UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER JULY, 2013

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

TITLE OF PAPER	:ADVANCED TAXATION
COURSE CODE	:AC419(S)2013/IDE AC419(S)2013
TIME ALLOWED	:THREE (3) HOURS

INSTRUCTIONS:1. TOTAL NUMBER OF QUESTIONS ON THIS PAPER: THREE (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:TAXATION OF A FARMER

MALKERNS FARMING COMPANY LTD HAD THE FOLLOWING FARMING PARTICULARS FOR THE YEAR ENDED 30.6.2013

A. OPENING STOCK,IN PHYSICAL UNITS

	E
Bulls	200
Oxen	100
Cows	500
Tollies and heifers 2 years and over	150
Tollies and heifers 1 year old	120
Calves	150
Rams	220
Ewes	1,000
Lamb	300
Goats fully grown	400
Kids of goats under 1 year old	200
Horses:Stallion 4 years old and over	20
:Mares 4 years old and over	100
Pigs :Over 12 months (they were for reproductive purposes)	300
:Under 12 months (these if they reached 6 months would be ready for meat slaughter)	1,000
Poultry :Ostriches over 9 months	50
: Young ostriches under 9 months	100
:Layers (for egg production,they would be ready after 6 months,and would be uneconomical layers after 18 months)	2,000
:Broilers (for meat slaugher,they would be ready after 6 weeks)	5,000

NOTE:OTHER STANDARD VALUATIONS

The Commissioner agreed with the company for the following standard valuations:

	E
Ostriches over 9 months	5
Ostriches under 9 months	4
Chicken layers	5
Chicken broilers	4

B PURCHASES : **AC 419(S)2013 PAGE 3 OF 12**

Purchase	Quantities	Unit Price	Value
		E	E
Bulls	300	6,000	1,800,000
Oxen	50	4,000	200,000
Cows	600	5,000	3,000,000
Tollies and heifers 2 year old and over	250	4,000	1,000,000
Chicks of layer chicken	8,000	20	160,000
Chicks of broiler chicken	60,000	8	480,000
			6,640,000

C. DONATION TO THE FARM BY WORLD VISION INTERNATIONAL

	QUANTITIES
Bulls	20
Cows	100
Tollies and heifers 2 year old	50

D. DONATED OUT OF THE FARM

2 bulls were donated out for a social function at a local club.

E. SLAUGHTERED AS RATIONS

3 bulls were slaughtered as rations to employees.

F. SOME PRODUCTION STATISTICS

LIVESTOCK STATISTICS

1	100 tollies and heifers 2 year and over became cows
2	90 of tollies and heifers 1 year old became 2 year tollies and heifers
3	The opening stock of calves of 150 was:100 male calves which were castrated into oxens.
	:The remaining 50 calves grew into 1 year tollies and heifers.
4	Two hundred and fifty (250) calves were born.
5	Two hundred (200) lambs b/f became ewes,one hundred (100) lambs b/f became rams.
6	One thousand (1,000) lambs were born
7	Two hundred (200) kids of goats became fully grown goats.
8	Seven hundred (700) kids of goats were born.
9	Fifty (50) horse foals were born.
10	Six thousand (6,000) piglets were born.About 1,000 died,and 5000 survived.
11	1,000 pigs b/f under 12 months grew into over 12 months pigs.

POULTRY STATISTICS

1	400 chicks were hatched,100 died,300 survived to be young ostriches under 9 months.
2	The young (100) ostriches b/f became over 9 months old.

CHICKEN

LAYERS	1	Out of 2,000 layers b/f from opening balances and 8,000 purchased
		7,000 began producing eggs.Each laying layer produced 200 p.a.
	2	Roughly 1,400,000 (7,000*200) were produced.
	3	The cost price of an egg is E 0.5 and the market price is E1 per an egg.
	4	At the end of the year 500 layer chicken died.
BROILERS	1	The b/f number is 5,000 and the purchased is 60,000= 65,000
	2	10% of these ie 6,500 died,65,000-6,500=58,500
	3	53,000 broilers were sold at the price of E35 each=E1,855,000
	4	The cost price of a broiler is E20.
	5	500 chicken were consumed as rations by employees.
	6	5,000 remained as a growing stock.

PRODUCE

MAIZE	1	450 tons of maize were produced (at a cost of E1,500 per a ton)
	2	The market price was E3,000 per a ton.
	3	50 tons were used as animal feed,and 50 tons were used as rations
		to employees.
	4	300 tons were sold at a price of E3,000 per a ton.
MILLET	1	700 tons were produced,600 tons were used as animal feed.
	2	The cost was E1,000 per a ton.The market was E2,500 per a ton.
SOYA BEAN	1	630 tons of soya beans were produced at a cost of E3,000 per a ton.
	2	The market price was E7,000 per a ton
	3.	500 tons were sold at 500*E7,000=E3,500,000.

