

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER DECEMBER, 2012

DEGREE/DIPLOMA AND YEAR STUDY: B.COM IV/IDE B.COM LEVEL VI

TITLE OF PAPER : ADVANCED TAXATION

COURSE CODE : AC419(M)2013/IDE AC419(M)2013

TIME ALLOWED : THREE (3) HOURS

**INSTRUCTIONS : 1. TOTAL NUMBER OF QUESTIONS ON THIS PAPER:
FIVE (3)**

2. ANSWER ALL

**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 LIVESTOCK

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

QUESTION 1:

National Service Company had the following adjusted trial balance as at 31.12.2012:

Account title	Trial Balance			Comprehensive Income items
			Note	
	Dr	Cr		
	E	E		
Cash	3,410,000			
Account receivable items	2,020,000			
Supplies	20,000		1	
Furniture and fixtures	1,000,000		2	
Accumulated depreciation Furniture and fixtures		100,000		
Industrial buildings	2,500,000		3	
Accumulated depreciation Industrial buildings		100,000		
Industrial machinery	2,000,000		4	
Accumulated depreciation Industrial machinery		400,000		
Other income		2,500,000	5	
Accounts payable		3,800,000		
Salary payable		50,000		
Unearned product sales		130,000	6	
Capital		2,930,000		
Dividend paid out	650,000		7	
Earned product sales		7,100,000	8	
Cost of sales	1,800,000			
Salary expense	1,770,000		9	
Supplies expense	40,000			
Depreciation expense- Furniture and fixtures	100,000		10	
Depreciation expense- Industrial Buildings	100,000		10	
Depreciation expense- Industrial machinery	400,000		10	
Miscellaneous expenses	1,300,000		11	
Net profit (income)	<u>0</u>	<u>0</u>		4,090,000
	<u>15,110,000</u>	<u>15,110,000</u>		

Note No	Explanation	Amount		
		E		
1	The supplies as at the end of the year are:	10,000		
2	Out of the total cost of furniture of E1,000,000, E140,000 relate to 35 computer laptops. The furniture and laptops were bought on 1.1.2012	1,000,000		
3	The industrial building became first occupied on 1.7.2012	2,500,000		
4	The industrial machinery is working on a two (2) shifts basis. It started operating on 1.7.2012	2,000,000		
5	Other income	E		
	Consultancy fees	2,000,000		
	Dividend income	200,000		
	Interest revenue	100,000		
	Capital gain income	200,000		
		2,500,000		
6	Of the E130,000 unearned product sales E100,000 was earned as at 31.12.2012			
7	E650,000 was paid out in the first year of operations			
8	For tax planning E1,000,000 earned in the year ended 31.12.2012 was recorded as income earned in January 2013			
9	The salary of E1,770,000 includes E120,000 paid to the brother of the Managing Director who runs personal errands related to the Managing Director. These errands do not relate to National Service Company.			
10	The depreciation expense is computed as follows:			
	Furniture	Industrial Bld	Industrial Machinery	Total
Rate of depreciation	10% straight line	4% straight line	20% straight line	E
	E	E	E	
Cost	1,000,000	2,500,000	2,000,000	5,500,000
Depreciation expense for the year 2012	100,000	100,000	400,000	600,000
Net book value	900,000	2,400,000	1,600,000	4,900,000
10.	The miscellaneous expenses are as follows			
		E	E	
Audit fees		300,000		
Penalties for various infringements		100,000		
Donation to boys scout		50,000		
Donation to a fund raising function		20,000		
Allowable administrative expenses		830,000		
				1,300,000

REQUIRED :

Compute the company tax payable by the National Service Company for the year ended 31.12.2012.

(40 marks)

QUESTION 2:

SITEKI PTY LTD had the following farming and non farming activities for the year ended 31.12.12.

