<u>QUESTION 1</u> **(20 marks, 24 minutes)**

Skhothana (Pty) Ltd (Skhothana) is a South African company that imports luxury fashion clothing brands from overseas to resell locally. Skhothana is registered for Value-Added Tax (VAT) on the invoice basis and has a two-month tax period. The following amounts relate to receipts and payments for the two-month period ending 31 March 2014.

Where applicable, all amounts are **exclusive of VAT**, unless otherwise stated.

Receipts	**Notes**	**R**
Cash sales		150 000
Credit sales		490 000
Rentals	1	140 400
Loan from Qhoma bank	2	100 000
Equity contributions from shareholders	2	150 000
Indemnity payment	3	80 000
Payments		
Import of stock	4	300 000
Purchase of land	5	100 000
Sundry payments	6	32 490

Notes:

1. **Rentals**
   Skhothana has excess floor space in its commercial buildings that it let to aspiring local designers. The rentals received from the designers amounted to R62 400 for the two-month period and constituted 8% of the total revenue of the company.

   As part of its remuneration package, the company lets residential accommodation to its employees at a discount to market value. The amount received for the period was R78 000 and makes up 10% of the total revenue of the company.

2. **Loan from Qhoma Bank**
   In March 2014, Skhothana opened two new stores locally. To finance the expansion, the company acquired a loan of R100 000 from Qhoma Bank and received equity contributions of R150 000 from the company's shareholders.

3. **Indemnity payment**
   On 6 March 2014, a fire broke out at the Johannesburg branch and stock valued at R80 000 was destroyed. The insurance company indemnified the company with a cash payment of R80 000 (inclusive of VAT).

4. **Import of stock**
   On 28 February 2014, Skhothana imported the Ska-Vela brand of shoes from Italy. The cost price and value for customs duty purposes was R300 000. Import surcharges of R2 400 were levied. The date reflected on the Customs Billing of Entry is 4 March 2014.

QUESTION 1 **(continued)**

5. Purchase of land

Skhothana purchased a second-hand building from a non-vendor for a consideration equal to R100 000. The property was paid for in full and registered on 6 March 2014. The open market value on the date of registration was R120 000.

6. Sundry payments comprise of the following amounts inclusive of VAT:

	R
Fuel cost	14 250
Bank charges	7 410
Maintenance costs	5 700
Insurance premium	3 990
Subscription fees	1 140

The fuel costs, bank charges and maintenance costs relate to the import business as well as the property rental business. The insurance premium and subscription fees only relate to the import business.

The subscription fees are for the purchase of international magazines and membership with fashion trend forecasting agencies to ensure that the company stocks up on the latest trends.

REQUIRED:	**Marks**
Calculate the **VAT payable by or refundable to Skhothana (Pty) Ltd** for the two-month tax period ending 31 March 2014. **Note:** Where an amount is nil, please indicate and provide a brief reason.	**20**

<u>QUESTION 2</u> (40 marks, 48 minutes)

<u>Part A</u> (35 marks, 42 minutes)

Drum Rum (Pty) Ltd is not a small business corporation as defined and carries on business as a liquor manufacturer. The company operates mainly in South Africa and sells most of its liquor products on credit to liquor retailers in South Africa and neighbouring countries. The company is a registered vendor for VAT purposes and its year of assessment ends on 28 February 2014. All amounts **exclude** VAT, unless otherwise stated.

The company has a taxable income of R6 758 631 **before** the following information has been taken into account:

		R
1.	Export sales – cash	750 352
2.	Dividends received – South African companies	13 750
3.	Imported liquor ingredients used in the manufacturing process	588 535
4.	Inventory at cost – 1 March 2013	291 250
	Inventory at market value – 1 March 2013	289 750
5.	Inventory at cost – 28 February 2014	319 760
	Inventory at market value – 28 February 2014	325 753
6.	Bad debts written off during the 2014 year of assessment	75 205
7.	List of doubtful debts at 28 February 2014	105 250
8.	List of doubtful debts at 28 February 2013	85 725
9.	Personnel costs:	
	- Incentive bonuses to all employees	350 000
	- Contributions to the pension fund on behalf of employees. The Commissioner has approved a remuneration of R2 000 000 for the purposes of pension fund contributions.	135 250
10.	Legal expenses incurred:	
	- Legal cost relating to collecting outstanding debtors	8 500
	- Legal cost paid on behalf of one of the company's directors regarding a private issue	1 500
11.	Advertising costs incurred:	
	- Cost of advertising a vacant post in the Weekly Cape Mail	4 580
	- Cost of erecting a billboard close to the BR International Airport in Botswana	35 600
12.	Drum Rum (Pty) Ltd purchased the following capital assets:	
	A new brewing manufacturing machine B was purchased on 31 December 2013 at a total cost of R350 000 and was brought into use on the same date. Installation costs for machine B amounted to R14 250 (including VAT).	

QUESTION 2 **(continued)**

R

A second hand delivery vehicle was purchased on 30 June 2013 at a total cost of R125 000 to deliver the liquor products of Drum Rum (Pty) Ltd to its clients. Owing to technical problems, the delivery vehicle was only brought into use on 1 September 2013.

A new manufacturing building was erected on 30 April 2009 and brought into use on 31 July 2009 at a total cost of R1 650 000. The building houses the whole liquor manufacturing process of Drum Rum (Pty) Ltd.

