

 **Department of Commercial Accounting**

**TAXATION (Module A)**

 **TAX33A3/TAX3AA3**

**FINAL ASSESSMENT OPPORTUNITY**

**30 May 2016**

**Time: 3 hours Marks: 100**

**Assessors:**  Ms. G Mnguni

 Ms. J Soobramoney

 Mr. K Masehela

**Internal Moderators:** Ms. M Lephoto

 Mr. S Makhaya

**External Moderator**: Mr. A van Wyk (University of the Witwatersrand)

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| **INSTRUCTIONS:*** This paper consists of 7 pages (including the cover page).
* **Answer all questions in the specially printed Answer Book.**
* Use a blue or a black pen only.
* Show all calculations, workings and reasoning clearly.
* Silent, non-programmable calculators may be used.
* **Round up** all amounts to the nearest **Rand** (except for Question 1 – VAT).
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| --- | --- | --- | --- | --- |
| **Question** |  | **Topic** | **Marks** | **Time** |
| 1234  |  | VATCompany Taxable IncomeProvisional Tax – CompanyTheory | 25501015 |  45 minutes 90 minutes 18 minutes 27 minutes |
|  |  |  | **100** | **180 minutes** |

**QUESTION 1**

Novos (Pty) Ltd carries on a retail business in Pinetown, Durban. Novos (Pty) Ltd is a registered VAT vendor with a two-month tax period. Novos (Pty) Ltd accounts for VAT on the invoice basis. The following transactions relate to the tax period ended 31 October 2015. All amounts include VAT where applicable.

|  |  |
| --- | --- |
| **Transaction** | **Amount (R)** |
| Cash sales of goods to local vendors |  86 640 |
| Cash sales of goods to vendors in Lesotho |  105 400 |
| Credit sales to local non – vendors |  129 960 |
| Payments received in advance from local customers |  14 260 |
| Payments received from local debtors |  57 700 |
| Credit notes issued to local debtors |  4 800 |
| Indemnity payment from insurance company |  11 400 |
| Interest received on overdue debtors accounts  |  1 800 |
| Bank charges |  485 |
| Printing and stationery |  1 210 |
| Telephone |  795 |
| Trading stock purchases from vendors |  109 300 |
| Trading stock purchases from non - vendors |  45 000 |
| Bulk discount received from vendors |  6 700 |
| Chocolates purchased to give to customers |  2 650 |
| Purchase of a van, the free use of which was given to the financial manager from 01 October 2015. -Cash cost-VAT thereon |   55 000 7 700 |
| Purchase of motor vehicle on instalment sale: -Cash cost-VAT thereon |  40 000 5 600  |
|  Cash purchase of used computer equipment from a non - vendor |  105 000 |
| Diesel for new motor vehicle |  540 |
| Rental of office space |  15 000 |
| Overdraft interest |  5 000 |
| Tyres for motor vehicle |  1 510 |

**YOU ARE REQUIRED TO:**

Calculate the VAT payable by or refundable to Novos (Pty) Ltd for the two-month period ended 31 October 2015. Show cents, rounding off to two decimal places.

 **(25 Marks)**

*Source*: A students Guide to the Value Added Tax Act

 Alex Brettenny

**QUESTION 2**

You have been appointed as the Accounting Officer of Red Line Manufacturing CC. You are preparing the annual income tax return (ITR14) for the 2016 year of assessment which ended on 31 March 2016. Red Line Manufacturing CC is not a Small Business Corporation as defined in s12E. **Please ignore VAT and Capital Gains Tax.**

The following information was supplied to you by the bookkeeper of Red Line Manufacturing CC for the year ended 31 March 2016:

**R**

* Sales 45 275 000
* RSA Dividends received 45 000
* **Trading stock on hand:**
	+ 1 April 2015 1 574 000
	+ 31 March 2016 1 755 000
* **Raw materials stock on hand:**
	+ 1 April 2015 805 000
	+ 31 March 2016 750 000
* Purchases of raw materials 3 300 000
* Deductible operating expenses 6 600 000
* **Staff costs:**
	+ Salaries and wages paid during the year 3 200 000
	+ Annual bonuses paid in December 2015 620 000
	+ Annuity paid to the widow of a former employee 55 000
	+ Annuity paid to a former employee who retired

at the age of 45 to start his own business 45 000

* **Bad debts written off:**
	+ Trade debtors 120 000
	+ Amount owing by a former employee for goods sold to him at cost and who has absconded without paying 31 000
	+ Interest on the above amount owing by the former employee 1 500
* **Provision for doubtful debts:**
	+ List of doubtful debts 2015 180 000
	+ List of doubtful debts 2016 230 000
* A customer claimed R26 000 from Red Line Manufacturing CC as compensation for damages suffered by his son after the steel fitted to the customer's window by Red Line Manufacturing CC fell off and injured his son.

* **Legal fees:**
	+ Cost of collecting outstanding debts including R1 340 for

The loan amount owing by the former employee R42 768

* + Cost of seeking legal advice for payment of compensation for damages.

