

**UNIVERSITY OF SWAZILAND**  
**DEPARTMENT OF ACCOUNTING AND FINANCE**  
**MAIN EXAMINATION PAPER**  
**MAY 2012**  
**ACADEMIC YEAR 2011/2012**

<b>PROGRAMME OF STUDY</b>	<b>:</b>	<b>Diploma in Commerce</b>
<b>YEAR OF STUDY</b>	<b>:</b>	<b>Level (4) (Part Time)</b>
<b>TITLE OF THE PAPER</b>	<b>:</b>	<b>Principles of Taxation and Auditing</b>
<b>COURSE CODE</b>	<b>:</b>	<b>IDE AC 304 – 1 &amp; 2 (M) (Part Time)</b>
<b>TIME ALLOWED</b>	<b>:</b>	<b>Three (3) Hours</b>
<b>TOTAL MARKS</b>	<b>:</b>	<b>100</b>
<b>INSTRUCTIONS</b>	<b>1</b>	<b>There are seven (7) questions, <u>answer all</u>.</b>
	<b>2</b>	<b>Begin the solution to each question on a new page.</b>
	<b>3</b>	<b>The marks awarded for a question are indicated at the end of each question.</b>
	<b>4</b>	<b>Show all necessary workings.</b>

**NOTE:** You are reminded that in assessing your work, account will be taken of accuracy of the 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.**

**SPECIAL REQUIREMENT: CALCULATOR**

**RATES OF NORMAL TAX FOR INDIVIDUALS**

TAXABLE INCOME	RATES OF TAXES
E0 to E60,000	E0 + 20% of the excess over E0
E60,001 to E80,000	E12,000 + 25% of excess over E60,000
E80,001 to E100,000	E17,000 + 30% of the excess over E80,000
E100,001	E23,000 + 33% of the excess over E100,000

**PRIVATE USE OF MOTOR VEHICLES PROVIDED BY THE EMPLOYER:**

The year of assessment 2008/2009: 20 %

**EMPLOYEE USING PERSONAL VEHICLE ON EMPLOYER'S BUSINESS:**

Deemed expenditure is determined on the following basis:

- (i) Fixed costs: 25% of the original cost to the taxpayer of the vehicle in each year.
- (ii) Running costs per kilometre:
 

Up to 1600cc	54c per km
1600cc to 2000cc	76c per km
Over 2000 cc	85c per km
- (iii) Deemed Business Mileage: 6,000 kilometres
- (iv) Deemed Total Mileage: 24,000 kilometres

**SCHEDULE A (EXPLANATIONS)**

In this schedule, the locations are designed in categories A, B, C, and detailed as follows:

Area A: is accommodation or housing situated in the residential areas of Mbabane Municipal area, Waterford, Pine Valley, Coates Valley, Extension 6, Madonsa Township, Thomasdale and within ten kilometers from the old Mbabane/Manzini road.

Area B: is accommodation or housing situated in the residential areas of Manzini and surrounds; except Coates Valley, Extension 6, Madonsa Township and Thomasdale.

Area C: is accommodation or housing situated in the major agricultural and industrial sectors and other towns

1.2 Where an employer rents from an employee the employee's private residence and then grants such employee free or cheap occupation thereof, the rental is deemed to be a taxable benefit, the value of the benefit to the employee is the rental received.

1.3 Where an employer provides accommodation or housing to employees on a sharing basis, the rental benefit value shall be determined pro rata.

