

ACF320 (SUPPL) JULY 2018

UNIVERSITY OF SWAZILAND  
DEPARTMENT OF ACCOUNTING  
SUPPLEMENTARY EXAMINATION PAPER JULY 2018

DEGREE/ DIPLOMA : B. COM III - FULL TIME  
YEAR OF STUDY : YEAR THREE (2<sup>ND</sup> SEMSTER)  
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:**

(A)

The year of assessment of Casa (Pty) Ltd ends on 30 June. The company's tax assessment in respect of the 2015 year of assessment (ending 30 June 2015) was issued on 15 July 2016 and the taxable income on this amounts to E110 000. Included in this taxable income is a capital gain of E10 000.

The company's tax assessment in respect of the 2016 year of assessment (ending 30 June 2016), which indicates a taxable income of E80 000 (no capital gain is included), was issued in the current year of assessment on 20 January 2017.

During the 2017 year of assessment, employees' tax of E25 000 (E10 000 paid up to 31 December 2016) was withheld from the remuneration payable to the employees.

On 31 July 2017, Casa (Pty) Ltd's financial director prepared the tax calculation for the 2017 year of assessment (ending 30 June 2017) and it indicated a taxable income of E200 000. In this taxable income, no capital gain is included.

**REQUIRED:**

You are required to calculate the provisional tax payments by Casa (Pty) Ltd in respect of the 2017 year of assessment ending 30 June 2017.

**(18 marks)**

(B)

What do you understand by the terms 'initial allowance' and 'wear and tear allowance' as used in taxation?

**(7 marks)**

**(QUESTION 1: TOTAL MARKS 25)**

**QUESTION 2:**

Interdict (Pty) Ltd is a VAT vendor (a resident of the Kingdom). Interdict (Pty) Ltd is a retailer of industrial machinery and makes only taxable supplies. The following information is given for March 2018:

1. Ten machines were purchased at a cost of E2 850 000 (including VAT); all machines have the same cost of E285 000 each (including VAT).
2. The standard mark-up on cost (including VAT) is 50%, i.e. cost plus VAT is increased by 50% to derive selling price, which includes VAT.

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3. Five machines were sold for cash.
4. One machine was sold in terms of an instalment credit agreement. The contract provides for 60 monthly payments of E8 900 (at the end of each month), beginning at the end March 2018.
5. One machine was leased in terms of a finance lease at a monthly rental of E8 000 (payable at the end of the month).
6. An old machine, which was held as opening stock and was reflected at E240 000 in the stock account of the ledger, was sold to Mr S Dlamini, at cost plus VAT. Mr S Dlamini, who is a 20% shareholder of the Interdict (Pty) Ltd, is not a VAT vendor. The open market value of this machine was E175 000 at date of sale.
7. On 25 March a second-hand machine was purchased from a non-vendor for E180 000. Interdict (Pty) Ltd paid E100 000 immediately and the balance is paid at the end of April 2018.
8. The second-hand machine in point (7) above was immediately sold to a VAT vendor for E200 000.
9. On 1 March 2018, a fire in the warehouse totally destroyed two machines purchased in January 2018 for E319 200 (including VAT) each. Interdict (Pty) Ltd's insurer paid out E280 000 for each machine as compensation on 25 March 2018.
10. The fire also totally destroyed a truck that had been bought second-hand from a non-vendor the previous year. The insurer paid out compensation of E80 000 in respect of this truck.
11. During March Interdict (Pty) Ltd purchased two new water bottles for the cold water-dispensing machine in the staff canteen. The bottles cost E1 800 (including VAT) each and were paid for in March 2018.

**REQUIRED:**

Calculate all the VAT effects (input / output) in respect of the above transactions for the month of March 2018.

**(QUESTION 2: TOTAL MARKS 20)**

**QUESTION 3:**

(A)

How are the following categories of income taxed in the hands of an individual taxpayer?

- I. Inherited cash from late grandfather.
- II. Employer pays school fees and boarding fees for employees' child.
- III. Employer provides a uniform of no distinct design and no condition that it must be worn on duty.
- IV. Rent received from South Africa rented house.

(8 marks)

(B)

- I. In certain cases, a vendor may be prohibited from the VAT input on specific items. Explain and provide examples of these prohibited items.

(10 marks)

- II. Provide a brief explanation of why VAT is referred to as an indirect tax.

(3 marks)

- III. Goods or services may be subject to VAT. Explain the purpose of VAT.

