

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER MAY 2018

DEGREE/ DIPLOMA : B. COM III - FULL TIME
YEAR OF STUDY : YEAR THREE (2ND SEMESTER)
ACADEMIC YEAR : 2017/2018
TITLE OF PAPER : TAX APPLICATION
COURSE CODE : ACF320
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.

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

SPECIAL REQUIREMENTS: CALCULATOR

NUMBER OF PAGES: 6 (Including the cover page)

QUESTION 1:

Swazi Trading Corporation had the following Profit and Loss for the year ended 30/6/2017.

	E	E
GROSS PROFIT		250 000
EXPENSES AND TRANSFERS:		
Wages and salaries	10 000	
Loss b/f from last year	3 000	
Rent and rates	3 500	
Depreciation of fixed assets	20 500	
Repair and maintenance (Note 1)	44 800	
Bad debts written off (Note 2)	12 000	
Provision for fall in stock prices	15 000	
Entertainment expenses	7 500	
Gifts and donations (Note 3)	40 000	
Professional fees (Note 4)	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	12 000	
		<u>-219 800</u>
NET PROFIT TO BALANCE SHEET		<u>30 200</u>
NOTE 1:Repair and maintenance		
Acquisition of Industrial Building	30 000	
General repair	2 800	
Acquisition of office machinery	12 000	
		<u>44 800</u>

<i>(Question 1 continue)</i>		
	€	E
NOTE 2:Bad debts written off		
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 3: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 4: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>

Additional Information:

- Wear and Tear Allowance: Industrial Buildings 4%
Office machinery 10%
- Corporate tax rate: 27.5%

REQUIRED:

Compute the corporation tax liability payable of Swazi Trading Corporation for the year ended 30.6.2017

(QUESTION 1: TOTAL MARKS 25)

QUESTION 2:

Treetops (Pty) Ltd is a resident of the Kingdom. Its sole asset is a rent-producing property. The ground floor of this building is let to commercial tenants. Its receipts and accruals and expenditure for its **two-month** tax period ending 31 October 2017 are as shown below. (All amounts are inclusive of VAT where applicable.)

Receipts and accruals	E
Commercial rentals	153 900
Residential rentals	202 500
Interest levied on overdue rentals from commercial tenants	6 783
Interest levied on overdue rentals from residential tenants	2 907
Insurance settlement (note 1)	180 400
Expenditure	E
Bank charges	2 850
Audit fees	14 250
Salaries	33 060
Repairs (note 2)	222 300
Maintenance (note 3)	16 530
Insurance premiums (note 4)	15 390
Interest incurred on mortgage bond	42 750
Legal expenses for new leases entered into	
For new commercial tenants	1 710
For new residential tenants	2 565
Security maintenance contract expenditure	3 990
Bad debts (note 5)	16 188
Entertainment expenditure (note 6)	684
Telephone (note 7)	798

Notes

1. The insurance settlement of E180 400 was for fire damage to the building. A fire had occurred at a laundry situated on the ground floor. The fire damaged the laundry and the flat situated directly above it. Compensation for the laundry was E114 00 and for the flat was E66 400.
2. It cost E136 800 to repair the "burnt" laundry. It cost E85 500 to repair the "burnt" flat.
3. Maintenance costs of E16 530 include paint, paint brushes and other hardware items purchased so as to carry out repair work to the building.
4. Premiums of E15 390 were incurred for the insurance of the building.

(Question 2 continue)

5. Bad debts of E16 188 is made up of debts written off for commercial-rental debtors of R9 804 and for residential-rental debtors of E6 384.
6. The managing director of Treetops (Pty) Ltd had lunch with its lawyer during this two-month period. He takes its lawyer to lunch from time to time to ensure that Treetops (Pty) Ltd always obtains preferential treatment from her when it needs her professional services. The lawyer's lunch cost E513, and the managing director's lunch cost E171.
7. Treetops (Pty) Ltd pays the caretaker's home telephone account. He has to make 'business telephone calls' on a regular basis. The caretaker has indicated that 70% of his telephone calls are for Treetops (Pty) Ltd. The caretaker's telephone account for this two-month period was E798. The caretaker is a part-time employee of Treetops (Pty) Ltd.

YOU ARE REQUIRED:

Calculate the VAT due to or from the Commissioner for Treetops (Pty) Ltd's **two-month** tax period that ended on 31 October 2017.

(QUESTION 2: TOTAL MARKS 30)

QUESTION 3:

(A)

What penalties may be imposed on the late payments of provisional tax?

(2 MARKS)

(B) Name any three entities that are excluded from provisional tax. **(3 MARKS)**

(C)

A company whose year of assessment ends on 31 December 2017 estimates on 30 June 2017 that it will derive a taxable income of E2 000 000 for the year. Its last assessment reflected a taxable income of E1 900 000, which represents its basic amount for the current year of assessment.

In March 2018, the taxable income of the company for the year of assessment ending on 31 December 2017 is calculated as E2 400 000.

What provisional tax payments should the company make in terms of the Act? Assume corporate tax rate of 27.5% **(18 MARKS)**

(QUESTION 3: TOTAL MARKS 23)

QUESTION 4:

Mr Paul owns a hardware shop in Manzini. He is a sole trader. Since 1 January 2017, his monthly turnover has increased from E90 000 a month to E100 000 a month. All indications are that his turnover level will not decrease in the future, except for the period from June to August when turnover normally decreases (It is expected to be approximately E90 000 a month during this period).

Of his sales, 90% are for cash. His debtors normally pay their accounts within 45 days of the purchase date. His purchases are all on credit. He pays his creditors 60 days after invoice date. No sales are made to persons outside Swaziland.

Paul was recently informed that he should have already registered for VAT and that he will now be liable for substantial penalties. Other legal steps may also be taken by the Commissioner against him. Paul always believed that a "small businessman" like himself did not need to register for VAT. He is now concerned. He knows nothing about the registration requirements and does not know how the VAT system works. He has therefore approached you in this regard.

YOU ARE REQUIRED:

- A. Provide Paul with details of the registration requirements as provided for in the Swaziland VAT legislation, and inform him on what date he became, or will become, liable for registration. **(14 MARKS)**
- B. Set out the most important definitions in the VAT Act that are directly relevant to his business such as "vendor", "taxable supplies" "output tax" and "input tax". **(8 MARKS)**

(QUESTION 4: TOTAL MARKS 22)

END