G NON FARMING INCOME

		E
1	Dividends from South African companies	300,000
2	Dividends from Swaziland sources	150,000
3	Interest income from bank deposits within Swaziland	250,000

H. FARMING INCOME OF THE COMPANY

	E	E
LIVESTOCK INCOME		
Sale of bulls 450 bulls@E7,500	3,375,000	
Sale of oxen 100 oxen@ E5,000	500,000	
Sale of 300 goats @E600	180,000	
Sale of 1,200 pigs @ E700	840,000	

AC 419(S)2013 PAGE 5 OF 12		4,895,000
POULTRY SALES		
Sale of 53,000 broiler chicken @ E35	1,855,000	
1,400,000 eggs sold @ E1	1,400,000	
		3,255,000
PRODUCE SALES		
Sale of 300 tons of maize @ E3,000	900,000	
Sale of 500 tons of soya beans @ E7,000	3,500,000	
		4,400,000
GENERAL AGRICULTURAL INCOME		12,550,000
FOREST PRODUCT INCOME		
Sale of Sappele hardwood timber	2,000,000	
Sale of Mahogany hardwood timber	4,000,000	
Sale of Oak hardwood timber	1,500,000	
Sale of Teak hardwood timber	3,000,000	
Sale of Gum tree (Eucalyptus) hardwood timber	2,500,000	
		13,000,000

1. PROFIT AND LOSS EXPENDITURE

	E	E
Salaries and direct benefits to employees		7,000,000
Rations for employees purchased in shops		600,000
Hay and other food stuff for livestock		500,000
Chicken feed		700,000
Pig feed		300,000
Veterinary costs		100,000
Grain bags		50,000
Maintenance:		
Farm factory buildings	50,000	
Tractors	10,000	
Implements attached to tractors	20,000	
Lorrries	50,000	
Maize,millet,and soya bean seeds		130,000
:		900,000
Depreciation expense		
Farm factory buildings	100,000	
Tractors	200,000	
Implements attached to tractors	40,000	
Lorries	100,000	
		440,000
Crop and animal spray costs		300,000
Farming loss brought forward		350,000
		11,370,000

WP 1:CALCULATION OF DEPRECIATION EXPENSE

THE ASSETS WERE ACQUIRED ON 1.7.2011,STRAIGHT LINE DEPRECIATION IS APPLIED

Type of asset	Cost	Straight line rate	Depreciation expense
	E		E
Farm factory building	2,000,000	5%	100,000
Tractors	1,000,000	20%	200,000
Implements attached to tractors	200,000	20%	40,000
Lorries	500,000	20%	100,000

J.DEVELOPMENT EXPENDITURE

	E	E
PLANTATION DEVELOPMENT EXPENDITURE		
Plantation development expenditure b/f	2,500,000	
Plantation development expenditure for this year	1,500,000	
		4,000,000
NON PLANTATION DEVELOPMENT EXPENDITURE		
Non plantation development expenditure b/f	250,000	
Cottages for 20 employees	2,000,000	
House for the manager	1,000,000	
Dams and boreholes	500,000	
New fencing	100,000	
Road making	300,000	
Electrical transformer and connection costs	200,000	
		4,350,000

REQUIRED :

A. Calculate the monetary value of livestock and poultry at the beginning of the year. And calculate the ending stock in physical quantities and monetary value. **(10 marks)**

B. Calculate the taxable income of the company for the year ended 30th June 2013. **(30 marks)**

TOTAL FOR THE QUESTION **(40 marks)**

REQUIRED :TAX PLANNING COMPUTATIONS

A. **Mr and Mrs Dlamini are a married couple who work for two (2) separate employers. Mr.Dlamini would be 59 years old as at 30th June 2013.Mrs. Mamba would be 57 years as at 30th June 2013.The income and expenses of these two employees before income splitting was as follows for the year ended 30th June 2013.**

TYPE OF INCOME/EXPENSE OR BENEFIT OF MR.DLAMINI	E
Basic salary	180,000
4 bedroom house at Lusoti, provided by Simunye Sugar Corporation .It had a lot of 1,650 sq meters and a built up surface area of 270 sq meters	
E35,000 school fees paid by employer for Mr Dlamini's children	35,000
School travelling expenses of Mr. Dlamini's children	10,000
Rent income from a guest house owned by Mr Dlamini	150,000
Expenses of a guest house E60,000	60,000
Investment income of Mr Dlamini	75,000
Net milk and animal sales from farming income.	70,000
Lunch allowance provided by the employer instead of lunches in the canteen of the employer	18,000
TYPE OF INCOME/EXPENSE OR BENEFIT OF MRS DLAMINI	E
Basic salary	60,000
House allowance instead of an employer's house	16,000
Value of lunches provided by the employer at the canteen owned by the employer	10,000

THE INDIVIDUAL TAX TABLE

	Rate of tax
E	E
0 to 60,000	0+20% of excess over 0
60001 to 80,000	12,000 +25% in excess over E60,000
80001 to 100,000	17,000 +30% of excess over 80,000
Over 100,000	23,000+33% in excess over 100,000

REQUIRED :Calculate before the split the total tax payable by the family for the year ended 30th June 2013.