**SCHEDULE A:**

<b>Rental category</b>	<b>Floor area</b>	<b>Area A Taxable benefit per month</b>	<b>Area B Taxable benefit per month</b>	<b>Area C Taxable benefit per month</b>
<b>Prime location</b> 3-5 bedrooms 2-3 bathrooms Double garage Servant quarters Secure perimeters <b>1,500 sq.m and above lot</b>	250 sq.m and above	<b>E</b> 4,607	<b>E</b> 3,915	<b>E</b> 2,740
As above, but smaller	200 - 249 sq.m	4,145	3,524	2,465
3 bedrooms 2 bathrooms a garage Servant quarters Secure perimeter <b>700 sq.m and above lot</b>	159 - 199 sq.m	3,686	3,133	2,193
<b>Lesser than prime location</b> 3 bedrooms 1-2 bathrooms <b>700 sq.m and above lot</b>	120 - 158 sq.m	3,190	2,710	1,899
2-3 bedrooms 1 bathroom or shower	100 - 119 sq.m	2,393	2,033	1,422
2-3 bedrooms 1 bathroom or shower	70 - 99 sq.m	1,612	1,370	960
2-3 bedrooms 1 bathroom or shower	40 - 69 sq.m	1,330	1,129	790
1 bedroom	70 sq.m and above	910	773	542
1 bedroom	Under 70 sq.m	761	648	452
Bedsitters	Under 70 sq.m	531	452	317
Quarters	Under 70 sq.m	213	180	110

**QUESTION 1:**

Ms. Nolwazi Vilakati commenced employment on 01.07.2010 as General Manager Finance and Investments in a reputable Mbabane Bank. She was 48 years of age and her income particulars for the year ended 30.06.2011 are as follows:

**SALARIES AND BENEFITS**

1. Her basic salary was E111,000 per month from 01.07.2010 to 30.06.2011.
2. She was booked into Swazi Oak Lodge for the first two months and the employer paid E46,500 in hotel accommodation expenses.
3. On 01.09.2010 her employer provided her a BMW 1 series 116i which had a 3200cc and had a value of E320,000 after sales tax of 14%. She contributed E1,800 per month for its maintenance.
4. Her employer provided her an annual car allowance of E30,000 and it was considered E1,800 per month was adequate.
5. From 01.09.2010 to 30.11.2010, the employer rented a house for her at Woodlands Township for E8,000 per month, and she contributed E1,800 per month. And from 01.12.2010 to 30.06.2011 she was allocated a 4 bedroom house in a prime location of Thembelihle, Mbabane. The house had a lot size of 1,600 sq.m and a floor area of 210 sq.m. She contributed E 2,400 per month towards its upkeep.
6. A Logico Removal Truck was hired at a cost of E7,000 to transport her household goods from Manzini to Mbabane.
7. From 01.09.2010 her employer provided and paid for the following services: utilities at E3,500 per month; gardener at E1,500 per month, a house maid at E2,000 per month and a security guard at E3,000 per month.
8. On 01.08.2010 the employer extended a E3,000 emergency loan to cater for pressing financial needs.
9. For continuing professional development, the employer granted Nolwazi a bursary amounting to E35,000 to enable her to do an MBL through UNISA.
10. On 01.09.2010 her employer extended a E240,000 loan at 5.5% interest rate, while the Central Bank discount rate was 9%.

11. The employer paid E8,000 as school fees (within an approved bursary scheme) for Nolwazi's child.
12. The employer contributed 19% of Nolwazi's monthly basic pay as pension with Alexander Forbes Swaziland.
13. The employer contributed E2,900 per month to Swazimed as medical assistance.
14. Nolwazi received a thirteenth cheque from her employer.
15. She enjoyed meals and refreshments from the bank's canteen valued at E6,000.
16. When consulting out, she was given free meal coupons amounting to E12,000 to use at eateries around the places she visited.
17. She made a net gain of E30,000 from her agricultural activities on Swazi Nation Land.
18. Her employer granted and paid for a holiday trip to Gold Reef City, Northern Parkway, Sandton, South Africa and the cost to the bank was E30,000.

