

UNIVERSITY ESWATINI

DEPARTMENT OF ACCOUNTING AND FINANCE

MAIN EXAMINATION PAPER, FEBRUARY 2021, ACADEMIC YEAR
2020/2021

PROGRAMME OF STUDY	Bachelor of Commerce
YEAR OF STUDY	B Com (IDE) Level 6
TITLE OF THE PAPER	Tax Applications
COURSE CODE	AC423
TIME ALLOWED	3 Hours
TOTAL MARKS	100

INSTRUCTIONS

- 1. There are four (4) questions, ANSWER ALL OF THEM**
- 2. Begin the solution of 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 workings**
- 5. Calculations are to be made to zero decimal places of accuracy, unless otherwise state**

NOTE:

You are reminded that in assessing your work, account will be taken of accuracy of language and the 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 INVIGILATOR/ SUPERVISOR.

QUESTION 1

McMillan Publishers (Pty) Ltd is a resident of the Kingdom of Eswatini. It is not a small business corporation as defined in the Income Tax Act. The company manufactures all kinds of books and stationary and it sells these books to different customers in Eswatini. McMillan financial year-end is 30th June. The accountant requested you to calculate the company's income tax liability for the year of assessment ended 30th June 2020. The following information is provided to you:

1. Sales for the year amounted to E7 500 000
2. A donation of E160 000 was made to SANU (university), and a relevant official receipt was received.
3. Donation to a local church amounted to E10 000.
4. The company purchased raw materials amounting to R3 500 000 and paid a transport company R7 000 to deliver the stock to its premises.
5. McMillan disposed its manufacturing equipment purchased in 2005 at E700 000. The equipment had a nil tax base during the date of disposal in February 2020 and it was sold for E120 000. A new manufacturing equipment was acquired and set-up in the same month at a cost of E1 200 000.
6. A new building was constructed and finished in January 2020 to house the new manufacturing equipment (see 4 above). Its total cost was E450 000.
7. General repairs of buildings amounted to E35 000.
8. The company's IT manager resigned in the current year. McMillan, however paid him a restraint of trade of E3 000 000 in order to protect the electronic version of books he was developing. The period of the restraints is 6 years.
9. Some schools are struggling to pay due to government cutting funding to them. The company has provided a provision for bad debt of E120 000 and E90 000 debt have been written off this year.
10. Wages and salaries for the year amounted to E2 350 000
11. The director was sued E88 000 by a member of the public for damaging his car during one normal weekend away from duty.
12. Legal fees of E35 000 were incurred for advisory services by the company lawyers for business services.
13. Additional information
 - i. Section 14(1)(c) of the Income Tax Order Act allow for the following write-off period for assets where applicable:
 - New Manufacturing equipment 5 Years (50% initial allowance is allowable deduction plus 10% of the cost each year)
 - New industrial building 5 Years (50% initial allowance is Allowed deduction plus 4% of the each year).

REQUIRED	MARKS
Calculate the tax liability for McMillan for the year ended 30 th June 2020	16

(b) McMillan Publishers also supply industrial photocopiers to schools. It supplied the customer with a warranty against any mechanical failure of these photocopiers.

Seven photocopiers were sold to seven different schools (the customers) for E144 000 in total on 2 December 2019. McMillan supplied the customers with a warranty against any mechanical failure of these seven photocopiers. This means that McMillan will replace any faulty photocopier without charging any costs to the customer. The warranty is applicable for a period of six months from the date of sale.

McMillan originally purchased the photocopier for R10 500 each from their supplier. The auditors made a warranty provision of R20 500 at year-end (debit: warranty expense, credit: provision).

REQUIRED:	MARKS
Discuss whether the warranty expense would be deductible or not by McMillan for the 2020 year of assessment in terms of the general deduction formula <i>Hint: List the requirements of the general deduction formula and briefly discuss each element at the hand of the given information.</i>	10

Question 2

Eswatini Post (Pty) Ltd is a resident company with a financial year ending on 30th June each year and a registered vendor. Eswatini Post entered into the following transactions for the 2020 year of assessment. All transactions (unless otherwise stated) took place between vendors and the company is in possession of all the necessary documentation. All amounts are stated inclusive of VAT where applicable.

