

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
SUPPLEMENTARY EXAMINATION PAPER JULY 2016

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.

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SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1

- 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:

	February	March
Receipts		
1. Cash Sales:		
• Made to Swazi Customers	193 800	176 700
• Made by the Zimbabwe depot to their Zimbabwean Customers	39 900	51 300
2. Insurance 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. Machine originally cost E20 000.00 and had a book value of E5 000.00 on the date of sale. The open market value on the date of sale was E17 980.00		11 400.00
Expenses		
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. (20 Marks)

b) i) What are the obligations of a VAT Registered business
 ii) Briefly discuss the conditions whereby a business can cancel VAT registration
(10 Marks)

Total: (30 Marks)

QUESTION 2

a) Define Gross Income according to section 7 of the Income Tax Order. (5 Marks)

b) Briefly analyse the components of the definition of Gross Income. (10 Marks)

c) Briefly describe the 'General Deductions Formula' with its components. (15 Marks)

Totals Marks 30

Question 3

i) Compute the corporation tax payable as at 30.6.2015

Use the shortcut add deduct method

PQC COMPANY LTD HAD THE FOLLOWING P/L FOR THE YEAR END

30.06.2015

Gross Profit		3,557,000
Profit on Sale of plot (Note 1)		300,000
Dividends from Swazi Companies		130,000
		3,987,000
EXPENSES		
Wages and salaries	750,000	
Accountancy fees	90,000	
Bank charges	15,000	
Advertisement	25,000	
Directors fees	100,000	
Depreciation of assets (Note 2)	342,500	
Donation (Note 3)	75,000	
Dwelling housing cost (Note 4)	320,000	
Legal fees (Note 5)	10,000	
Motor vehicle expenses	300,000	
Research expenses (Note 6)	70,000	
Repairs and maintenance	150,000	
Bad debt expense (Note 7)	16,000	
New franchise (Note 8)	100,000	
Canteen costs (Note 9)	113,000	
Staff end of the year party	8,000	
Medical subscription	24,000	
TOTAL EXPENSES		2,508,500
NET PROFIT		1,478,500

NOTE 1: The profit on sale of a plot of land. The cost of the plot was E200, 000 but the Sales value was E500, 000.

NOTE 2: FIXED ASSETS Net Book Values

	Freehold land	Building	Motor vehicles	Plant and machinery	Computers	TOTAL
W / T rates	0%	4%	25%	20%	25%	
	E	E	E	E	E	E
NET BOOK VALUE	<u>550 000</u>	<u>840 000</u>	<u>250 000</u>	<u>420 000</u>	<u>75 000</u>	<u>2 135 000</u>
Wear and tear	?	?	?	?	?	::?

NOTE 3: Donations

- a. To a government supported hospital project, E30, 000
- b. To a human rights active group E15, 000
- c. To a Lubombo area famine relief gazetted in a gov. gazette E10, 000
- d. To a Christian group planning to visit Rome and Israel. E20, 000

Total donations 75,000

NOTE 4: Housing costs. The company constructed 4 dwelling houses at E80, 000 per house, which added up to E320, 000.

NOTE 5: The Company incurred E10, 000 in form of legal costs relating to the four dwelling houses.

NOTE 6: Research cost money paid to UNISWA Faculty of Agriculture, Luyengo for a research relating to a horticulture farm owned by the company.

NOTE 7: Bad debt expense, E6 000 general provision of 5% on the company's Trade debtors was charged to profit and loss.

NOTE 8: Franchise costs. The new franchise costing E100, 000 was to benefit the Company for 5 years.

NOTE 9: the canteen costs were as follows:

- a. Food costs at the company Head office's canteen. E86, 000
- b. Hotel expenses at a posh hotel for entertainment of top company Officials E27,000

(25 Marks)

ii) Tax is a major source of government revenue and it contributes to the overall development and prosperity of a country. Expand on the importance of tax. (5 Marks)

iii) State the withholding tax percentage for the following payments, and state their due dates:

- 1) Non residents Dividend payments
- 2) Non resident sportsman and entertainers
- 3) Resident Rent payments
- 4) Resident Dividend payments
- 5) Trust (5 Marks)

iv). List 5 Supplies that are specified as zero rated for VAT purposes (5 Marks)

Totals Marks 40