13. Drum Rum (Pty) Ltd received a sudden demand for one of its flagship products and was forced to look for additional manufacturing space. Bliss CC was approached and a lease agreement was signed on 1 July 2013, with a monthly rental payable of R15 000 as from 1 July 2013 for a period of five years with the option to extend the lease period for another five years. The lease agreement stipulated that Drum Rum (Pty) Ltd had to make leasehold improvements of at least R550 000 and had to pay a lease premium of R90 000. The lease premium was paid on 1 July 2013 and the leasehold improvements commenced on 1 August 2013 and were completed on 1 December 2013. The total cost of the leasehold improvements was R600 000 and the improvements was brought into use on 1 January 2014.

14. Drum Rum (Pty) Ltd sold a technologically outdated manufacturing machine on 1 February 2014 for R15 000. It was originally bought second hand on 30 April 2011 for R100 000 and brought into use on the same day. The company has elected a section 11(*o*) scrapping allowance.

15. The following costs were incurred relating to patents and trademarks:

- Renewal of patent J on 1 August 2013	8 500
- Purchase a new trademark on 31 December 2013	65 000

16. Drum Rum (Pty) Ltd entered into an agreement with Label Brew, the former brew master, on 31 December 2013, the date on which he resigned, and paid him an amount of R580 000 as a restraint of trade payment for a period of five years. The agreement was effective from 1 January 2014 and the R580 000 was paid on 15 January 2014, only R550 000 of which was taxable in the hands of Label Brew for the 2014 year of assessment.

17. Drum Rum (Pty) Ltd donated R50 000 on 18 December 2013 to "Men in Orange" a public benefit organisation and received a section 18A income tax certificate on 31 January 2014.

QUESTION 2 (continued)

18. **Additional information:**
General binding ruling No. 7 allows for the following write-off periods for moveable assets:

    - Delivery vehicles – 4 years

    The company has an assessed loss brought forward from the 2013 year of assessment of R112 314.

    The company had also paid provisional tax of R1 351 584 for the 2014 year of assessment.

REQUIRED:	**Marks**
Calculate the tax liability of Drum Rum (Pty) Ltd for the year of assessment ending 28 February 2014.	**35**

Part B (5 marks, 6 minutes)

Buildings Ltd, a resident company, declared a dividend of R850 000 on 15 February 2014.

The shareholders comprise:
- Alex Barnard (a natural person) - 25%
- Roofs Ltd (a listed resident company) - 75%

The contributed tax capital is R3 600 000. The company has an unutilised STC credit of R100 000 carried forward from the dividend cycle that ended immediately before the effective date.

REQUIRED:	**Marks**
Calculate the net dividend received by each shareholder after the dividends tax was deducted.	**5**

<u>QUESTION 3</u> (25 marks, 30 minutes)

Blue Pools (Pty) Ltd, has a 31 January year-end. The business supplies you with the following information with regard to a manufacturing building and a manufacturing machine that was sold during the 2014 year of assessment:

	Manufacturing building	**Used manu-facturing machine**
Date of purchase	1 July 2000	1 July 2013
Purchase price	R80 000 (excluding VAT)	R456 000 (including VAT)
Date of sale	1 April 2013	31 January 2014
Selling price (at market value to an unconnected person)	R890 000	See below
Adjusted proceeds for CGT	Not provided	R400 000
Capital allowances claimed until 31 January 2013	R48 000	-
Valuation on 1 October 2001	R88 000	Not determined
Time-apportioned base cost	R90 000	R400 000
Cost of valuation (carried out on 1 July 2003)	R4 500	-
Agent's commission (paid on 31 January 2014)	-	R30 000

REQUIRED:	**Marks**
Calculate the taxable capital gain of Blue Pools (Pty) Ltd for the year of assessment ended on 31 January 2014. Blue Pools (Pty) Ltd has an assessed capital loss of R35 000 brought forward from the previous year of assessment.	**25**

<u>QUESTION 4</u> (15 marks, 18 minutes)

Sunshine (Pty) Ltd is **not** a small business corporation as defined. Its year of assessment ends on 31 March each year. Its records show the following:

Tax year	**Taxable income**	**Date of assessment**
2012	R1 200 000	4 April 2012
2013	R1 354 980	23 September 2013
2014	R1 784 432	(estimated - not yet assessed)

REQUIRED:	**Marks**
a) Calculate the **first** and **second** provisional tax payments for the 2014 year of assessment. Clearly state on which date the payment must be made.	**9**
b) For the **<u>first</u>** provisional tax payment for the 2014 year of assessment, what will the basic amount be if the 2013 assessment was issued on 15 June 2013?	**1**
c) Calculate the **<u>third</u>** provisional tax payment for the 2014 year of assessment assuming that the actual taxable income for the 2014 year of assessment was R1 890 850 and also indicate by which date such payment should be made to SARS.	**5**
Ignore the Tax Administration Act that came into effect on 1 October 2012.	

<u>QUESTION 1: SOLUTION</u> (20 marks, 24 minutes)

Output Tax

		R	Marks
Cash Sales (R150 000 x 14%)		21 000	(1)
Credit Sales (R490 000 x 14%)		68 600	(1)
Rentals from designers (R62 400 x 14%)		8 736	(1)
Rentals from employees – residential accommodation exempt		nil	(1)
Loan from Qhoma Bank – financial services exempt		nil	(1)
Equity contributions from shareholders – not a supply		nil	(1)
Indemnity Payment (R80 000 x 14/114)		9 825	(1)
Total Output Tax		**108 161**	**7**
Input Tax			
Import of Stock:			
Customs Value	300 000		
10% of Customs Value	30 000		(1)
Import Surcharges	2 400		(1)
	332 400		
VAT R332 400 x 14%		46 536	(1)
Purchase of Land: second-hand fixed property			
Lesser of open market value (R120 000) and consideration paid			
VAT R100 000 x 14/114		12 281	(2)
<u>Sundry Payments</u>			
Fuel Cost – zero-rated		nil	(1)
Bank Charges (R7 410 x 14/114 x 90%)		819	(2)
Maintenance Costs (R5 700 x 14/114 x 90%)		630	(2)
Insurance premium (R3 990 x 14/114)		490	(1)
Subscription fees (R1 140 x 14/114)		140	(1)
Total Input Tax		**60 896**	**12**
Bonus mark if student uses correct headings for input and output			(1)
VAT Payable (R108 161 – R60 896)		**47 265**	(1)
			Total 21
			Max 20