1. Courier services (sales) rendered in Eswatini for cash totalling E6 500 000
2. Credit sales of services amounting to E900 500
3. Sales of mobile phone products to South Africa E4 000 000.
4. Purchased inventory from China E2 700 000.
5. Gift of computers to UNESWA foundation E75 000.
6. Wages and salaries totalling E650 000
7. Bad debts written off of E150 000.
8. Purchased petrol for business use totalled to E21 000.
9. Bad debt recovered of E34 000. The debt had been written off as bad debt for VAT purposes in a prior VAT period.
10. Purchase of motor vehicle for E130 000.
11. Year-end celebration and 10th anniversary of Eswatini Post was hosted on the 6th December and it amounted to E71 000.
12. The company took 10 mobile phones and gave them to senior management for personal use costing E25 000.

Required:

- (a) Calculate the input value added tax (VAT) and output VAT arising from each of the transactions (1) to (12). Net them to get VAT payable/refundable.

[15 marks]

Note: You should format your answers in two columns labelled 'Input VAT' and 'Output VAT' and indicate by the use of zero '0' any item which does not result in either input VAT and out VAT.

It is important to establish when a taxable supply is made because that is the point at which VAT becomes payable to or refundable from SRA.

Eswatini Post supplied UNESWA with mobile phones for its executives on the 10th September 2020. Tax Invoices for these products were issued on the 15th September 2020. UNESWA however paid for these products on the 4th of September before the products were delivered.

- (b) In terms of the VAT Act, identify and explain when taxable supplies are made for the sale of the mobile phones to UNESWA.

[5 marks]

Question 3

- (a) Using examples, discuss the difference between tax avoidance and tax evasion. [8 Marks]
- (b) Explain the difference between direct tax and indirect tax, giving an example of each [4 marks]
- (c) You are employed as a Tax consultant by KPMG. Your old university friend, Lillian, who is operating a small trucking business is requesting for your advice for reducing tax liability.
Discuss any two tax planning methods/ strategies that can be used by Lillian to reduce her tax liability. [8 marks]

[Total marks 20]

Question 4

Aerostar (Pty) Ltd had a taxable income of E1 150 622 for the 2018 year of assessment and the date of the assessment was 31st December 2018. The company's 2019 tax assessment was issued on 15 December 2019 and reflected a taxable income of E1 320 564. The actual calculated taxable income for the 2020 year of assessment was E1 055 877. Aerostar (Pty) has a June year-end.

REQUIRED	MARKS
(a) Calculate the first provisional tax payment for the 2020 year of assessment and clearly state on which date the payment must be made to Eswatini Revenue Services.	4
(b) Calculate the second provisional tax payment for the 2020 year of assessment and clearly state on which date the payment must be made to Eswatini Revenue Service	6

- (c) Joseph Buthelezi, aged 45, runs a successful small garden service and landscaping business as a sole trader in Nelpruit, SA. His turnover is greater than R1 million per annum. During the 2020 year of assessment, Joseph made a number of disposals of both business and personal assets. Details of these disposals are as follows:
- i. Joseph sold a ride-on lawn mower which he had used at his larger corporate clients. The mower was acquired at a cost of R50,000 in the 2016 year of assessment and was fully written off for tax purposes. On 22 September 2019, Joseph sold the mower back

to the seller to upgrade to the latest model. The trade-in value was given as R35, 000. The new mower cost R65, 000.

- ii. Joseph sold some shares he owned in a prominent company which had been accused of corruption and was later declared insolvent. Joseph had acquired shares in this company over several years and his shares have a weighted average cost of R170,000. He sold the shares for R5,000 on 15 January 2019.
- iii. Joseph is an avid fisherman and owned an 11-metre fishing boat for use in his free time. He acquired it in the 2009 year of assessment for R350,000 and sold it on 8 December 2018 for R100,000.

Joseph has an assessed capital loss brought forward of R50,000. You have been engaged by Joseph to advise him on taxation matters.

REQUIRED	MARKS
Calculate Joseph's taxable capital gain/assessed capital loss carried forward for the 2020 year of assessment	17

- (d) Section 14 of the Income Tax Order of 1975, as amended list about 23 items which are not allowable for deductions. List any 3 of the 23 items which are not allowable for deductions. **[3 marks]**

[TOTAL MARKS 30]