A. OPENING STOCK

100	Bulls valued at the standard price value of a bull.
500	Cows valued at the standard price value of a cow
200	Tollies and heifers (2 year old and over) valued at the standard price values of a 2 year old heifer.
300	Tollies and heifer (1 year old) valued at the standard price value of a heifer 1 year old.
200	Calves at the standard price value of a calf.
400	Fully grown goats at the standard value of a goat.
100	Kids of goats at the standard price value of a goat.
	B. DONATION TO THE COMPANY BY INTERNATIONAL HEIFER CORPORATION
50	Bulls.The cost price is E6,000 per a bull..The market price is E8,000 per a bull
100	Cows.The cost price is E4,000 per a cow.The market price is E6,000 per a cow.
50	Tollies and heifer (2 year old).The cost price is E3,000 and the sales price is E4,000.
	C. PURCHASE OF ANIMALS
100	Bulls @E6,000
200	Cows @ E4,000
100	Kids of goat @ E200
	D. FARM BIRTHS
800	Calves were born.
200	Kids of goats were born.
	E. MATURED
200	Calves (under 1 year old) grew into 1 year tollies and heifers.
200	Tollies and heifers (1 year old) grew into tollies and heifers 2 year old.
250	Tollies and heifers (2 year old) grew into cows.
200	Kids of goats matured into fully grown goats.
	F. FARM CROPS PRODUCED
600	Tons of maize were produced.400 tons were sold @ E2,000.
	100 tons of maize was used as animal feed.
	100 tons was used as rations to employees.
	The cost per ton of maize was E2,000.
1,000	Tons of soya beans was produced and sold at E7,000 per ton.The cost of production was E3,000 per a ton.
1,000	Tons of Serena (of short stalk but of high tonnage per an acre) millet was produced and used as animal feed.The cost per ton was E1,000.

		E
G. SALE OF FOREST PRODUCTS		
	Teak timber	15,000,000
	Gum tree logs	5,000,000
	Swazi honey produced in the forests	<u>1,500,000</u>
		<u>21,500,000</u>
H. SALE OF LIVESTOCK		
100	Bulls sold each at E8,000	800,000
200	Cows sold each at E6,000	1,200,000
300	Fully grown goats each E600 (market E600, cost E400)	<u>180,000</u>
		<u>2,180,000</u>
I. SALE OF PRODUCE (CROPS)		
400	Tons of maize was sold @ ton at E2,000	800,000
1,000	Tons of soya beans was sold @ at E7,000 per a ton	<u>7,000,000</u>
		<u>7,800,000</u>
J. OTHER LIVESTOCK DISPOSALS		
	The owner company slaughtered and consumed 5 bulls	
	The owner company slaughtered and consumed 10 goats	
	The owner company slaughtered and extended as rations to employees 5 bulls.	
	The owner company slaughtered and extended as rations to employees 5 goats.	
K. PURCHASE OF CAPITAL EXPENDITURES		E
	10 tractors were purchased each E250,000	2,500,000
L. DEVELOPMENT EXPENDITURE B/F		
	Forest development expenditure b/f	5,000,000
	Agricultural development expenditure b/f	<u>2,000,000</u>
		<u>7,000,000</u>
M. DEVELOPMENT EXPENDITURE IN THE YEAR 2012		
1	Eradication of noxious plants	200,000
2	The prevention of soil erosion	300,000
3	Dipping tanks	500,000
4	Dams, irrigation channels, and pumping pipes	2,200,000
5	Fences	200,000
6	House of an administrative supervisor	<u>100,000</u>
		<u>3,500,000</u>
N. OTHER INCOMES OF THE COMPANY		
	Dividend received	2,500,000
	Interest income	600,000
	Rent income E2,500,000 less maintenance expense E200,000	<u>2,300,000</u>
		<u>5,400,000</u>

