

UNIVERSITY OF SWAZILAND  
DEPARTMENT OF ACCOUNTING  
MAIN EXAMINATION PAPER DECEMBER 2014

DEGREE/ DIPLOMA AND

YEAR OF STUDY : B. COM 1V B.COM V LEVEL

TITLE OF PAPER : TAX APPLICATIONS

COURSE CODE : AC423 (M) DECEMBER 2014

TOTAL MARKS : 100 MARKS

TIME ALLOWED : THREE (3) HOURS

INSTRUCTIONS

- 1 There are four (4) 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 the necessary working.
- 5 Calculations are to be made to zero decimal places of accuracy, unless otherwise instructed.

Note: You are reminded that in assessing your work, account will be taken of accuracy of the language and general quality of expression, together with layout and presentation of your answer.

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SPECIAL REQUIREMENTS: CALCULATOR

**Question 1****(20 Marks)**

With reference to relevant court cases briefly discuss the following essential elements of the General Deduction Formula.

- a) Actually incurred (5 Marks)
- b) In the production of income (5 Marks)
- c) Not of a capital nature (5 Marks)
- d) During the year of assessment (5 Marks)

**Question 2****(30 Marks)**

Mr Shongwe and Mr Shezi are partners in a Tax Consultancy firm based in Manzini. They share profits and losses at the ratio of 60% and 40% respectively. Accounts for the year ended 30 June 2014 showed a net profit of E400,000 after the deduction of the following expenses.

Depreciation on the Partners Motor vehicles:		E45,000
Extension and improvements to the firm's premise		E100,000
Interest on loan		E40,000
Bad debts		E11,000
Motor vehicle Insurance and Maintenance	: Mr. Shongwe	E20,500
	: Mr. Shezi	E25,000
Partners' Rent	: Mr Shongwe	E35,000
	: Mr. Shezi	E20,000
Salaries	: Mr Shongwe	E50,000
	: Mr. Shezi	E70,000
Interest on capital	: Mr. Shongwe	E15,000
	: Mr. Shezi	E55,000
Life policy	: Mr. Shongwe	E 8,000
	: Mr. Shezi	E 7,000

**Notes**

1. The partners use the Motor vehicles for both business and private purposes. Mr. Shongwe uses the Motor Vehicle 60% for business; Mr. Shezi u uses the Motor Vehicle 40% for business.
2. Due to the increase in the firm's business, the premises were extended and some improvements were undertaken by the partnership.
3. The interest on loan was in respect of a loan taken from Swazi Bank by Mr Shezi to finance his wedding anniversary.
4. The bad debts arose as results of a loan given to one of the employees who later resigned from the firm.
5. The costs of the cars used by the Partners were as follows: Audi A4 owned by Mr. Shongwe cost E250,000, Mercedes owned by Mr. Shezi cost E350,000, The motor vehicles qualified for wear and tear allowance at the rates of 25% on a straight line bases.

**Required**

Calculate the normal tax liability of each partner for the year of assessment ended 30 June 2014

**Question 3****(30 Marks)**

A). At the begin of 1 July 2013 Mr. Motsa a farmer had the following livestock on hand-

2 bulls	at	720 each
40 cows	at	440 each
10 oxen	at	440 each
20 heifers 2 years old	at	280 each
10 heifers 1 year old	at	200 each
10 calves	at	120 each

During the year of assessment livestock movements were as follows:-

- 10 cows were sold
- 2 oxen were sold
- 10 calves were sold
- 1 heifer 2 years old died
- 1 heifer 2 years old killed for rations
- 20 heifers 2 years old became cows
- 10 heifers 1 year old became 2 years old.
- 20 heifers 2 years old purchased
- 8 calves were born

- i) Mr. Motsa has requested that you assist him to write up a livestock reconciliation statement for the 2014 year of assessment to be submitted to the Swaziland Revenue Authority. . (16 Marks)
- ii) The Fair Standard Values as shown above were approved by the Commissioner General, determine the value of closing stock as at the end of the 2014 year of assessment ( 4Marks)

B). During the 2014 year of assessment Shezi (PTY) Ltd received the following incomes:-

Net profit from farming operations	E1,500,000
Income from non-farming operations	E250,000

- i) Determine Shezi (Pty) Ltd Taxable Income for the year from farming operations after taking into consideration the following:- (7 Marks)
  - a. During the year Mr. Shezi the Director of Shezi (Pty) Ltd took 6 cows and 2 bulls and paid lobola for his son. The market value of both the cows and the bull was E50,000

- b. The wages amounting to E11,000 relates to wages paid to the Director's household servants. The amount was deducted from the Income Statement.
- c. During the year manure amounting to E15,000 was sold and the amount was not included into the income statement
- d. During the year Shezi Pty (Ltd) incurred capital expenditure amounting to E 350,000
- e. The balance of unclaimed capital expenditure from the previous year of assessment amounted to E30,000

ii) Calculate the Tax Liability for Shezi (Pty) Ltd. (3 Marks)

**Question 4**

**(20 Marks)**

1. VAT is said to be destination based; with an illustration explain the meaning of this statement. (3 Marks)
2. Explain the importance of the following:- (3 Marks)
  - a. Place of Supply of goods
  - b. Time of supply of goods
  - c. Tax value of supplies
3. In terms of the VAT Act of 2011 (Sch 1 and 2) certain supplies of goods are Exempt and others are Zero Rated. In relation to a business person explain the differences between Zero Rated supplies and Exempt supplies; give 3 examples of each category of supplies. (8 marks)
4. What are the essentials of a valid invoice for VAT purposes (6 Marks)

**End of Exam**

**APPENDIX**

1. Companies pay tax at the rate of 27.5%
2. Applicable Annual Tax Rates-Employment Income

<b>Taxable income</b>		<b>Rate of tax</b>	
EXCEEDS	BUT DOES NOT EXCEED		
E	E	E	
0	100 000	0	+ 20% of the excess over 0
100 000	150 000	20 000	+ 25% of the excess over 100 000
150 000	200 000	32 500	+ 30% of the excess over 150 000
200 000		47 500	+ 33% of the excess over 200 000

**3. Rebates**

- |     |   |        |
|-----|---|--------|
| i.  | Primary/General Rebate                              | E8,200 |
| ii. | Secondary Rebate for the Elderly (60 yrs and above) | E2,000 |