

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING AND FINANCE
SUPPLEMENTARY EXAMINATION PAPER
JULY 2012
ACADEMIC YEAR 2011/2012

PROGRAMME OF STUDY	:	Diploma in Commerce
YEAR OF STUDY	:	Level 4 (IDE – Part Time)
TITLE OF THE PAPER	:	Principles of Taxation and Auditing
COURSE CODE	:	IDE AC 304 – 1 & 2 (S) (Part Time)
TIME ALLOWED	:	Three (3) Hours
TOTAL MARKS	:	105
INSTRUCTIONS	1	There are six (6) questions, <u>answer all</u>.
	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 all necessary workings.

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 2007/2008: 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:

Rental category	Floor area	Area A Taxable benefit per month	Area B Taxable benefit per month	Area C Taxable benefit per month
Prime location 3-5 bedrooms 2-3 bathrooms Double garage Servant quarters Secure perimeters 1,500 sq.m and above lot	250 sq.m and above	E 4,607	E 3,915	E 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 700 sq.m and above lot	159 - 199 sq.m	3,686	3,133	2,193
Lesser than prime location 3 bedrooms 1-2 bathrooms 700 sq.m and above lot	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

(Taxation Part)**QUESTION 1:**

Mr. Muziwethu Dlamini was employed as Chief Financial Officer of a reputable Manzini company from 01.09.2011. He was 43 years old on 30.06.2012. His income particulars for the financial year ended 30.06.2012 are as follows:

SALARY AND BENEFITS

1. From 01.09.2011 up to 30.06.2012 his monthly salary as a Chief Financial Officer was E50,000.
2. On 01.09.2011 the employer provided him with a 2800cc company car which was valued at E445,000 after 14% sales tax was added to the cost.
3. From 01.09.2011 the company gave Muziwethu a fuel allowance of E5,000 per month.
4. From 01.11.2011 he was provided by his employer a four bedroom house with a lot size of 1,600 sq.m and a floor area of 270 sq.m at Madonsa Township in Manzini. He contributed E1,200 per month for the maintenance of the house.
5. From 01.11.2011 the employer provided and paid for the following services: utilities at a cost of E1,500 per month, a house maid at a cost of E1,300 per month, gardener at a cost of E1,000 per month and a security guard at a cost of E2,000 per month.
6. The employer paid E35,000 as school fees (within an approved bursary scheme) for Muziwethu's children, and E5,000 as transport cost to school for his children.
7. The company gave Muziwethu an entertainment allowance of E30,000 for the year 2011/2012.
8. The employer's contribution to a statutory pension scheme was 20% of Muziwethu's monthly salary.
9. The vouchers accounting for entertainment allowance amounted to E27,000 only.
10. The vouchers accounting for fuel allowance amounted to E35,000 only.

OTHER INCOME PARTICULARS

- 11. He received E22,000 as a dividend from a South African quoted company. This investment was done through a Swazi broker based in Mbabane. The money was remitted through the Mbabane branch of First National Bank Swaziland.
- 12. He also received E25,000 as interest income from permanent period shares with Swaziland Building Society, E15,000 from a savings account with Swaziland Development and Savings Bank, E5,000 from a savings account with Nedbank Swaziland and E6,000 as interest income from a fixed deposit account with Standard Bank Swaziland.
- 13. He rented out a house in Mbabane for E46,000 and its annual maintenance was E22,000.

EXPENSES / PAYMENTS

- 1. He incurred medical expenditures amounting to E10,000.
- 2. He paid E5,000 premium to an approved provident fund.
- 3. His contribution to a statutory pension scheme was 10% of his basic pay.
- 4. He had paid E250,000 as PAYE tax paid in advance.

Required:

On submission of his personal income tax return, compute the tax payable by / refundable to Mr. Muziwethu Dlamini for the tax year ended 30.06.2012. **(40 marks)**

QUESTION 2:

From April 1, 2012 the Government of Swaziland introduced Value Added Tax (VAT) in Swaziland in place of Sales Tax.

- (a) Distinguish between VAT and Sales Tax. **(5 marks)**
- (b) Discuss **five** advantages of VAT over Sales Tax. **(5 marks)**

(Total marks : 10)

(Auditing Part)

QUESTION 3:

The following are independent situations for which you will recommend an appropriate audit report on internal control over financial reporting as required by auditing standards:

1. The auditor identified a material misstatement in the financial statements that was not detected by management of the company.
2. The auditor was unable to obtain any evidence about the operating effectiveness of internal control over financial reporting.
3. The auditor determined that a deficiency in internal control exists that will not prevent or detect a material misstatement in the financial statements.
4. During interim testing, the auditor identified and communicated to management a significant control deficiency. Management immediately corrected the deficiency and the auditor was able to sufficiently test the newly-instituted internal control before the end of the financial year.
5. As a result of performing tests of controls, the auditor identified a significant deficiency in internal control over financial reporting; however, the auditor does not believe that it represents a material weakness in internal control.