QUESTION 2(a) –SUGGESTED SOLUTION

CALCULATE THE TAX LIABILITY OF DRUM RUM (PTY) LTD FOR THE 2014 YEAR OF ASSESSMENT

	R	R	
Taxable income - given		6 758 631	
Export sales		750 352	(1)
Dividend received - exempt		-	(1)
Imported liquor ingredients		(588 535)	(1)
Opening inventory @ market value (lowest)		(289 750)	(1)
Closing inventory @ cost (lowest)		319 760	(1)
Bad debts written-off		(75 205)	(1)
Doubtful debts – 2013 (R85 725 x 25%)		21 431	(1)
Doubtful debts – 2014 (R105 250 x 25%)		(26 313)	(1)
Incentive bonuses		(350 000)	(1)
Pension fund contributions (R2 000 000 x 10%) = R200 000		(135 250)	(1)
Legal expenses – in production of income		(8 500)	(1)
Legal expenses – director (private: prohibited)		-	(1)
Advertising – Weekly Cape Mail		(4 580)	(1)
Advertising – Billboard – capital in nature		-	(1)
Machine B - Cost	350 000		
- Installation (R14 250 x 100/114)	12 500		(1)
	362 500		
Section 12C allowance – 40% x R362 500		(145 000)	(1)
Section 11(e) delivery vehicle (R125 000/4 x 6/12)		(15 625)	(2)
Manufacturing building allowance (R1 650 000 x 5%)		(82 500)	(1)
Rent paid (R15 000 x 8)		(120 000)	(1)
Lease premium (R90 000/120 x 8)		(6 000)	(2)
Alternative: (R90 000/10 x 8/12)			
Lease hold improvements (R550 000/115 x 2)		(9 565)	(2)
Alternative: (R550 000/9.583 x 2/12)			
Building allowance (R600 000 – R550 000) x 5%		(2 500)	(1)
Disposal Machine D			
- Cost	100 000		
- <u>Less</u>: Section 12C – 2012 (R100 000 x 20%)	(20 000)		(1)
- Section 12C – 2013 (R100 000 x 20%)	(20 000)		(1)
- Section 12C – 2014 (R100 000 x 20%)	(20 000)	(20 000)	(1)
Tax Value	40 000		
Proceeds on disposal	(15 000)		
Section 11(o) scrapping allowance	25 000	(25 000)	(1)
Renewal of Patent J		(9 000)	(1)
New trademark K (non-deductible) (prohibited)		-	(1)
Restraint of trade payment, the lesser of: - R550 000/5, or	110 000	(110 000)	(2)
- R550 000/3	183 333		
Sub-total		5 837 031	
<u>Less</u>: Section 18A donation (R5 837 031 x 10% = R583 703, but limited to actual donation		(50 000)	(1)
		5 776 851	
<u>Less</u>: Assessed loss brought forward from 2013		(112 314)	(1)
Taxable income for 2014		5 664 536	
SA Normal tax @ 28%		1 586 070	(1)
<u>Less</u>: Provisional tax paid		(1 351 584)	(1)
Calculated tax liability for 2014		234 486	
	Total		(37)
	Max		**35**

QUESTION 2 (continued)

SOLUTION: QUESTION 2(b) (5 marks, 6 minutes)

	R	
Dividend declared	850 000	
Less: STC credit	(100 000)	(1)
Dividend subject to dividends tax	750 000	
Natural person		
Dividend portion (R750 000 x 25%)	187 500	(1)
Less: Dividends tax (R187 500 x 15%)	(28 125)	(1)
Net dividend received	159 375	
Listed resident company		
Dividend portion (R750 000 x 75%)	562 500	(1)
Less: Dividends tax – exempt, no dividends tax	0	(1)
Net dividend received	562 500	
		[5]

QUESTION 3 (25 marks, 30 minutes)

Manufacturing Building

Tax value:	R	
Cost	80 000	(1)
Less: Sec 12C Allowances	(52 000)	
2002 - 2013:	(48 000)	(1)
2014: R80 000 x 5%	(4 000)	(1)
Tax value on date of sale	28 000	(1)

Recoupment:

Proceeds:	890 000	(1)
Less: Tax value	(28 000)	(1)
Recoupment	862 000	
Limited to previous allowances, thus	52 000	(1)

Adjusted proceeds:

Proceeds	890 000	
Less: Recoupment	(52 000)	(1)
Adjusted proceeds	838 000	(1)

Calculate valuation date value (VDV):
Total expenditure = R28 000 + R4 500 = R32 500.
Adjusted proceeds = R838 000
As the adjusted proceeds > the total expenditure, par 26 applies. (1)

VDV is the greater of : (1)
- Market value: R88 000 (1)
- Time apportionment base cost: R90 000
- 20% x (proceeds - costs after 1 October 2001) = 20% x (R838 000 – R4 500) = R166 700 (2)

Thus, VDV = R166 700

Base cost:

Valuation date value	166 700	(1)
Plus: Costs incurred after 1 October 2001	4 500	(1)
Base cost	171 200	

