

UNIVERSITY OF SWAZILAND  
DEPARTMENT OF ACCOUNTING  
MAIN EXAMINATION PAPER MAY 2018

DEGREE/ DIPLOMA AND

YEAR OF STUDY : B.COM IV / 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 two (2) 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**

Mr Zindela (a sole trader) is a farmer in Nhlangano and owns a large potato farm in Gege. Mr Zindela is a registered category A (one month tax periods) on the invoice basis and supplies potatoes to local and foreign vegetable markets. Mr Zindela also rents out houses for residential purposes to people who are neither employees nor connected persons.

Mr Zindela has proved to the satisfaction of SRA that the various activities carried by him make up the following percentages of his turnover:

Local Potatoes	50%
Foreign potato sales	30%
Rental Income	<u>20%</u>
	<u>100%</u>

The following information is applicable to Mr Zindela's tax period 1 January to 31 January. Where applicable and unless stated otherwise, all amounts include VAT.

<b><u>Income</u></b>		Notes	E
Sales: Potatoes	Local	1	129 740
	Foreign	2	84 000
Sale: John Deer tractor			270 000
Income: Sale contract		3	10 260
Rent: Farm Houses		4	56 000
Insurance Proceeds		5	<u>6 500</u>
Total Income			<b><u>556 500</u></b>

<b><u>Expenses</u></b>			E
Transport Costs: Potatoes		1	25 650
Purchase of a vehicle		6	199 500
Repairs to motor vehicle		7	5 700
Bank charges			980
Salaries and wages			85 000
Depreciation			3 900
Purchase of fertiliser for potato field			15 000
Interest paid on loans		8	4 000
Diesel			<u>2 000</u>
Total Expenses			<b><u>346 730</u></b>

**Notes**

1. Mr Zindela supplies potatoes on a daily basis to Galaxy Veggies a registered vendor. Transport costs for the month under consideration amounted to E25 650.
2. Potatoes are directly exported to a vegetable market located in Singapore.
3. Mr Zindela negotiated a six-month contract with Vege-Elite to supply them with 500 kg of potatoes per month. Vege Elite settled the contract price of E10 260 in full upon signing the agreement.
4. Four farm houses were rented out in January at a monthly charge of E14 000 per house.
5. On 12<sup>th</sup> January Mrs Zindela, wife and employee was involved in a car accident. She was driving a vehicle solely used for farming purposes and lost control while speaking on her cell phone resulting in her driving through Mrs Nesta's brick wall. The vehicle had damage amounting to E 5000.00 and the damage to the wall amounted to E1 500. Mr Zindela's claim was settled promptly and the insurance company paid E5 000 for the vehicle repairs and E1 500 to Mrs Nesta to repair her wall.
6. Mr Zindela purchased a second hand single cab 4x4 Land Rover Defender for E199 500 from a vendor that is not a connected person. The total purchase price was settled in cash. The vehicle was given to Siphon, the farm foreman, to use during business hours only and for farming purposes only.
7. Repairs represent maintenance and repair work done to the Land Rover.
8. The interest paid is in respect of Mr Zindela's overdraft facility at Standard Bank.

**Required:**

- a) Calculate the amount of VAT payable or refundable to Mr Zindela for the tax period 1 January to 31 January 2017. **(30 Marks)**
- b) What are the obligations of a registered VAT vendor **(6 Marks)**
- c) List SIX items which should be included on a tax invoice issued by a VAT vendor in order for it to be valid. **(6 marks)**
- d) Briefly explain voluntary registration for VAT purposes **(3 Marks)**

**TOTAL MARKS 45**

**Question 2**

Mona Lisa, a young entrepreneur, operates a successful clothing retail shop in partnership with Pinkett. The partnership agreement stipulates that profits and losses are shared in proportion to their current capital contribution (being 60% in the case of Mona Lisa and 40% in the case of Pinkett). 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 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	(1,00,000)
Interest on capital accounts	4	(50,000)
Retirement annuity contributions	5	(150,000)
Depreciation on shop fittings and office furniture	6	(650,000)
Net profit		<u>1,367,000</u>

All amounts are stated exclusive of VAT, where applicable.

**Notes:**

- The bad debt recovered relates to a debt written off as irrecoverable in the 2014 year of assessment.
- Salaries comprise E1,000,000 paid to each of Mona and Pinkett and E1,000,000 paid to the remaining employees.
- The partnership provides education assistance for the partners in the following: Mona Lisa E 60,000, and Pinkett E 40,000.
- Interest is paid on the partners' capital accounts in proportion to their capital investment.
- The partnership contributes E100,000 per annum to a retirement annuity fund for Mona and R50,000 per annum to a retirement annuity fund for Pinkett.
- 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 R120,000 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.

Mona Lisa 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 Mona Lisa for the year of assessment ended 30 June 2016. **(25 Marks)**
  
- b) Briefly describe the tax implications of
  - i) a partnership. **(5 Marks)**
  - ii) a Close Corporation. **(5 Marks)**
  - iii) a trust. **(5 Marks)**
  
- c) Briefly discuss the 6 types of customs duties that can be levied. **(12 Marks)**
- d) List 3 items that are VAT zero rated. **(3 Marks)**

**Total: (55 Marks)**