UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER MAY 2017

DEGREE/ DIPLOMA AND YEAR OF STUDY	:	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

Runner (Pty) Ltd ('Runner') is a registered value added tax (VAT) vendor with two-month tax periods ending on the last day of February, April, June, and so on. Runner is a wholly-owned subsidiary of Sports Ltd ('Sports'). Sports is not a VAT vendor. Runner's business comprises the manufacture and sale of a line of sporting goods, which are sold both locally and exported to overseas customers.

The following transactions relate to March and April 2014. All amounts are stated inclusive of VAT, where appropriate, unless stated otherwise. Where applicable, tax invoices are available to facilitate any reclaims of input tax.

(i) Sales of goods to customers in the United Kingdom amounted to R1,832,000.

(ii) Sales to local customers in South Africa amounted to R12,524,830.

(iii) Runner ran a competition to find the member of its sales department who achieved the highest monthly sales figure for March 2014. The prize was an overseas trip. Flights cost R11,400 for the international part of the journey and R3,800 for the local transfer flight. The local flight was purchased as a separate booking from the international flight. Foreign hotel accommodation costs paid by Runner amounted to R15,000. All other costs (such as personal expenditure and meals) had to be paid by the winning employee. The prize was awarded and
paid in April.

(iv) Purchases of new inventory from small suppliers, which were not registered VAT vendors, amounted to R250,000.

(v) Purchases of raw materials for manufacturing inventory from various VAT registered local suppliers amounted to R7,945,254.

(vi) On 5 March 2014, there was a break-in at Runner's warehouse and various items of inventory were stolen. The company's insurer assessed the loss as being R90,000. As the factory was fully insured, a claim which covered the loss in full was received on 22 April 2014.

(vii) On 10 April 2014, Runner acquired a small building, which was located adjacent to its factory. The premises were purchased from a VAT vendor, Big Props, for R4,570,000. Runner planned to use part of the ground floor of the new building as a recreational club for its factory workers, and the rest of the premises as storage space for its range of sporting attire. The portion allocated to the club was 40% of the total area of the premises. Runner paid Big Props in full on 17 April, on the same date that registration of the title deeds took place.

(viii) A second-hand shoe manufacturing machine was purchased from Smiley's Footwear, a registered VAT vendor for R90,300.

(ix) Runner donated a number of rugby jerseys (trading inventory) to a local high school on 14 April 2014. The jerseys had originally been purchased for a cost of R3,420, and the open market value of the jerseys on 14 April 2014 was R3,306.

(x) Salaries and wages amounting to R650,000 were paid during March 2014 and R680,900 during April 2014.

Required:

Calculate the input and output VAT effects of Runner (Pty) Ltd's transactions (i) to (xiii) above, giving brief explanations for your treatment of each item.

Note: Indicate clearly any transaction which does not give rise to a VAT effect by the use of zero.

b) Briefly outline the advantages of VAT (10 Marks)

Total: (40 Marks)

Question 2

a) Briefly discuss what is e-tax (2 Marks)

b) Outline the benefits of e-tax (6 Marks)

c) Discuss the objectives of taxation (12 Marks)

d) Distinguish between customs duty and excise duty tax (2 Marks)

e) Briefly discuss the four goals of any excise duty (8 Marks)

Total: (30 Marks)

Question 3

Charles Dlamini, a young entrepreneur, operates a successful clothing retail shop in partnership with Edward. The partnership agreement stipulates that profits and losses are shared in proportion to their current capital contribution (being 60% in the case of Charles and 40% in the case of Edward). The partnership is a registered value added tax (VAT) vendor.
In the 2015 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 Lisa 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 2016 to 30 June 2017 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	(100,000)
Interest on capital accounts	4	(50,000)
Retirement contributions	5	(150,000)
Depreciation on shop fittings and Office furniture	6	(650,000)
Net profit		**1, 367,000.00**

All amounts are stated exclusive of VAT, where applicable.

Notes:

1. The bad debt recovered relates to a debt written off as irrecoverable in the 2016 year of assessment.
2. Salaries comprise E1,000,000 paid to each of Mona and Pinkett and E1,000,000 paid to the remaining employees.
3. The partnership provides education assistance for the partners in the following: Mona Lisa E 60,000, and Pinkett E 40,000.
4. Interest is paid on the partners' capital accounts in proportion to their capital investment.
5. The partnership contributes E100,000 per annum to a retirement fund (not approved) for Charles and E50,000 per annum to a retirement fund (not approved) for Edward.
6. 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 2016 including a boardroom table and chairs costing E120,000 and minor furnishings for the office of E80,000.
- New shop fittings acquired on 1 July 2016 for E1,800,000.

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

a) Calculate the normal tax liability of Charles Dlamini for the year of assessment ended 30 June 2016. **(25 Marks)**
b) List any five requirements to be met in order for an invoice to qualify as a tax invoice. **(5 Marks)**

Total: (30 Marks)