(See compensation above) R1 750

* On 1 November 2015, Red Line Manufacturing CC entered into

a restraint of trade agreement with a former member preventing

the former member from trading in competition with Red Line

Manufacturing CC for a period of 3 years and six months. 2 300 000

* On 1 December 2015, Red Line Manufacturing CC acquired a registered patent for R225 000, which will be used in the production of it’s income.
* **Wear and tear:** The write-off periods allowed by SARS are:
	+ - Delivery vehicles: 4 years
		- Office furniture: 6 years
		- Computer equipment: 3 years

On 1 April 2015, the following assets were on hand:

|  |  |  |  |
| --- | --- | --- | --- |
| **Nature of asset** | **Cost price** | **Tax value** | **Notes** |
| Delivery vehicles | 2 850 000 | 1 425 000 | 1 |
| Office furniture  | 380 000 | 126 667 | 2 |
| Computer equipment | 120 000 | 80 000 | 3 |

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**Note 1:**

On 1 June 2015, Red Line Manufacturing CC purchased a new delivery vehicle for R350 000 and brought it into use on the same date.

**Note 2:**

On 30 September 2015, Red Line Manufacturing CC sold office furniture for R15 000 which had a cost price of R52 000 and a tax value of R26 000 on 1 April 2015 (included in the office furniture on hand as at 1 April 2015).

**Note 3:**

On 1 December 2015, Red Line Manufacturing CC purchased and brought into use new computer equipment at a cost of R55 000.

**Machinery used in the process of manufacture:** Machinery, which had been purchased new on 1 June 2015 for R4 600 000, was on hand on 31 March 2016.

A machine, which was purchased new on 1 November 2013 for R860 000, was irreparably damaged on 31 May 2015. The insurer paid out an amount of R560 000. A new machine was purchased to replace this machine. It was brought into use on 1 July 2015 at a cost of R1 100 000.

Red Line Manufacturing CC wishes to postpone the payment of tax where applicable.

**YOU ARE REQUIRED TO:**

Calculate Red Line Manufacturing CC‘s taxable income and tax payable for the year of assessment ended 31 March 2016. If any amount should not be included in your calculation, please state the reason why. **(50 Marks)**

**QUESTION 3**

Maloney (Pty) Ltd approached you the tax practitioner to assist with the calculation of its provisional tax payments for the 2016 year of assessment. Its financial year end is on the last day of February each year. The bookkeeper has presented you with the following information:

* The 2014 assessment received on 27 August 2015, reflecting a taxable income of R550 000.
* The 2013 assessment received on 12 June 2014, reflecting a taxable income of R285 000.
* An estimate of the 2016 taxable income, by the directors of Maloney (Pty) Ltd done on 29 February 2016, reflects an amount of R785 000.
* For the second provisional tax payment the directors have revised their estimated taxable income to be R525 000 on 29 February 2016.

Maloney (Pty) Ltd wishes to pay the minimum amount of provisional tax permissible in terms of the Income Tax Act without having to pay additional tax, penalties and/or interest for the underpayment of provisional tax.

Maloney (Pty) Ltd is **not** a Small Business Corporation as defined in s12E.

No other taxes have been paid. Ignore VAT for the purpose of this question.

**YOU ARE REQUIRED TO:**

* 1. Calculate the minimum amount of provisional tax to be paid by Maloney (Pty) Ltd as the first provisional tax payment for 2016 due on or before 31 August 2015. **(6)**

* 1. Calculate the minimum amount of provisional tax to be paid by Maloney (Pty)

Ltd as the second provisional tax payment for 2016 due on or before 29 February2016. **(4)**

 **(10 Marks)**

**QUESTION 4 (15 Marks)**

**PART A**

1. Australian dividends received by a non-resident are included in gross income.
2. A restraint of trade payment received by a person from a former employer is not included in his gross income.
3. South African dividends received by a non-resident are included in gross income.
4. Mr. X owns a home in England; he also has a house in South Africa. Mr. X spends six (6) months in each house. He is ordinarily resident both in England and in South Africa.

**YOU ARE REQUIRED TO:**

Indicate whether each of the above statements is TRUE or FALSE. If the statement is false, full supporting reasons must be provided. **(7 Marks)**

**PART B**

1. Markham CC was paid R43 000 as compensation by their supplier of raw materials. Markham CC suffered losses owing to the supplier delivering materials which were not of the specified quality and not suitable for use.
2. Mrs Kruger received R40 000 from her former employer, ZBX CC, to ensure that she does not share trade secrets with the entity’s competitors for 5 years after her resignation.
3. Mr Marley and his family occupied an employer owned house during the 2016 year of assessment, the cash equivalent (value) of the right of use of the residential accommodation was R10 000 for the 2016 year of assessment.
4. A loan of R20 000 was made by the employer to an employee on 1 June 2014 which bears interest of ten percent per annum payable monthly. The loan is repayable in June 2015.

**YOU ARE REQUIRED TO:**

In each of the above cases, state the amount if any, to be included in the taxpayer’s gross income and support your answer with appropriate reasons.  **(8 Marks)**