

UNIVERSITY OF SWAZILAND  
DEPARTMENT OF ACCOUNTING  
MAIN EXAMINATION PAPER MAY 2016

DEGREE/ DIPLOMA AND

YEAR OF STUDY : B.COM IV / IDE LEVEL 6

TITLE OF PAPER : TAXATION II

COURSE CODE : IDE AC 420

TOTAL MARKS : 100 MARKS

TIME ALLOWED : THREE (3) HOURS

- INSTRUCTIONS
- 1 There are three (3) 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.

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVILATOR OR SUPERVISOR.

SPECIAL REQUIREMENTS: CALCULATOR

**QUESTION 1**

Mona Lisa, a young entrepreneur, operates a successful clothing retail shop in partnership with Pinkett. The partnership agreement stipulates that profits and losses are shared in proportion to their current capital contribution (being 60% in the case of Mona Lisa and 40% in the case of Pinkett). The partnership is a registered value added tax (VAT) vendor.

In the 2014 year of assessment, another partner, James, retired from the partnership. Prior to James's retirement, the partnership profits and losses had been shared in the proportions Mona 50%, Pinkett 30% and James 20%. On James's retirement, Mona and Pinkett had each purchased a 10% interest in the partnership from James.

The financial records for the period 1 July 2015 to 30 June 2016 show the following:

	Notes	E
Sales of clothing		8,400,000
Cost of sales		(2,800,000)
Interest earned on surplus cash		25,000
Bad debts recovered	1	12,000
Administration expenses		(320,000)
Salaries	2	(3,000,000)
Education Benefit	3	(1,00,000)
Interest on capital accounts	4	(50,000)
Retirement annuity contributions	5	(150,000)
Depreciation on shop fittings and office furniture	6	(650,000)
Net profit		<u>1,367,000</u>

All amounts are stated exclusive of VAT, where applicable.

**Notes:**

- The bad debt recovered relates to a debt written off as irrecoverable in the 2013 year of assessment.
- Salaries comprise E1,000,000 paid to each of Mona and Pinkett and E1,000,000 paid to the remaining employees.
- The partnership provides education assistance for the partners in the following: Mona Lisa E 60,000, and Pinkett E 40,000.
- Interest is paid on the partners' capital accounts in proportion to their capital investment.
- The partnership contributes E100,000 per annum to a retirement annuity fund for Mona and R50,000 per annum to a retirement annuity fund for Pinkett.
- The depreciation recorded is based on the accounting records. The non-current assets owned by the partnership are as follows:
  - Shop fittings (held the entire year) originally purchased for E2,400,000.
  - Office furniture acquired on 1 December 2015 including a boardroom table and chairs costing R120,000 and minor furnishings for the office of E80,000.
  - New shop fittings acquired on 1 July 2015 for E1,800,000.

The Commissioner permits shop fittings and office furniture to be depreciated over six years for tax purposes.

Mona Lisa has also paid interest with the Swaziland Building Society for his residential accommodation amounting E 256 632 for the year of assessment, as evidenced by his bank statement.

**Required:**

Calculate the normal tax liability of Mona Lisa for the year of assessment ended 30 June 2016. **(25 Marks)**

- b) Briefly describe the tax implications of
- i) a partnership. **(5 Marks)**
  - ii) a Close Corporation. **(5 Marks)**
  - iii) a trust. **(5 Marks)**

**Total: (40 Marks)**

**Question 2**

- a) Distinguish between a tax evasion and tax avoidance, stating an example for each. ( 5 Marks)
- b) Briefly discuss an arrangement that lacks commercial substance, stating the characteristics of such an arrangement. (5 Marks)
- c) Discuss the following terms:
  - i) Round trip financing (5 Marks)
  - ii) Accommodating or tax-indifferent parties (10 Marks)
- d) List the different types of customs duties and state what each one of them is imposed on. ( 12 Marks)
- e) Briefly discuss excise duty (3 Marks)

**Total: (40 Marks)**

**Question 3**

a) Explain the three possible methods which may be used to determine the base cost of a pre-valuation date asset including the circumstances in which a company is likely to use each of these. **(6 Marks)**

b) Mbabane Advertising (Pty) Ltd provides a number of advertising services. The company has recently moved from focusing on advertising services via posters and billboards to advertising online via social media.

The company sold a billboard on its premises on 17 July 2014. The billboard had been damaged during a storm and insurance proceeds of E75 000 were received from the company's insurance provider prior to sale to cover the value lost as a result of the damage. The billboard was then sold to a scrap merchant for E50 000.

The billboard had cost E150 000 on 12 January 2000. No capital allowances were claimed on this asset. On 29 June 2007, the company had installed lights on the billboard which illuminated the advertisement and provided a much better service to its customers to whom the advertising space was sold. These lights originally costs E20 000 and were still considered to add value to the billboard at the date of sale.

The billboard was valued at E156 000 on 1 October 2001.

Mbabane Advertising (Pty) Ltd has no intention of replacing the billboard as their shift to advertising services via social media has largely replaced the need for a billboard for its customers.

**Required:**

Calculate Mbabane Advertising (Pty) Ltd's taxable gain or assessed capital loss for the 2015 year of assessment in respect of the billboard, using the time-apportioned base cost TABC method. **(14 Marks)**

**Total: (20 Marks)**