SOLUTION: QUESTION 3 (continued)

	R	
Capital gain:		
Proceeds (adjusted)	838 000	
Less: Base cost	(171 200)	
	666 800	(1)

Manufacturing Machine

Base cost:		
Cost (R456 000 x 100/114)	400 000	(1)
Less: Sec 12C Allowance R400 000 x 20% (used machinery)	(80 000)	(1)
Add: Agent's commission	30 000	(1)
Base cost	350 000	
Taxable capital gain:		
Adjusted proceeds (given)	400 000	(1)
Less: Base cost (as calculated above)	(350 000)	(1)
	50 000	

Calculation of taxable capital gain

Manufacturing building	666 800	
Manufacturing machine	50 000	
Aggregate capital gain	716 800	(1)
Less: Assessed capital loss	(35 000)	(1)
Net capital gain	686 800	
Taxable capital gain at the inclusion rate of 66.6%	454 079	(1)
	Total	**25**

QUESTION 4 **(15 marks, 18 minutes)**

	R	
a) **1st provisional tax payment (payable before/on 30 September 2013)**		(1)
Basic amount	1 200 000	(1)
(must use 2012 assessment as 2013 is not more than 14 days old)		
Increased by 8% for 2 years (16%) (2013 and 2014)	192 000	(2)
	1 392 000	
Tax on R1 392 000 (28%)	389 760	(1)
x 50% for the first payment	194 880	(1)
2nd provisional tax payment (payable before/on 31 March 2014)		(1)
Taxable income is more than R1 million therefore based on estimated taxable income	1 784 432	(1)
Alternative: 80% of R1 784 432	1 427 546	(1)
Tax on R1 784 432 (28%)	499 641	
Less: 1st provisional payment	(194 880)	(1)
Amount payable	304 761	
b) As it is more than 60 days old, the 2013 taxble income can be used as the basic amount. It will not be adjusted, as it is the previous year's taxable income.	1 354 980	(1)
c) **Third provisional tax payment (payable before/on 30 September 2014)**		(1)
Use actual taxable income	1 890 850	(1)
Tax on R1 790 850 @ 28%	529 438	(1)
Less: Provisional tax payments already made for 2014		
First provisional tax payment	(194 880)	(1)
Second provisional tax payment	(304 761)	(1)
Calculate third provisional tax payment due for 2014	29 797	
	Total	**15**

<u>QUESTION 1</u> (20 marks, 24 minutes)

Monate Bakers (Pty) Ltd (Monate Bakers) is a bakery that sells a variety of baked goods to its customers. Monate Bakers is registered for Value-Added Tax (VAT) and has a two-month tax period.

The accountant of Monate Bakers has prepared a VAT calculation for the two-month period ending 28 February 2015 and has requested you to review it before he submits the VAT201 return to SARS. The amounts used in the calculation were **exclusive of VAT** unless otherwise stated. The following is the accountant's calculation:

Output VAT	**Notes**	**R**
Cash sales (R457 000 x 14/114)		56 123
Interest on loan (R100 000 x 8,5% x 2/12 x 14%)	1	198
Indemnity payment (R150 000 x 14%)	2	21 000
Fringe benefit (R96 900 x 100/114 x 0,6% x 14/114 x 2)	3	16 279
Total Output VAT		93 600
Input VAT		
Baking ingredients (R167 000 x 14%)		23 380
Baking ovens (R37 500 x 14%)	4	5 250
Donation (R7 643 x 14%)	5	1 070
Salaries (R140 000 x 14%)		19 600
Municipal rates (R2 570 x 14%)		360
Depreciation (R15 365 x 14%)		2 151
Total Input VAT		51 811
VAT refundable from SARS (R93 600 - R51 811)		**41 789**

Notes:

1. On 12 December 2014, Monate Bakers borrowed R100 000 from Chelete Fela bank. The loan is for a period of 24 months at an interest rate of 8,5% per annum. The loan was used partly to finance the purchase of three second-hand ovens **(refer to note 4).**

2. On 5 January 2015, one of Monate Bakers' delivery vehicles was hijacked en route to a client. The vehicle was purchased two years prior to the incident for R171 000. The insurance company indemnified the company with a cash payment of R150 000 on 3 March 2015. The delivery vehicle is not a motor car as defined in terms of the VAT Act.

3. The store manager has the sole use of one of the company's vehicles, which the entity purchased on 29 December 2014 for R96 900 (including VAT). The store manager does not bear the full cost of repairs and maintenance of the vehicle. The vehicle is not a motor car as defined in terms of the VAT Act.

4. On 7 February 2015, Monate Bakers purchased three second-hand ovens from a non-vendor. The purchase price was R37 500 and the market value at the date of purchase was R33 000 for the three ovens in total.

5. Monate Bakers donates its unsold goods to Philang orphanage.

QUESTION 1 **(continued)**

REQUIRED:	**MARKS**
Revise the accountant's VAT calculation for the two-month tax period ending 28 February 2015 by providing **brief reasons for adjusting or not adjusting the accountant's calculations.** **TIP:** Adjust each of the accountant's entries for the Total Output and Input VAT to determine the correct VAT payable to SARS for the two-month tax period ending 28 February 2015.	**20**

QUESTION 2 **(36 marks, 44 minutes)**

Orion Industries (Pty) Ltd (Orion) manufactures jewellery including watches, necklaces and bracelets. The company's process is perceived to be a "process of manufacturing" by the Commissioner. The company is **not a small business corporation** as defined in the Income Tax Act and its financial year ends on 31 March. Orion is a registered VAT vendor.

