

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER MAY 2015

DEGREE/ DIPLOMA AND

YEAR OF STUDY : B. COM LEVEL 6

TITLE OF PAPER : TAXATION II

COURSE CODE : AC420 (M) MAY 2015

TOTAL MARKS : 100 MARKS

TIME ALLOWED : THREE (3) HOURS

INSTRUCTIONS

- 1 There are four (4) questions, answer all.
- 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 the necessary working.
- 5 Calculations are to be made to zero decimal places of accuracy, unless otherwise instructed.

Note: You are reminded that in assessing your work, account will be taken of accuracy of the language and general quality of expression, together with layout and presentation of your answer.

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SPECIAL REQUIREMENTS: CALCULATOR

Question 1**(30 Marks)****Question 1(a)****(10 Marks)**

- i. In not less than a page define and discuss what is meant by farming operations (4)
- ii. How is the value of livestock and produce treated in the following circumstances (3)
 - a. At the beginning and end of normal year after commencement of the farming operation
 - b. When there is donation or inheritance of livestock or produce to a farming operation
- iii. Would the following activities be treated as farming operations? Explain (3)
 - a. Mining berry, crustal berries , sapphires and tanzanite in a farm
 - b. Growing kukuyi grass and selling it as hay
 - c. Running a two star hotel in a farm

Question1 (b)**(20 Marks)**

Receipts	(E)	Notes
Income from Grocery Shop	100,000	
Sale of livestock	350,000	
Sale of produce	100,000	
Government Subsidy	120,000	
Grazing fees	25,000	
Payments		
Purchases of livestock	60,000	
Purchase of produce	13,000	
produce Donated @ Market Value	40,000	1
Rations	30,000	2
Livestock donated (Market price)	20,000	3
Seed and fertilizers	75,000	
Grazing hay purchased	10,000	
Office Expenses	400,000	
Construction of Dam	150,000	
Cost of irrigation system	40,000	
construction of roads	15,000	4
Fencing	30,000	
Delivery Truck	200,000	

Question 2**(20 Marks)**

Mr. Dlamini is a partner in a partnership and shares 40% of profits and losses of the partnership. In August 2011 the partnership purchased a motor vehicle in terms of an installment credit agreement. The cash purchase price of the vehicle was E273,600 (including VAT). A monthly installment of E7,205 was paid by the partnership. Interest of E29,780 was incurred by the partnership during the period between 2011 July and June 2012 in respect of the vehicle. For tax purposes wear and tear on the motor vehicle is allowed at the rate of 25%.

The cost in respect of the maintenance of the vehicle was 30,000; insurance and fuel was 50,000. The partnership paid for all of the expenses. The vehicle was used by Mr. Dlamini for both business and private purposes. Mr. Dlamini kept a logbook of his business and private kilometers travelled during the 2012 year of assessment. He travelled 25000 km for business purposes and 16000km for private purposes.

The partnership's statement of comprehensive income (P&L) for the period 1 July 2013 to 30 June 2014 was as follows:-

Partnership Statement of Comprehensive Income

Income	E	E
Gross Profit from Trading		3,500,000
Expenses		
General partnership expenses (all deductible/allowable)	(1,650,000)	
Salary paid to Mr.Dlamini	(280,000)	
Salary paid to other partners	(530,000)	
Mr Dlamini's Interest on capital	(55,000)	
Mr Dlamini's Life Policy	(25,000)	
Motor vehicle maintenance for Mr. Dlamini	(30,000)	
Insurance and fuel in respect of Mr. Dlamini's vehicle	(50,000)	
interest paid in respect of Mr. Dlamini's vehicle	(30,000)	
Depreciation for Mr. Dlamini's vehicle(25% of 273,000)	(68,400)	
Net Profit		781,600

Additional information

In June 2014 Mr Dlamini left the partnership and sold his share of partnership to the remaining partners for E750,000. When he joined the partnership he contributed assets worth E300,000 and cash amounting to E100,000. During the year Mr Dlamini injected

to the Partnership a further amount equal to 10% of his share of profit arising from the 2012

Required

- A. Compute Capital Gains Tax on the sale of Mr Dlamini' s interest in the Partnership (5)
- B. Mr. Dlamini is 62 years old: Calculate his tax Liability for the tax year ended June 2014(15 Marks)

Question 3**(20 Marks)**

Mr. Nxumalo aged 55 was diagnosed to be diabetic on 15 May 2012. He decided to plan for his fate and moved out of his 4 bedroom house situated in Mbabane to his home in Mbekelweni on 30 June 2012. In order to receive some Income, he rented out the Mbabane house for E10,000 per month starting July 2012.

