

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
SUPPLEMENTARY EXAMINATION PAPER JULY 2016

DEGREE/ DIPLOMA AND

YEAR OF STUDY : B.COM 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

Kuphelele Ltd bought an office building on the 1 October 1994 for E 300 000. In 2004 they made improvements to the building at a total cost of E900 000. The building was sold on 30 November 2015 for E 6000 000.

Required:

- a) Calculate the base cost of the building using the time – apportionment base cost.
(15 Marks)
- b) Briefly discuss the steps to be followed when calculating the tax payable on the capital gain or the assessed capital loss to be carried forward to the following year of assessment
(20 Marks)
- c) Define an asset according to the Act **(5 Marks)**

Total: (40 Marks)

Question 2

i) Phindile, Ayanda and Mavis (all younger than 60 years) carry on a manufacturing business as a partnership.

The partnership agreement makes provision for the following payments to be made each year to the partners:

a) Salary

- Phindile E 230 000
- Ayanda E 220 000

b) Interest at 10% on the opening balance of both their current and capital accounts

c) After the deduction of these amounts, the partnership's profit or loss is shared equally between the partners.

The following income statement was compiled for the partnership for the current year of assessment:

Gross Profit		1 667 064
Less : Salaries and allowances (including pmts to partners)	1 120 487	
Depreciation (Note 1)	115 650	
Drawings (Note 2)	39 000	
Administrative expenses	65 160	
Interest paid to partners	<u>44 200</u>	<u>1 384 497</u>
Net Profit for the year		<u>282 567</u>

Notes:

1. Depreciation

Information in respect of the assets of the partnership are as follows:

	<u>Cost price excluding</u>
<u>VAT</u>	
Delivery vehicle	288 000
Office equipment	123 600

The commissioner allows wear and tear to be written off over the following periods:

Office equipment	6 years
Delivery vehicles	4 years

2. Drawings - Phindile

During the year of assessment, Phindile drew E39 000 out of the partnership's bank account to pay for private expenses.

3. Interest paid to partners:

• Phindile	6 500
• Ayanda	4 300
• Mavis	<u>33 400</u>
	<u>44 200</u>

Required:

- a) Calculate each partner's taxable income. **(25 Marks)**
- b) Briefly discuss the tax identity of a partnership including VAT **(5 Marks)**

Total: (30 Marks)

Question 3

a) Briefly outline the tax consequences of impermissible tax avoidance (10 Marks)

b) Discuss the following terms:

i) Round trip financing (5 Marks)

ii) Accommodating or tax-indifferent parties (10 Marks)

iii) An arrangement that lacks commercial substance (5 Marks)

Total: (30 Marks)