The following information is available to calculate the taxable income for the year of assessment ended on 31 March 2015 **(all amounts exclude VAT unless otherwise stated):**

1. Sales (both cash and credit sales) amounted to R4 620 000 during the current year of assessment.

2. The information in the table below relates to inventory:

	01/04/2014		**31/03/2015**	
	Cost Price	**Market Value**	**Cost Price**	**Market Value**
Completed Products	R 450 000	R 375 000	R 680 000	R 854 000

3. Orion purchased inventory amounting to R1 840 000 during the year of assessment.

4. The list of doubtful debts at 31 March 2015 amounted to R104 820. A detailed list was provided to and approved by the Commissioner. There were no doubtful debts for the 2014 year of assessment.

5. The following expenses were incurred in connection with a design and a trademark:

   - Expenses incurred in acquiring design A for a tennis bracelet……… R34 600
   - Orion renewed its trademark registration on 1 January 2015……….. R 9 500

6. Orion ordered a new specialised manufacturing machine (machine PP) from Austria at a cost of €86 700 on 1 September 2014. Airfreight, customs and insurance costs amounted to R54 300. The machine was received in South Africa and brought into use on 1 December 2014 (transaction date). Payment was made in full on 1 May 2015.

QUESTION 2 **(continued)**

The applicable exchange rates were as follows:

Date	R	€
1 September 2014	13,86	1
1 December 2014	14,54	1
31 March 2015	15,85	1
1 May 2015	15,92	1
Average rate for the year	15,29	1

7. Orion entered into learnership agreements with two new employees, Lindile Mabuso and Jason Armstrong, for a period of 12 months each from 1 January 2014. Jason Armstrong is a person with a disability as defined in the Act. The agreements are registered and comply with all the necessary requirements. Both employees have successfully completed the learnership agreements.

8. On 1 June 2014, Orion entered into a lease contract with Green Bay CC for a period of ten years, with the option to extend the contract for another ten years. In terms of the contract, Orion had to effect improvements to the premises to the value of R620 000. The building improvements commenced on 1 July 2014 and were completed on 30 October 2014. The building was brought into use on 1 December 2014 and the building was used in the manufacturing process. The total cost of the improvements was R680 000. A rental amount of R12 500 per month was payable by Orion to Green Bay CC from 1 June 2014.

9. On 1 January 2014, Orion purchased five new laptop computers for a cash amount of R12 800 **each** (VAT inclusive). After installing an all-encompassing software program in house on the laptops, specific to the jewellery industry, Orion sold three of the computers to a competitor in the market for an amount of R21 500 **each** on 1 November 2014. The proceeds on the sale are regarded as capital in nature.

   Binding general ruling No. 7 makes provision for the following write-off period:

   - Laptop computers – 3 years

10. Orion declared a dividend of 50% of the net profit after tax. Assume the net profit after tax amounted to R3 126 544. The dividend was paid out to the following shareholders:

    - Encor NPC, an approved Public Benefit Organisation with a 45% interest.
    - Mr Sifiso Bahta, a resident with a 55% interest.

REQUIRED:	**MARKS**
Calculate the **taxable income** of Orion Industries (Pty) Ltd for the year of assessment ended 31 March 2015, as well as the **dividends' tax payable by each shareholder**.	**36**

QUESTION 3 (22 marks, 26 minutes)

Steelworks (Pty) Ltd, a registered VAT vendor, is a manufacturer and its year of assessment ends on 31 March 2015.

Factory building

The company acquired a factory building at a cost of R4 332 000 (including VAT) on 1 August 1999 and brought it into use directly in a process of manufacture on the same date. A huge storeroom was added to the factory building at a cost of R500 000 and it was brought into use on 1 April 2004. No capital allowances could be claimed on this extension.

The building (factory and storeroom) were destroyed in a fire on 31 October 2014. Steelworks (Pty) Ltd was informed by its insurance company that it was under-insured and received an insurance payment on 15 November 2014 of R1 400 000 only.

The market value of the building was R4 000 000 as on 1 October 2001 and the time-apportionment base cost of the building was R888 578. The total amount of capital allowances claimed in respect of the factory building for the 2000 to 2014 years of assessment were R2 660 000.

Manufacturing machine

Steelworks (Pty) Ltd sold a specialised manufacturing machine on 15 March 2015. The capital gain on this machine was R2 000 000. Steelworks (Pty) Ltd bought a new specialised manufacturing machine for R5 500 000 on 20 March 2015 to replace the one that was sold, and brought it into use on the same date.

Other information

Steelworks (Pty) Ltd has an assessed capital loss brought forward from the previous year of assessment of R30 000.

Steelworks (Pty) Ltd has elected to apply paragraph 66 of the Eighth Schedule of the Income Tax Act with regard to the reinvestment in replacement assets.

All amounts exclude VAT, unless otherwise stated.

REQUIRED:	**MARKS**
Calculate Steelworks (Pty) Ltd’s taxable capital gain/assessed capital loss for the 2015 year of assessment.	**22**

QUESTION 4 **(11 marks, 13 minutes)**

Disa (Pty) Ltd is a retail company situated in Cape Town, South Africa. The company is a **small business** corporation as defined in the Income Tax Act and its year of assessment ends on 28 February 2015. The accountant has provided you with the following information:

Year of assessment	**Date of ITA34 income tax notice of assessment**	**Taxable income**
2012	4 June 2013	R1 251 287
2013	17 July 2013	R1 120 579
2014	18 August 2014	R1 387 251
2015	Estimated – not yet assessed	R1 528 452

Included in the taxable income for the 2013 year of assessment was a taxable capital gain of R50 117.