On 20 March 2013 Mr Nxumalo sold his entire shareholding of 30,000 shares in MTN Swaziland, a listed company. On the date of sale the shares were quoted at E30 a share and had been purchased as follows:

Number of Shares	Date of Purchase	Total Cost
20,000	18 May 2005	140,000
10,000	25 June 2010	150,000

Mr Nxumalo paid a stock broker 2% on the sale amount in respect of this transaction.

On 25 April 2013, Mr Nxumalo further disposed of his 20,000 shares in African Alliance also a listed company by donating to the Cheshire Homes. At the time of disposal the Market Value of the Shares was E160,000. All the 20,000 shares were purchased on June 2009 for E65,000.

On 30 June 2013 Mr. Nxumalo sold his Mbabane home to Gcinaphi Mavuso who has been renting it since July 2011 for E1000,000. Mr Nxumalo finished building the house in 2005 at a cost of E350,000. In 2011, he made some improvements worth E 100,000.

Mr. Nxumalo incurred the following expenses in connection with the disposal of the Mbabane Home

Transfer fees	10,000
Estate agent Commission	30,000

Required

- State 5 costs that are allowable or constitutes the base cost for the purpose of Capital gains Tax (5)
- Calculate the total capital gains tax liability for Mr Nxumalo (10)
- Calculate the total taxable income for Mr. Nxumalo's for the tax year ended June 2013. (5)

Question 4**(30 Marks)**

VJR Properties is a VAT registered property company earning its income from commercial and residential rentals (office blocks, factories, and flats for residential accommodation). You are the accountant and it is your responsibility to complete the monthly VAT return for the company. From analysis of the following income and expenditure for the period ending 30th March 2015, it has been established that 80 percent of the business's Turnover constitutes taxable suppliers.

Income (VAT exclusive)		Notes
Commercial Rentals	1,000,000	
Residential rentals	159,600	
Interest levied on overdue rentals	8,000	
Insurance settlement	136,800	1
Expenditure (VAT inclusive)		
Purchase of new factory building	850,000	
Purchase of two residential flats	450,000	
Bank charges	3,500	
Audit fees	20,000	2
Salaries and wages	75,000	
Purchase of New Bakkie	150,000	3
Depreciation	5,000	3
Maintenance	30,000	4
Insurance premiums	15,000	5
Interest incurred on mortgage	85,500	
Office equipment rentals	7,500	6
Employee expenses	10,500	7
Petrol	13,000	
Bad debts	12,000	8
Travelling Expenses	13,500	9

Additional information

1. The company's Toyota 3000 DT (single cab) was involved in an accident and received compensation of E136,800
2. Audit fees were for all the accounts maintained by the company
3. All proceeds from insurers contributed to the purchase of the company's Isuzu vehicle, the depreciation is in respect of the new vehicle.
4. Maintenance costs were for all the buildings owned and operated by the company, and include costs of paint, brushes and other hardware items purchased to effect repairs on the buildings.
5. Insurance premiums were incurred in respect of all assets of the company
6. Office equipment rentals were incurred on the following items:

Coffee machine	E1,000
Fax machine	E3,000
Printer	<u>E3,500</u>
Total	<u>E7,500</u>
7. Employee cost expenses were in relation to staff employed for Commercial Property Administration
8. Of the Bad debts 60% were in relation to Commercial rentals proved to be uncollectable
9. Travelling expenses were made up of;

• Hotel accommodation	E 3,500
• Overseas air tickets Given as part of Employment Benefit	E10,000

Required

With explanations compute the VAT due/refund for VJR Properties.

End of Exam

Appendix

- 1 Companies pay tax at the rate of 27.5%
2. Applicable Annual Tax Rates for Personal Income Tax

Taxable income		Rate of tax	
EXCEEDS	BUT DOES NOT EXCEED		
E	E	E	
0	100 000	0	+ 20% of the excess over 0
100 000	150 000	20 000	+ 25% of the excess over 100 000
150 000	200 000	32 500	+ 30% of the excess over 150 000
200 000		47 500	+ 33% of the excess over 200 000

3. Rebates

- i. Primary Rebate 8,200
- ii. Secondary Rebate for the Elderly (60 yrs and above) 2,700
- iii. Contributions to pension fund are limited to 10% of basic salary
- iv. Provident fund and life insurance contribution combined are subject to a rebate of 10% of the amount contributed but limited to E360

4. Capital Gains Tax

Individuals Exclusion for 2014 tax year E20,000

Inclusion into Gross Income : Companies 50%
 : Individuals 25%