EXPENSES OF THE FARM

	E	E
Administrative and management expenses	5,000,000	
Finance expenses	1,000,000	
Marketing expenses	500,000	
Bush clearing	320,000	
Purchase of seeds	240,000	
Purchase of fertilizer	400,000	
Purchase of livestock (refer to C)		
100 bulls @ E6,000	600,000	
200 cows @ E4,000	800,000	
100 kids of goats @ E200	20,000	
Spray	200,000	
Fuel for tractors and vehicles	300,000	
Grain bags	250,000	
Local and foreign transport	200,000	
Staff rations other than those mentioned in the rations	100,000	
Veterinary and chemical costs	300,000	
General entertainment	300,000	
Wages of employees	3,000,000	
Staff welfare	1,000,000	
Maintenance and repair	1,500,000	
EXPENSES OF THE FARM		<u>16,030,000</u>

REQUIRED :

A. Compute the opening and closing stock in both the physical and monetary values.

(10 marks)

B. Compute the taxable profits for the company for the year ended 31.12.12

(30 marks)

Total for the question

(40 marks)

QUESTION 3:

A.COST OF CAPITAL AS IT RELATES TO TAX MINIMIZATION

Company X wanted to raise E15,000,000 capital to finance its expansion program. The Financial implications were as follows:

	LOAN CAPITAL		SHARE CAPITAL
1	Raised a loan of E15,000,000	2	Raised share capital of E15,000,000
2	The interest rate was 15%	2	The dividend rate was 15% on share Capital.
3	The cost of raising the loan was E300,000 paid to brokers and banks. It was amortized over 5 years. And debited to statement of Comprehensive income.	3	The cost of issuing out share capital was E300,000. It was paid out to brokers and banks. It was immediately debited to share premium account.
4	The profits of the company before interest expense and cost of loan capital was E5,000,000 in the first year after the loan was raised.	4	The profits of the company before dividend was distributed was E5,000,000 in the first year after the new shares were issued.
	REQUIRED: Calculate the Corporation tax payable for company X in the first year of operations.		REQUIRED: Calculate the Corporation tax payable for company X in the first year of operations.

(10 marks)

3.B TAX RETURNS

1. What is the duty of persons submitting accounts in support of returns or preparing accounts for others?.

(5 marks)

2. Why is there a necessity for the financial statements to be audited by a registered auditor?

(5 marks)

Total for the question

(20 marks)

TOTAL FOR THE PAPER

(100 marks)

The standard values fixed by regulation are as follows:

EXHIBIT 3.2: THE STANDARD VALUES OF LIVESTOCK

Description of livestock		Standard value Emalangeni
Cattle	Bulls (uncastrated male cow)	720
	Oxen (castrated male cow used for draught)	440
	Cows (fully grown female of a bovine-animal)	440
	Tollies and Heifers 2years (heifer a young cow especially one that has not had more than one calf)	280
	Tollies and Heifers 1 year	200
	Calves under 1 year	120
Sheep	Wether (castrated ram-old English)	60
	Rams (uncastrated male sheep)	100
	Ewes (female sheep-old English)	40
	Lambs (young sheep)	10
Goats	Fully grown	40
	Kids under 1 year	10
Horses	Stallion 4 years and over (uncastrated adult male horse)	600
	Mares 4 years and over (female horse)	400
	Gelding 3 years and over (castrated horse)	300
	Colts and fillies 3 years (colt-young male horse, filly young female horse)	300
	Colts and fillies 2 years	200
	Colts and fillies 1 year	150
	Foals under 1 year (young male horse)	60
Donkeys	Jacks over 3 years (Jack ass-male donkey)	15

	Jacks under 3 years	10
	Jennies over 3 years (jennies-female donkeys)	15
	Jennies under 3 years	10
	Foals under 1 year (foal-young of a horse or related animal)	5

Standard values continued

Description of livestock		Standard value Emalangi
Mules	Over 4 years (mule-generally offspring of a female donkey and male horse, but could be offspring of male donkey and female horse)	300
	3 years to 4 years	200
	2 years to 3 years	150
	Under 2 years	60
Pigs	Over 12 months	250
	Under 12 months	50
Poultry	Over 9 months	5