REQUIRED:	**MARKS**
(a) Calculate the **first** provisional tax payment of Disa (Pty) Ltd for the 2015 year of assessment and clearly state on which date payment should be made to SARS.	**7**
(b) Calculate the **second** provisional tax payment of Disa (Pty) Ltd for the 2015 year of assessment and clearly state on which date payment should be made to SARS.	**4**

QUESTION 5 **(11 marks, 13 minutes)**

Medev Construction (Pty) Ltd is a South African residential property developer operating mainly in Gauteng, South Africa. The company's year of assessment ends on 31 March 2015 and it is also a registered vendor for VAT purposes.

Medev Construction (Pty) Ltd (the seller) signed a sales contract with Mr P Dhlamini (the purchaser) on 1 March 2015 for the purchase of a brand new town house for a purchase price of R1 350 000 (including VAT). Mr Dhlamini has signed the purchase contract subject to a condition that he obtains a 100% bond from Just Bond Bank before 20 March 2015 to fund the purchase price of the new town house. The 100% bond was finally approved on 2 April 2015 and the sale of the town house was concluded on that date.

REQUIRED:	**MARKS**
Discuss, with reference to the Income Tax Act and case law, whether the sale of the town house by Medev Construction (Pty) Ltd to Mr P Dhlamini will be included in the gross income of Medev Construction (Pty) Ltd for the year of assessment ended on 31 March 2015.	**11**

SOLUTION: QUESTION 1 **(20 marks, 24 minutes)**

	R	
Accountant's Total Output VAT (given)	**93 600**	
Cash sales - reversal of accountant's output vat	(56 123)	(1)
- cash sales were exclusive of VAT therefore you need to apply 14% and not 14/114		(1)
R457 000 x 14%	63 980	(1)
Interest on loan - reversal of accountant's output vat	(198)	(1)
- interest is a financial service and therefore exempt	-	(1)
Indemnity payments - reversal of accountant's output vat	(21 000)	(1)
- time of supply is date payment is received		(1)
payment was received after 28/02/2015 and therefore falls outside of the VAT period	-	(1)
Fringe benefit		
- reversal of accountant's output vat	(16 279)	(1)
- (R96 900 x 100/114 x 0,6% x 14/114 x 2 months)	125	(2)
Adjusted Output VAT	**64 105**	
Accountant's Total Input VAT (given)	**51 811**	
Baking ingredients – no adjustment	-	(1)
Baking ovens - reversal of accountant's input vat	(5 250)	(1)
R33 000 x 14/114	4 053	(2)
- notional input vat on the lesser: 1. purchase price of R37 500 AND 2. market value of R33 000 (1) multiplied by the tax fraction (14/114) (1)		
Donation - reversal of accountant's input vat	(1 070)	(1)
- no input vat, as there is no consideration	-	(1)
Salaries - reversal of accountant's input vat	(19 600)	(1)
- not a supply	-	(1)
Municipal rates - reversal of accountant's input vat	(360)	(1)
- zero-rated supply	-	(1)
Depreciation - reversal of accountant's input vat	(2 151)	(1)
- not a supply	-	(1)
Adjusted Input VAT	**27 433**	
VAT payable to SARS (<u>not refundable</u>) (R64 105 - R27 433)	**36 672**	(2)
Total		**24**
Max		**20**

SOLUTION - QUESTION 2 (36 marks, 44 minutes)

Calculation of taxable income of Orion Industries (Pty) Ltd for the year of assessment ended 31 March 2015.

	R	R	
Sales		4 620 000	1
Inventory @ market value – 1 April 2014 (sec 22(2))		(375 000)	1
Inventory @ cost – 31 March 2015 (sec 22(1))		680 000	1
Purchases (sec 11(a))		(1 840 000)	1
Doubtful debts			
Doubtful debts – (R104 820 x 25%) (sec 11(j))		(26 205)	1
Design and trademark			
Design A for tennis bracelet (R34 600 x 10%) (sec 11(gC))		(3 460)	1
Trademark renewal (sec 11(gB))		(9 500)	1
Foreign exchange gain/(loss)			
Machine PP			
Cost price (1 December 2014) (€86 700 x R14,54)	1 260 618		1
Plus: Airfreight, customs and insurance costs	54 300		1
Total cost price	1 314 918		
Foreign exchange loss on exchange item: foreign creditor (€86 700 x (R14,54 - R15,85) (sec 24I)		(113 577)	2
Capital allowance s12C (R1 314 918 x 40%)		(525 967)	1
Learnership agreements (sec 12H)			
Commencement - Lindile Mabuso (R30 000 x 9/12)		(22 500)	1
- Jason Armstrong (Disabled) (R50 000 x 9/12)		(37 500)	1
Completion - Lindile Mabuso		(30 000)	1
- Jason Armstrong		(50 000)	1
Leasehold improvements			
Rental paid (R12 500 x 10) (sec 11(a))		(125 000)	1
Leasehold improvements (R620 000/ 235 x 4) (sec 11(g))		(10 553)	3
Alt: R620 000/ 19,58 x 4/12 (19,58 = 19 7/12 years)			
s13 building allowance (R680 000 – R620 000) x 5%		(3 000)	2
Laptop computers			
Cost (R12 800 x 100/114 x 3) (Only 3 were sold)	33 684		2
Less: Wear and tear – s11(e)			
2014: R33 684/3 x 3/12	(2 807)		2
2015: R33 684/3 x 7/12	(6 550)	(6 550)	2
Tax value	**24 327**		
Less: Proceeds (R21 500 x 3)	(64 500)		1
Recoupment (sec 8(4)(a))	**(40 173)**		
Limited to previous allowances – R9 357		9 357	1
Wear and tear for the other 2 laptop computers not sold: (sec 11(e))			
2015: (R12 800 x 100/114 x 2)/3		(7 485)	1
Taxable income before taxable capital gain		2 123 015	