10 marks)

REQUIRED :

Suppose Mr Dlamini had decided to split (and transfer to his wife) the farming income and guest house income, what would the tax payable by the Dlamini family be.

(10 marks).

SOME NOTES ON TAXATION OF HOUSE BENEFIT

Provided where the employer owns the accommodation or housing,the value of the benefit is the rental benefit value of the accomodation or housing determined in accordance with the table in **Schedule A**,below.The valuations depend on the size and location of the house:

SCHEDULE A (EXPLANATIONS)

In this schedule,the locations are designed in categories A,B,C,and detailed as follows:

Area A: is accomodation or housing situated in the residential areas of Mbabane Municipal area,Waterford,PineValley,CoatesValley,Extension6,Madonsa Township,Thomasdale and within ten kilometers from the old Mbabane/Manzini road.

Area B: is accomodation or housing situated in the residential areas of Manzini and sorrounds;except Coates Valley,Extension 6,Madonsa Township and Thomasdale.

Area C: is accomodation or housing situated in the major agricultural and industrial sectors and other towns

1.2 **Where an employer rents from 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.The situation would arise where the nature of the employer's trade is such that he would normally provide his employees with official housing.Although the transaction takes the form of a rental,the rent paid by the employer to the employee is in effect nothing more than a housing allowance.In this instance,the benefit to the employee is the rental he received.This rental received is taxable.

1.3 **Where an employer provides accomodation or housing to employees on a sharing basis,the rental benefit value shall be determined pro rata.**

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	69 sq.m and above	910	773	542
1 bedroom	Under 69 sq.m	761	648	452
Bedsitters	Under 69 sq.m	531	452	317
Quarters	Under 69 sq.m	213	180	110

QUESTION 3 : AC405(S)2012/IDE AC405(S)2012 Page 10 of 12

Matsapha Manufacturing Pty Ltd,carries on manufacturing business.The following is its detailed Profit and Loss Statement for the year ended 31st December 2012.

MAHLA MANUFACTURING PTY LTD

PROFIT AND LOSS STATEMENT FOR THE YEAR ENDED 31.12.2012

	NOTES	E	E
GROSS PROFIT			9,264,405
OTHER INCOME			
Bad debts recovered	1	50,550	
Dividend income	2	175,000	
Interest income	3	105,000	330,550
TOTAL INCOME			9,594,955
EXPENSES			
Employment costs	5	6,293,020	
Depreciation expense			
Industrial buildings and industrial machines	5	140,750	
Office equipment	6	187,500	
Administrative expenses	7	325,800	
Bad debts written off	8	160,000	
			7,107,070
NET PROFIT			2,487,885

1. **Bad debt recovered**

The recovered bad debts relate to debts written off in the year 2007.

2. **Dividend income**

Dividends relate to dividends declared by Siteki Pty Ltd,a company in which Mahla owns 80% of the shares.

3. **Interest revenue**

Interest is the amount Mahla received on cash invested in a savings account with Swazi Bank.

4. **Employment costs**

a. Employment costs include a salary of E280,000 paid to the husband of the Director General.The husband acts as a Director of Finance.He is paid E280,000 per annum.The amount that would normally be paid to someone of similar skills and with similar responsibilities at Mahla-Matsapha Township would be E150,000 per annum.

b. The employment costs also include the salary of 2 house maids working at the Managing Director's residence.The value for the two maids is E24,000.

5. **Depreciation-Industrial building and industrial machines**

Mahla entered into the following transactions during the year.

a. It erected an industrial building on an adjacent piece of land that was leased for 30 years commencing on 1.1.2007.The agreement provided that a building to the value of E3,250,000 was to be erected.The building was completed at a final cost of E3,750,000 on 31.12.2007 and brought into use on 1.1.2008.

b. It acquired a new industrial machinery on 1.7.2008.The following costs relate to the equipment.

	E
Cash price	406,800
Installation costs	60,300
Total costs	467,100

The equipment was to work for two (2) shifts.

6. Depreciation- office equipment

Depreciation has been provided on office equipment,purchased on 1.1.2006 at a cost of E649,500.The Commissioner allows wear and tear in terms of section 14 of the Income Tax Order 1975 as amended.

7. Administrative expenses

Included in the administration costs are insurance premiums for loss of profitss and cover of equipment.The premiums are always paid in advance in full on the first of July of each calender year.The premiums are written off in full when paid.The premiums paid were as follows :

a. E29,600 for loss of profit.

b. E42,140 for cover of industrial machinery and office equipment.

8. Bad debts written off

The bad debts written off include a E25,000 loan made to a former employee who absconded during the year.

REQUIRED :

Determine the Corporation tax payable by Matsapha Pty Limited for the year of assessment ended 31th December,2012

(40 marks)

TOTAL FOR THE PAPER **(100 marks)**