

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
SUPPLEMENTARY EXAMINATION PAPER JULY 2017

DEGREE/ DIPLOMA AND

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

TITLE OF PAPER : TAX APPLICATIONS

COURSE CODE : AC423 / IDE AC 419

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

- a) XYZ Trading Corporation had the following Profit and Loss for the year ended 30/12/2016.

	E	E
GROSS PROFIT		2 250 000
EXPENSES AND TRANSFERS		
Wages and salaries (Note 1)	1 300 000	
Pension Contribution	390 000	
Loss b/f from last year	30 000	
Rent and rates	30 500	
Depreciation	20 500	
Repair and maintenance (Note 2)	44 800	
Bad debts written off (Note 3)	12 000	
Provision for fall in stock prices	15 000	
Entertainment expenses	7 500	
Gifts and donations (Note 4)	40 000	
Professional fees (Note 5)	20 000	
Traffic fines	3 000	
Court fines	6 000	
Legal expenses on industrial building acquisition	2 500	
Transfer to revenue reserves	20 000	
Transfer to capital reserves	<u>12 000</u>	
		<u>1 953 800</u>
NET PROFIT TO BALANCE SHEET		<u>296 200</u>

Note 1 : Remuneration		
The company paid remuneration for its employees	1 300 000	
It paid 30% of this E1,300,000 as contribution to pension	390 000	
The employees paid 5% of their basic salaries as their employee's pension contribution.	65 000	
NOTE 2:Repair and maintenance		
Acquisition of Industrial Building	30 000	
General repair	2 800	
Acquisition of office machinery	12 000	
		<u>44 800</u>

NOTE 3:Bad debts written off	E	E
Trade debt written off	10 000	
Loans to employees written off	1 000	
Increase in specific bad debt provision	6 000	
Decrease in general provision of debts	-5 000	
		<u>12 000</u>

NOTE 4 :Gift and donations		
Donation to government for erection of schools	20 000	
Donation to University of Swaziland in relation to capital projects	15 000	
Donation to construction of a local church	5 000	
		<u>40 000</u>
NOTE 5:Professional fees		
Legal fees in connection with issue of debentures	15 000	
Legal fees in connection with acquisition of a general plot of land	5 000	
		<u>20 000</u>

REQUIRED:

1. Compute the corporation tax liability payable of XYZ Trading Company for the year ended 30.12.2016

USE THE SHORT CUT ADD DEDUCT METHOD (25 Marks)

Total: (25 Marks)

QUESTION 2

- a) Define Gross Income according to section 7 of the Income Tax Order. **(5 Marks)**
- b) Briefly analyse the components of the definition of Gross Income. **(10 Marks)**
- c) Briefly describe the 'General Deductions Formula' with its components. **(15 Marks)**
- d) What are the obligations of VAT registered business **(6 Marks)**
- e) What are the conditions in which a business can cancel VAT registration **(4 Marks)**

Totals Marks 40

Question 3

- a) Manzini CC has a net income from operations (before the sale of capital assets) of E100 000 for the current year of assessment. Manzini CC sold 2 assets during the year. The sale of the first asset realized a capital gain of E90 000. The sale of the second asset resulted in a capital loss of E30 000. In the previous year of assessment Manzini CC had an assessed capital loss of E40 000.

Required

Calculate Manzini CC's taxable income for the current year of assessment **(15 Marks)**

- b) What are the tax consequences of impermissible tax avoidance? **(12 Marks)**
c) What conditions have to be met in order for the depreciable asset time apportionment base cost formula and the depreciable asset proceeds formula to be used. **(6 Marks)**
d) State the two components of base cost calculation. **(2 Marks)**

Totals Marks 35