(4 marks)

(QUESTION 3: TOTAL MARKS 25)

**QUESTION 4:**

Matsapha Industrial Ltd had the following profit and loss for the year ended 30.6.2018

**MATSAPHA INDUSTRIAL LTD  
PROFIT AND LOSS FOR THE YEAR ENDED 30.6.2018**

	E	E
<b>INCOME:</b>		
Loan interest income	Note 1	73,610,000
Short term deposit interest income		10,730,000
Interest income from bond funds		27,220,000
Dividend income		1,250,000
Commissions income		2,570,000
Commitment fees		130,000
Other income		<u>4,280,000</u>
<b>TOTAL INCOME</b>		<u>119,790,000</u>

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<i>(Question 4 continue)</i>		
<b>EXPENDITURE:</b>	Note 2	
Bond issue costs	Note 3	2,340,000
Share issue costs	Note 4	300,000
Interest expense on fixed rate loans		21,450,000
Interest on flexible rate loans		15,270,000
Administrative expenses	Note 5	22,970,000
Bad debts written off		11,750,000
Depreciation (of fixed assets) expense	Note 6	2,960,000
Provision of specific doubtful debts		<u>11,860,000</u>
PROFIT FOR THE YEAR		<u>88,900,000</u>
<b>APPROPRIATIONS:</b>		
Proposed dividends		-10,000,000
Transfer to special reserve		-5,000,000
<b>RETAINED PROFIT FOR THE YEAR</b>		<u>15,890,000</u>

**NOTES TO THE ACCOUNTS:**

## Note 1:

INCOME is brought into the accounting period on the following basis;

- a. Interest on long term advances and commitment fees are recognized on accrual basis net of provisions against interest for which recovery is considered doubtful.
- b. The excess arising from restructuring of a loan between its carrying book value and the restructured amount deferred and amortized over the period the loan is repaid bears an interest income. If there is a deficit it will be written against the profit and loss in the year of restructuring.
- c. Dividends are taken into account in the year in which they are received.

Note 2: EXPENSES Charges on borrowing are accrued at the year end.

Note 3: THE COST OF THE BOND issue in the year was E2,340,000.

Note 4: THE COST OF SHARE FLOATATION in the year was E300,000.

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Note 5: THE COST OF ADMINISTRATION:

	E
Salaries	11,000,000
Pension and other benefits	5,600,000
Vehicle maintenance expenses	1,200,000
Office expenses	1,211,000
Travelling expenses	2,100,000
Entertainment of business customers	550,000
General entertainment of senior staff	350,000
Canteen food expenses	330,000
Write off of departed staff loan	150,000
General expenses (unspecified)	110,000
Donation to "NERCHA" (National Emergency Response on AIDS0) to help orphans	250,000
Donation to Swazi National High School to extend class rooms	119,000
<b>TOTAL ADMINISTRATION COST</b>	<b><u>22,970,000</u></b>

Note 6: CALCULATION OF DEPRECIATION EXPENSE  
FIXED ASSETS

<b>COST:</b>	Industrial buildings	Plant and equipment	Motor vehicles	Furniture and fittings	Total
	E	E	E	E	E
1.07.2007	36,540,000	4,860,000	2,440,000	8,290,000	52,130,000
Additions	820,000	200,000	280,000	840,000	2,140,000
Disposals	<u>0</u>	<u>0</u>	<u>-150,000</u>	<u>0</u>	<u>-150,000</u>
30.6.2008	<u>37,360,000</u>	<u>5,060,000</u>	<u>2,570,000</u>	<u>9,130,000</u>	<u>54,120,000</u>
<b>Provision for Depreciation:</b>					
1.07.2007	33,100,000	3,650,000	1,290,000	6,620,000	44,660,000
Charge for the year	1,830,000	460,000	340,000	330,000	2,960,000
Disposal	<u>0</u>	<u>0</u>	<u>-140,000</u>	<u>0</u>	<u>-140,000</u>
30.6.2008	<u>34,930,000</u>	<u>4,110,000</u>	<u>1,490,000</u>	<u>6,950,000</u>	<u>47,480,000</u>

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<b>Net Book Value:</b>					
1.07.2007	2,430,000	950,000	1,080,000	2,180,000	6,640,000
30.6.2008	3,440,000	1,210,000	1,150,000	1,670,000	7,470,000
<b>WEAR &amp; TEAR Allowance:</b>					
Tax written value 1.7.2008	1,500,000	600,000	1,080,000	2,200,000	5,380,000
Rate of initial allowances	?	?	?	?	?
Annual wear and tear rates	4%	20%	25%	10%	
Initial allowance 2008	?	?	?	?	?
Wear and tear 2008	?	?	?	?	?

**REQUIRED:**

Calculate the corporation tax payable by Matsapha Industrial Ltd as at 30.6.2018.

**(QUESTION 4: TOTAL MARKS 30)**

**END**