#### **OTHER INCOME PARTICULARS**

19. She rented out a house at Fairview North, Manzini for E4,000 per month and its annual maintenance was E6,000 and E3,000 salaries to the security guard manning the house. The rates assessed for this property were E2,500.
20. Her late father was a member of the Umsizi regiment and she received E40,000 war benefit related to her late father.
21. She earned the following investment incomes: E12,000 dividend income from a Swaziland quoted company, E6,000 interest from permanent shares with Swaziland Building Society, E4,000 interest from Nedbank Swaziland, E8,000 society shares from savings with Bunye Betfu Buhle Betfu Savings & Credit Co-operative Society, E3,000 interest on Old Mutual unit trusts, and E17,000 dividend from Escalator Capital, a South African quoted company. The investment was done through a Swazi broker based in Manzini and the money was remitted through FNB Manzini branch.

**EXPENSES / PAYMENTS**

1. The interest expense to Swaziland Building Society for the mortgage loan of her principal house in Madonsa Township was E38,000.
2. The interest on a E30,000 loan with FNB Swaziland to upgrade the Fairview North, Manzini rented house was E8,000.
3. She made a E30,000 cash contribution and a tent worth E6,000 to the Swaziland Red Cross after a national disaster at Shewula was officially declared by the Government in the Gazette and the Swaziland Red Cross had approved this assistance.
4. She paid E3,000 premiums to an unemployment insurance fund with Swaziland Royal Insurance Corporation.
5. She paid E8,000 premiums to SRIC for burglary insurance to protect her house contents.
6. She paid alimony payments to her separated husband amounting to E8,000 per annum.
7. The courts had granted custody of their child to her husband and she paid E3,000 per month towards maintenance of their child.
8. She paid E7,500 premiums to an approved pension scheme.
9. She incurred medical bills for her separated husband amounting to E18,000 at Mkhiwa Clinic.
10. She paid E8,000 towards wear and tear expenses of her private car.
11. Her contribution to a statutory pension scheme was 6% of her basic salary.
12. She paid E6,000 as school fees for her brother's child (within an approved bursary scheme).
13. She paid E5,000 premiums for a life insurance policy with Metropolitan Life Swaziland.
14. She paid E15,000 in traffic fines and driving under the influence (DUI) fines.
15. She paid a E1,500 bribe to facilitate the speedy hearing of her case at the Manzini Magistrate Court.

16. She incurred E8,000 repairing her accident damaged car which was fully insured by Lidwala Insurance.
17. She had paid E300,000 as PAYE tax paid in advance.

**Required:**

On submission of her personal tax return, compute the tax payable by / refundable to Ms. Nolwazi Vilakati for the tax year ended 30.06.2011. **(Question 1: Total marks 36)**

**QUESTION 2:**

The goal of tax planning is to arrange your financial affairs so as to minimise your tax liability. Discuss **four** ways you can achieve this. **(Question 2: Total marks 8)**

**QUESTION 3:**

In a country like Swaziland, there are various conditions required for successful use of taxation in order to achieve its purposes. Explain these conditions.

**(Question 3: Total marks 6)**

**QUESTION 4:**

**(Auditing Part)**

Nontobeko Zikalala & Co, a medium sized audit firm, was engaged to audit Maseko Supply Company. Several staff were involved in the audit, all of whom had attended the firm's inhouse training program on effective auditing methods. Throughout the audit, Zikalala spent most of her time in the field planning the audit, supervising the staff, and reviewing the work.

A significant part of the audit entailed verifying the physical count, cost and summarization of inventory. Inventory was highly significant to the financial statements, and Zikalala knew the inventory was pledged as collateral for a large loan to First City National Bank Swaziland. In reviewing Maseko's inventory count procedures, Zikalala told the president Nomcebo Maseko that she believed the method of counting inventory at different locations on different days was highly undesirable.

The president stated that it was impractical to count all inventory on the same day because of personnel shortages and customer preferences. After a considerable discussion, Zikalala agreed to permit the practice if the president would sign a statement that no other method was practical. The audit firm had at least one person at each site to

audit the inventory count procedures and actual count. There were more than 40 locations.

Eighteen months later, Zikalala found out that the worst had happened. Management below the president's level had conspired to materially overstate inventory as a means of covering up obsolete inventory and inventory losses resulting from mismanagement. The misstatement occurred by physically transporting inventory at night to other locations after it had been counted in a given location. The accounting records were inadequate to uncover these illegal transfers.