Required:

For each situation, state the appropriate audit report from the following alternative and the reason for your answer:

- Unqualified opinion on internal control over financial reporting.
- Qualified or disclaimer of opinion on internal control over financial reporting.
- Adverse opinion on internal control over financial reporting.

For neatness sake, tabulate your answers.

(Question 3 : Total marks 15)

QUESTION 4:

The following are misstatements that have occurred in Pick 'n Pay, a retail and wholesale grocery company:

1. The incorrect price was used on sales invoices for billing shipments to customers because the wrong price was entered into the computer master file of prices.
2. Employees in the receiving department took portions of beef for their personal use. When a shipment of meat was received, the receiving department filled out a receiving report and forwarded it to the accounting department for the amount of goods actually received. At that time, two portions of beef were put in an employee's pickup truck rather than in the storage freezer.
3. A salesperson sold an entire carload of lamb at a price below cost because she did not know the cost of the lamb had increased in the past week.
4. On the last day of the year, a truckload of beef was set aside for shipment but was not shipped. Because it was still on hand the inventory was counted. The shipping document was dated the last day of the year, so it was also included as a current-year sale.
5. An accounts payable clerk processed payments to himself by adding a fictitious vendor address to the approved vendor master file.

Required:

- a) For each misstatement, identify one or more types of controls that were absent. **(5 marks)**
 - b) For each misstatement, identify the transaction-related audit objectives that have not been met. **(5 marks)**
 - c) For each misstatement, suggest a control to correct the deficiency. **(5 marks)**
- (Question 3 : Total marks 15)**

QUESTION 5:

Mcebo Mamba, CA, is the auditor for Wiseman Manufacturing Corporation, a privately owned company that has a June 30 financial year. Wiseman arranged for a substantial bank loan that was dependent on the bank's receiving, by September 30, audited financial statements that showed a current ratio of at least 2 to 1. On September 25, just before the audit report was to be issued, Mamba received an anonymous letter on Wiseman's stationery indicating that a 5-year lease by Wiseman, as lessee, of a factory building accounted for in the financial statements as an operating lease was, in fact, a capital lease. The letter stated that there was a secret written agreement with the lessor modifying the lease and creating a capital lease.

Mamba confronted the president of Wiseman, who admitted that a secret agreement existed but said it was necessary to treat the lease as an operating lease to meet the current ratio requirement of the pending loan and that nobody would ever discover the

secret agreement with the lessor. The president said that if Mamba did not issue his report by September 30, Wiseman would sue Mamba for substantial damages that would result from not getting the loan. Under this pressure and because the audit files contained a copy of the 5-year lease agreement that supported the operating lease treatment, Mamba issued his report with an unqualified opinion on September 29.

Despite the fact that the loan was received, Wiseman went bankrupt within 2 years. The bank is suing Mamba to recover its losses on the loan, and the lessor is suing Mamba to recover uncollected rents.

Required:

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

- a. Is Mamba liable to the bank? **(3 marks)**
- b. Is Mamba liable to the lessor? **(3 marks)**
- c. Is there potential for criminal action against Mamba? **(3 marks)**

(Question 5 : Total marks 9)

QUESTION 6:

Portia Sithebe is the managing partner of Sithebe and Simelane, a medium-sized local audit firm located outside of Manzini. Over lunch, she is surprised when her friend Phindile Ntshangase asks her “Doesn’t it bother you that your clients don’t look forward to seeing their auditors each year? Portia responded, “Well, auditing is only one of several services we provide. Most of our work for clients does not involve financial statement audits, and our audit clients seem to like interacting with us”.

- a. Identify ways in which a financial statement audit adds value for clients. **(2 ½ marks)**
- b. List other services other than audits that Sithebe and Simelane likely provide. **(2 ½ marks)**
- c. Assume Sithebe and Simelane has hired you as a consultant to identify ways in which they can expand their practice. Identify at least three additional services that you believe the firm should provide and explain why you believe this presents a growth opportunity for audit firms. **(3 marks)**

(Question 6 : Total marks 8)

QUESTION 7

- a. Discuss the concept of “reasonable assurance” and the degree of confidence that financial statement users should have in the financial statements. **(2 marks)**
- b. Define material misstatement(s). **(2 marks)**
- c. Distinguish between substantive tests of transactions and tests of details of balances. Give one example of each for the acquisition and payment cycle. **(4 marks)**

(Question 7 : Total marks 8)