SOLUTION - QUESTION 2 (continued)

	R	R	
Taxable capital gain on laptop computers			
Proceeds	64 500		
Less: Recoupment	(9 357)		
Adjusted proceeds	55 143		
Less: Base cost	(24 326)		
Original cost	33 684		
Less: Allowances	(9 357)		
Capital gain	30 816		
Taxable capital gain @ the inclusion rate of 66,6%		20 523	1
Taxable income		2 143 538	
Net profit after tax		3 126 544	
Dividends declared (R3 126 544 x 50%)		1 563 272	1
Encor NPC (R1 563 272 x 45% = R703 472)			
- Exempt from dividends tax (sec 64F)		Nil	1
Mr Sifiso Bahta (R1 563 272 x 55% = R859 800)			1
- R859 800 x 15% Dividends tax payable (sec 64E) Orion Industries (Pty) Ltd is obliged to withhold the dividends tax (sec 64G)		128 970	1
		Marks	**36**

SOLUTION: QUESTION 3 (22 marks, 26 minutes)

FACTORY BUILDING

Adjusted proceeds calculation

	R	
Tax value		
Cost (R4 332 000 x 100/114)	3 800 000	(1)
Storeroom improvement	500 000	(1)
Less: Allowances	(2 850 000)	
2000 – 2014 (given)	(2 660 000)	(1)
2015 (R3 800 000 x 5%)	(190 000)	(1)
Tax value at date of sale	1 450 000	
Recoupment/Scrapping		
Proceeds – indemnity payment	1 400 000	(1)
Less: Tax value	(1 450 000)	(1)
Scrapping- but not allowed as not a movable asset	(50 000)	
Proceeds		
Proceeds – indemnity payment	1 400 000	(1)
Less: Recoupment	-	
Adjusted proceeds	1 400 000	

Base cost calculation

Calculate the valuation date value (VDV):

Total costs = R1 450 000

Adjusted proceeds = R1 400 000
As the adjusted proceeds (R1 400 000) < the total costs (R1 450 000), paragraph 27 applies. (1)
Market value was determined: and

Costs before 1 October 2001 compared to proceeds (1)
(R950 000 (R3 800 000 – R2 850 000) < R1 400 000), and
Costs before 1 October 2001 compared to market value
(R950 000 (R3 800 000 – R2 850 000) < R4 000 000) (1)

Therefore, VDV is the lower of (1)
- market value: R4 000 000 (1)
- TAB cost: R888 578 (1)

Thus, TAB cost is the lowest = R888 578 = VDV

SOLUTION: QUESTION 3 (continued)

	R	
Base cost		
VDV	888 578	(1)
Plus: Costs incurred on/after 1 October 2001	500 000	(1)
Base cost	1 388 578	

Capital gain calculation	R	
Proceeds	1 400 000	(1)
Less: Base cost	(1 388 578)	(1)
Capital gain	11 422	

TAXABLE CAPITAL GAIN	R	
Factory building	11 422	
Manufacturing machine – capital gain deferred: R2 000 000 x 40%	800 000	(1)
Aggregate capital gain	811 422	(1)
Less: Assessed capital loss	(30 000)	(1)
Net capital gain	781 422	(1)
Taxable capital gain @ 66,6%	520 427	(1)
	Total	**22**

SOLUTION : QUESTION 4 **(11 marks, 13 minutes)**

(a) First provisional tax payment (payable on 31 August 2014) (1)

	R	
Basic amount (must use 2013 assessment as the 2014 assessment is not more than 14 days old	1 120 579	(1) (1)
Less: Taxable capital gain included	(50 117)	(1)
Adjusted basic amount	1 070 462	
Tax (R59 451 + (R1 070 462 - R550 000) x 28%)	205 180	(2)
First provisional tax payment (50% x R205 431)	102 590	(1)

(b) Second provisional tax payment (payable on 28 February 2015) (1)

The taxable income is more than R1 million and therefore the calculation will be based on the estimated taxable income	1 528 452	(1)
Tax (R59 451 + (R1 528 452 - R550 000) x 28%)	333 418	(1)
Less: First provisional tax payment made to SARS	(102 590)	(1)
Calculated second provisional tax payment	230 828	

Alternative (minimum payment to avoid penalty)

	R	
80% x R1 528 452	1 222 762	(1)
Tax (R59 451 + (R1 222 762 - R550 000) x 28%	247 824	(1)
Less: First provisional tax payment made to SARS	(102 590)	(1)
Calculated second provisional tax payment	145 234	