Both Maseko Supply Company and First City National Bank Swaziland sued Nontobeko Zikalala & Co.

**Required:**

Answer the following questions, setting forth reasons for any conclusions stated:

- a) What defense should Nontobeko Zikalala & Co. use in the lawsuit by Maseko?
- b) What defense should Nontobeko Zikalala & Co. use in the suit by First City National Bank Swaziland?
- c) Is Zikalala likely to be successful in her defenses? **(Question 4 :Total marks 9)**

**QUESTION 5:**

For the following independent situations, assume you are the audit partner on the engagement.

- 1. Your client, Affordable Car Hire, recently changed its depreciation method from straight-line to sum-of-the-years' digits. The effect of the change on the current year's income is not material, but in future years, you suspect the effect will become material. The facts are adequately disclosed in footnotes.
- 2. Ngwenya Iron Ore Minerals recently decided to change its direction and spent the last 8 months developing business in the potash mining business. There are significant potential rewards, but the company's management recognizes that there are significant risks in the business that could jeopardize the success of its existing mining business. Since starting the new adventure, the company has had no success and some decline in profits. The facts are adequately disclosed in footnotes.
- 3. You recently noticed that Matsapha Builders Discount Warehouse routinely excludes their statement of cash flows in the company's annual financial statements. Their reasoning, as explained to you, is that the statements are confusing to their readers, so they prefer to leave the information out.



4. A group of longtime friends decided to try their hand at online art auctions and online trade in antiques. Although their venture started out well enough, a market-wide downturn in e-commerce sales abruptly plunged the start-up into the red. The future of the company looks bleak, both sales and cash position have declined substantially. If the market does not turn around soon, you think the company may not be able to continue to operate.
5. The controller of Sun International Hotel will not allow you to confirm the receivable balances from any of its customers. However, the amounts of the receivables are material in relation to Sun International's financial statements. You cannot use any other methods to check the receivables balances.
6. Your firm has been unusually busy, so you asked another audit firm to do about 30% of the audit for Spar Supermarkets, Inc. After a thorough review of their working papers, you are convinced that they did an excellent job on their portion of the audit. However, you are reluctant to take complete responsibility for their work.

**Required:**

For each situation, do the following:

- a) Identify which of the conditions requiring a modification of or a deviation from an unqualified standard report is applicable. (6 marks)
- b) State the level of materiality as immaterial, material, or highly material. If you cannot decide the level of materiality, state the additional information needed to make a decision. (6 marks)
- c) Given your answers in parts a and b, state the type of audit report that should be issued. If you have not decided on one level of materiality in part b, state the appropriate report for each alternative materiality level. (6 marks)

**For neatness sake, tabulate your answers.**

**(Question : 5 Total marks 18)**

**QUESTION 6**

Analytical procedures consist of evaluations of financial information made by a study of plausible relationships among both financial and nonfinancial data. They range from simple comparisons to the use of complex models involving many relationships and elements of data. They involve comparisons of recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditor.

**Required:**

- a) Describe the broad purposes of analytical procedures. (4 marks)
  - b) When are analytical procedures required during an audit? Explain why auditors use analytical procedures extensively in all parts of the audit. (3 marks)
  - c) Describe the factors that influence the extent to which an auditor will use the results of analytical procedures to reduce detailed tests in meeting audit objectives. (3 marks)
- (Question 6 : Total marks 10)**

**QUESTION 7**

- a) Why is independence so essential for auditors? (3 marks)
  - b) Explain the difference between independence in appearance and of mind. (4 marks)
  - c) Assume that a partner of an audit firm owns two shares of stock of a large audit client on which he serves as the engagement partner. The ownership is an insignificant part of his total wealth.
    - 1) Explain whether the ownership is likely to affect the partner's independence of mind.
    - 2) Explain the reason for the strict requirements about stock ownership in the rules of conduct.
- (6 marks)**

**(Question 7 : Total marks 13)**

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