

UNIVERSITY OF ESWATINI
FACULTY OF COMMERCE
DEPARTMENT OF ACCOUNTING AND FINANCE
MAIN EXAMINATION PAPER, DECEMBER 2018

TITLE OF PAPER: TAX APPLICATIONS

YEAR OF STUDY: B.COM IV/ B.COM IDE LEVEL6

COURSE CODE: AC423/AC 419

TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS:

1. ANSWER ALL QUESTIONS IN SECTION "A"
2. ANSWER ANY TWO (2) QUESTIONS FROM SECTION "B".
3. ANSWERS SHOULD BE WRITTEN IN THE ANSWER BOOKLETS PROVIDED.
4. DO NOT WRITE ON THE QUESTION PAPER.
5. PORTABLE NON-PRINTING CALCULATORS ARE ALLOWED.

THIS PAPER SHOULD NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

SECTION A

QUESTION 1

Zomboze Trading Corporation had the following Profit and Loss for the year ended 30/6/2018.

	E	E
GROSS PROFIT		250,000.00
EXPENSES AND TRANSFERS		
Wages and Salaries	10,000.00	
Loss b/f from last year	3,000.00	
Rent and rates	3,500.00	
Depreciation	20,500.00	
Repair and maintenance (Note1)	44,800.00	
Bad debt written off (Note2)	12,000.00	
Provision for fall in stock prices	15,000.00	
Entertainment expenses	7,500.00	
Gifts and donations (Note 3)	40,000.00	
Professional fees (Note 4)	20,000.00	
Traffic fines	3,000.00	
Court fines	6,000.00	
Legal expenses on Industrial building acquisition	2,500.00	
Transfer to revenue reserve	20,000.00	
Transfer to capital reserve	12,000.00	(219,800.00)
Net profit to balance sheet		30,200.00

Note 1		
Repair and maintenance		
Acquisition of industrial building	30,000.00	
General repair	2,800.00	
Acquisition of office machinery	12,000.00	
Total	44,800.00	
Note 2		
Bad debts written off		
Trade debt written off	10,000.00	
Loans to employees written off	1,000.00	
Increase in specific bad debt provision	6,000.00	
Decrease in general provision	(5,000.00)	
Total	12,000.00	
Note 3		
Gifts and donations		
Donation to government school	20,000.00	
Donation to UNESWA	15,000.00	
Donation to local church	5,000.00	
Total	40,000.00	
Note 4		
Professional fees		
Legal fees for issue of debentures	15,000.00	
Legal fees for acquisition if land	5,000.00	

Total	20,000.00	
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Required:

Calculate the tax liability at 27.5% of Zomboze Trading Corporation for the year ended 30/6/2018 using the short cut method. [30 marks]

QUESTION 2

Manzini Traders leases a photo copier under the following terms;

- 1 Fair value of the photo copier E 200,000.00
- 2 Interest rates charge is 16% per annum
- 3 Rental repayment per year is E 54,279.00
- 4 Term of the lease is 6 years
- 5 There is no scrap value at the end of the lease.

Required:

- (1) Calculate and show the repayment schedule for 6 years [10 marks]
- (2) Show the allocation of interest and loan settlement [10 marks]
- (3) Explain the tax implications of the above scenario. [10 marks]

Total marks [30 marks]

SECTION B

QUESTION 3

Dube Property Developers leases a double storey building in Manzini which houses a shop on the ground floor and residential flats on the upper floor.

The turnover it receives from the rental of the whole building is E 60,000.00 per month comprising E 20,000.00 and E 40,000 from residential flats and the shop respectively. Dube Property Developers received a total electricity bill of E 3,000.00 including VAT for the whole building since there are separate metres for the shop and the flats. (VAT rate is at 14%)

Required:

(1) Assuming Dube Property Developers is registered for VAT show how VAT will be treated. [10marks]

(11) Discuss the advantages of VAT. [10marks].

QUESTION 4

Section 14 of the income Tax order 1975, as amended, lists about 23 items which are allowable deductions. List any 10 of the 23 items which are allowable deductions and give reasons to support your choice. [20 marks]