

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER DECEMBER 2013

DEGREE/ DIPLOMA AND

YEAR OF STUDY : B.COM IV / IDE LEVEL 6

TITLE OF PAPER : TAX APPLICATIONS

COURSE CODE : AC423 / IDE AC 419

TOTAL MARKS : 100 MARKS

TIME ALLOWED : THREE (3) HOURS

- INSTRUCTIONS
- 1 There are three (3) 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.

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVILATOR OR SUPERVISOR.

SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1

a) Manzini CC is a Swaziland company which earns its income as consulting geologists and by selling borehole and irrigation equipment. Manzini CC has a 30 June 2015 year end. The following revenue transactions relate to its current year of assessment:

- (i) It earned consultation fees of E100 000 for surveys carried out in the country during the year of assessment.
- (ii) It was instructed by the chairman of a mining company in Mbabane to carry out a survey in Zambia at the site of a new coal mine. All the work was carried out in Zambia, but the final report was typed in Mbabane. The fee paid was E50 000.
- (iii) While an employee was in Zambia, he was approached by a farmer to carry out a survey of a new borehole for water. In lieu of a fee, Manzini CC accepted an antique yellow-wood conference table which the farmer transported to Manzini CC's head office in Mbabane. The table was valued at E20 000 by a dealer in Mbabane.
- (iv) The following sales of irrigation equipment were made during the year:

	E
• Sales to local clients	27 000
• Sales to client in South Africa (at 30 June the amount had not yet been received)	32 000
• A deposit was received from a client in Siteki for equipment that is to be delivered in August 2015	5 000
- (v) The corporation sold a building in Mbabane, which it had originally acquired with the intention of letting, for the amount of 80 000

Assume that no double tax agreements are in force in Zambia and South Africa.

1) Required:

- a) Determine Manzini CC's gross income for the current year of assessment 30 June 2015. **(15 Marks)**
- b) Briefly explain the main purpose of taxation in the modern economy **(3 Marks)**
- c) Explain the difference between direct and indirect tax, giving an example of each **(5 Marks)**
- d) In Swaziland, how is the residence of a company defined **(2 Marks)**

2) Briefly explain the tax implications of a:

- (i) Sole Trader **(3 Marks)**
- (ii) Partnership **(3 Marks)**
- (iii) Close Corporation **(3 Marks)**
- (iv) Company **(3 Marks)**
- (v) Trust **(3 Marks)**

Total: (40 Marks)

QUESTION 2

- a) Doll world Ltd carries on business as a manufacturer of dolls from its main branch in the country. The company also operates a depot in Harare, Zimbabwe, where sales are made to customers living in Zimbabwe. The Zimbabwean depot does not operate as an independent branch. Doll world Ltd has been registered for VAT and submits returns every after 2 months. All amounts include VAT where appropriate.

The following information is provided:

Receipts	February	March
1. Cash Sales		
✓ Made to Swazi customers	193 800	176 700
✓ Made by the Zimbabwe depot to their Zimbabwe customers	39 900	51 300
2. Insurance payment received on an insurance claim for trading stock stolen in the country		171 000
3. Interest received on a loan to a subsidiary company in the country		13 680
4. Cash received for the sale of an old machine to Mr Littler. The machine originally cost E20 000 and had a book value of E5000 on the date of sale. The open market value on the date of sale was E17 980.00		11 400
Expenses	February	March
1. Wages and salaries	63 840	57 000
2. Property rates on the business property	1 710	1 710
3. Electricity and water	1 083	855
4. Telephone	912	570
5. Raw materials purchased from other vendors	136 800	91 200
6. Cost of entertaining important customers at various Restaurants in the country	1 368	912
7. Purchases of a new single-cab bakkie for use as a delivery Vehicle	171 000	
cash cost		
Finance charges	8 550	
8. Cash cost of a new motor car purchased for general use within the Business	91 200	
9. Petrol for delivery vehicles and the new motor car	912	1 026
10. Maintenance of delivery vehicles and the new motor car	798	912

Required:

a) Calculate the VAT payable by or refundable to Doll World Ltd in respect of its two month tax period ended 31 March 2015 giving brief explanation for your treatment of each item.

Note: Indicate clearly any transactions which do not give rise to a VAT effect by the use of zero. (25 Marks)

b) The timing of the VAT payable or refundable to an enterprise depends on the specific VAT accounting basis of that vendor. Briefly discuss the 2 accounting bases that may be applied by a vendor to account for VAT. (5 Marks)

Total: (30 Marks)

QUESTION 3

1. Malini Trading Corporation had the following Profit and Loss for the year ended 30/6/2015.

	E	E
GROSS PROFIT		250,000
EXPENSES AND TRANSFERS		
Wages and salaries	10,000	
Loss b/f from last year	3,000	
Rent and rates	3,500	
Depreciation	20,500	
Repair and maintenance (Note 1)	44,800	
Bad debts written off (Note 2)	12,000	
Provision for fall in stock prices	15,000	
Entertainment expenses	7,500	
Gifts and donations (Note 3)	40,000	
Professional fees (Note 4)	20,000	
Traffic fines	3,000	
Court fines	6,000	
Legal expenses on industrial building acquisition	2,500	
Transfer to revenue reserves	20,000	
Transfer to capital reserves	<u>12,000</u>	
		<u>219,800</u>
NET PROFIT TO BALANCE SHEET		<u>30,200</u>
NOTE 1:Repair and maintenance		
Acquisition of IndustrialBuilding	30,000	
General repair	2,800	
Acquisition of office machinery	12,000	
		<u>44,800</u>

NOTE 2:Bad debts written off	E	E
Trade debt written off	10,000	
Loans to employees written off	1,000	
Increase in specific bad debt provision	6,000	
Decrease in general provision of debts	-5,000	
		<u>12,000</u>
NOTE 3:Gift and donations		
Donation to government for erection of schools	20,000	
Donation to University of Swaziland in relation to capital projects	15,000	
Donation to construction of a local church	5,000	
		<u>40,000</u>
NOTE 4:Professional fees		
Legal fees in connection with issue of debentures	15,000	
Legal fees in connection with acquisition of a general plot of land	5,000	
		<u>20,000</u>

REQUIRED:

1. Compute the corporation tax liability payable of Malini Trading Company for the year ended 30.6.2015

USE THE SHORT CUT ADD DEDUCT METHOD (25 Marks)

2. List 5 Supplies that are specified as exempt for VAT purposes (5 Marks)

Totals Marks 30