation claimed in the profit and loss statement has been calculated on a straight line method in respect of both the shop fittings and the cash register. They were acquired on 1.7.2009. The vehicle was acquired on 1.7.2010, no depreciation has been provided for in the profit and loss statement for the delivery vehicle.
- 6. During the current tax year the partners made a donation to the University of Swaziland for Scientific research related to the partners business.
- 7. Goodwill paid of E100,000 is in respect of the final instalment due to Swazi Trading Company of the purchase consideration paid to take over the business.
- 8. Insurance premium paid during the year were in respect of the following policies:

TYPE OF POLICY	E
Loss of profit policy	4,500
Fire policy	16,500
	21,000

9. Other related partnership information

	John E	Jonas E	E
			Total
Retirement fund contributions	30,000	24,000	54,000
Salaries payable	180,000	120,000	300,000
Interest on capital	24,000	18,000	42,000
Drawings	150,000	100,000	250,000
Provisional tax payments	<u>80,000</u>	<u>55,000</u>	<u>135,000</u>
	<u>464,000</u>	<u>317,000</u>	<u>781,000</u>

10. John divorced his wife on 31.8. 2009. He pays the following (out of court privately arranged) amounts.
- a. E2,000 monthly maintenance amounts to his divorced wife.
  - b. E1,500 monthly maintenance to his 19 year old, student son who has a part time job as a cashier in a super market and earns E30,000 per annum.
  - c. E3,000 per month for his 19 year daughter who is a secretary in a legal firm and earns E6,500 per month.
11. Jonas is a widower with no children.
12. The partners incurred medical expenses during the year. John E5,000, Jonas E3,000.

**TAX TABLES: RATES OF NORMAL TAX FOR INDIVIDUALS**

TAXABLE INCOME	RATES OF INCOME
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

**REQUIRED :**  
Calculate the taxable income by each partner for the current tax year ended on 30.6.2011.

**(40 marks)**

**(100**

**TOTAL FOR THE PAPER**

marks)jk