

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: ACF 320/ 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

Promotional Printing is a printing company based in Matsapha, Eswatini. The management of the company is contemplating either buying or leasing on hire purchase a new printing machine. The following are the terms if the machine is to be leased:

- 1 Fair value of the photo copier is E 400,000.00
- 2 Interest rate is 16%.
- 3 Rental repayment is E 108,558.00 per annum
- 4 Term of the lease is 6 years no scrap value.

Required:

- 1. Calculate and show repayment schedule for the 6 years. [10 marks]
- 2. Show the allocation of rental and interest charges for 6 years. [10 marks]
- 3. Explain to the directors of Promotional Printing which option to take either to buy or lease the machine. [10 marks]
- 4. From the tax planning point of view what are the advantages of leasing as opposed to outright purchase of the machine [10 marks]

Total [40 marks]

QUESTION 2: Dynamic Distributers had the following Profit and Loss for the year ending 31 March 2019.

Particulars	Dr (E)	Cr (E)
Gross Profit		1,000,000
Expenses and Transfers		
Wages and salaries	40,000	
Loss b/f from last year	12,000	
Rent and rates	14,000	
Depreciation	82,000	
Repairs and maintenance (N1)	179,200	
Bad debt (written off) N2	48,000	
Provision for reduction in stock prices	60,000	
Entertaining expenses	30,000	
Gifts and donations (N3)	160,000	
Professional fees (N4)	80,000	
Traffic fines	12,000	
Court fines	24,000	
Legal expenses on industrial buildings	10,000	
Transfer to revenue reserve	80,000	
Transfer to capital reserve	48,000	(879,200)
Net profit to balance sheet		120,800

Notes to the accounts:

Note 1

Repair and maintenance:

Acquisition of industrial building	120,000
General repair	11,200
Acquisition of office machinery	48,000
TOTAL	179,200

Note 2

Bad debts written off:

Trade debt written off	40,000
Loans to employee written off	4,000
Increase in specific bad debts provision	24,000
Decrease in general provision	(20,000)
TOTAL	48,000

Note 3

Gifts and donations

Donation to government schools	80,000
Donation to UNESWA	60,000
Donation to a local church	20,000
TOTAL	160,000

Note 4

Professional fees

Legal fees in connection with issue of debentures	60,000
Legal fees in acquisition of land	20,000
TOTAL	80,000

Required

Calculate tax liability for Dynamic Distributers as at 31 March 2019.

Assume corporation tax is at 27.5%.

[30 marks]

SECTION B**QUESTION 3**

- (i) Swaziland introduced VAT in 2012 to replace sales tax. Discuss the advantages of VAT which the Minister of Finance highlighted while introducing this tax. [5 marks]
- (ii) Hancy Property Developers leases double storey building which houses a shop on the ground floor and residential apartments on the upper floor. The total rental turnover it received from the whole building is E 240,000 per month comprising E80,000 and E 160,000 from the residential flats and the shop respectively. Hancy properties received a total electricity bill of E 12,000 including VAT for the whole building since there are no separate meters for the shop and flats.

Required:

Advise Hancy properties how VAT will be treated. [10 marks]

QUESTION 4

- (i) Discuss the contents of the partnership agreement. [5 marks]
- (ii) Advise John and Paul who are intending to form a partnership which build a hotel in 2019 and will approximately cost E 2,000,000.00. What tax planning advantages do they expect have in Swaziland? Show the tax treatment for the next two years. [10 marks]

QUESTION 5

Section 14 of the income Tax order 1975, as amended lists about 23 items which are not allowable deductions. List any 10 of the 23 items which are not allowable deductions and give reasons to support your arguments. [15 marks]