Definition	Application	Marks
In the case of a resident, amount is cash or otherwise	Medev Construction (Pty) Ltd is a resident company that has signed a contract to sell a town house to Mr P Dhlamini in cash.	(2)
Received by or accrued to such a resident	Medev Construction (Pty) Ltd is not unconditionally entitled to the proceeds from the disposal of the town house to Mr P Dhlamini as the selling price of R1 184 211 (R1 350 000 x 100/114) excluding VAT only accrues to Medev Construction (Pty) Ltd on 2 April 2015, being the date the suspensive condition is fulfilled (the approval of the 100% bond by Just Bond Bank). In *Mooi v SIR* 34 SATC1, it was held that accrual could only take place when a taxpayer becomes unconditionally entitled to an amount.	(3) (1)
During the year of assessment	The sales contract was signed on 1 March 2015, but the suspensive condition was only fulfilled on 2 April 2015. Therefore the selling price of R1 184 211 will only be included in the gross income of Medev Construction (Pty) Ltd for the year of assessment ended on 31 March 2016.	(2)
Excluding receipts or accruals of a capital nature	Medev Construction (Pty) Ltd is in the business of developing residential properties and therefore the selling of a town house will constitute gross income because it forms part of the trading stock and will not be of a capital nature.	(4)
Conclusion	All the requirements of the gross income definition have not been met for the 2015 year of assessment and therefore the proceeds from the disposal of the town house to Mr P Dhlamini will not constitute gross income in the hand of Medev Construction (Pty) Ltd for the year of assessment ended on 31 March 2015. Thus, no amount is included in gross income.	(1)
	Total	**13**
	Max	**11**

QUESTION **(29 Marks, 35 Minutes)**

Sunshine Traders CC, supplies farming utilities to local farmers. Sales occur on a cash and credit basis.

All amounts **exclude VAT.** Unless otherwise indicated. Sunshine Traders CC is registered on the invoice basis for VAT.

The following information is supplied to you in respect of the year of assessment ending 28 February 2016:

	Notes	R
Income/ Receipts		
Sales – cash and credit		10 000 000
Interest accrued i.r.o credit sales to farmers		800 000
Receipts from debtors	1	6 000 000
Proceeds from sale of patent	2	150 000
Expenses/payments		
Cost of sales	3	5 000 000
Leasehold improvements	4	160 000
Interest paid/financing costs	4	100 000
Bad debts	1	100 000
Doubtful debts	1	240 000
Salaries and wages	5	1 120 000
Repairs	6	75 000
Depreciation	7	40 000
Foreign exchange loss	8	35 000

Notes

1. Debtors and doubtful debts

   The doubtful debt allowance for the year of assessment ended 28 February 2015 was R50 000. The list of doubtful debtors on 28 February 2016 amounts to R240 000.

2. Patent

   On 1 March 2013 Sunshine Traders CC acquired a patent at a cost of R120 000 which was used in the production of income. The expected useful life of the patent was 10 years at 1 March 2013. On 1 May 2015 the patent was sold for R150 000.

3. Cost of sales

Cost of sales comprises the following:	R
Stock on hand at 28 February 2015 at market value	700 000
Purchases	5 050 000
	5 750 000
Stock on hand at 28 February 2016 at cost price	(750 000)

Cost of sales	5 000 000

The cost price of stock on hand at 28 February 2015 was R725 000.
The market value of stock on hand at 28 February 2016 was R775 000.

4. Leasehold improvements, interest paid/financing costs

The landlord of the premises on which Sunshine Traders CC operates, concluded an agreement with Sunshine Traders CC in terms of which Sunshine Traders CC has to erect a warehouse on the premises, at a cost of R950 000. The rental agreement and erection of the warehouse commenced on 1 June 2015. The warehouse was completed and taken into use on 30 November 2015 at a total cost of R1 000 000. The premises is leased for a period of 10 years by Sunshine Traders CC, as from 1 June 2015.

Sunshine Traders CC incurred a loan of R1 000 000 on 25 May 2015 at an interest rate of 16% per year, for ten years, to finance the project. The loan was approved on 1 June 2015. The loan is repayable in 10 annual payments of R206 901 each, with the first payment payable on 1 June 2016. The accrued interest due up to and including 1 June 2016 amounted to R160 000. You may assume that the interest is incurred evenly throughout the year.

5. Cost of sales

Salaries and wages comprises the following:	**R**
Salaries and wages (approved by the Commissioner)	1 000 000
Employer contributions to the provident fund	105 000
Annuities paid to dependants of three deceased former employees	15 000
	1 120 000

6. Repairs

The dirt parking lot for approximately 40 vehicles, washed away after a cloudburst. The parking lot was repaired and paved with bricks at a cost of R50 000. Additional parking space for approximately 15 larger vehicles was provided simultaneously at a cost of R25 000 on 1 March 2015.

7. Depreciation

7.1 Office furniture with a cost price of R100 000, purchased on 1 March 2013, was no longer suitable to the business, and was donated on 1 March 2015. Its market value was R25 000 on 1 March 2015.

7.2 Office equipment acquired approximately 4 and a half years previously with a cost price of R200 000 and a tax value of R25 000 on 1 March 2015, is still in use.

7.3 SARS allows depreciation on a straight line basis over a period of 5 years in respect of office furniture and 5 years for parking.

8. Foreign exchange loss

Stock to the value of $20 000 was acquired from an American supplier on 31 July 2015. Ownership passed to Sunshine Traders CC on this date. The goods arrived in South Africa on 31 August 2015. $10 000 was paid on 31 January 2016, while the remaining $10 000 was still owing on 28 February 2016.

The stock has already been taken into account in cost of sales under Note 3 above.

The exchange rates were as follows:

31 July 2015	$1	=	R9
31 August 2015	$1	=	R10
31 January 2016	$1	=	R11
28 February 2016	$1	=	R10

YOU ARE REQUIRED TO:

Calculate the income and deduction/allowances of Sunshine Traders CC for the year of assessment ended 28 February 2016 and to reflect it, either under income or under deductions/allowances. **You do not have to calculate taxable income.** (29)

UNISA Adapted question

QUESTION (28 marks, 34 minutes)

Whizzers (Pty) Ltd manufacture sweets. The taxable net income of the company, **before** the following transactions were taken into account, for the year of assessment ended 30 April 2016 amounted to R910 000:

1. On 1 February 2016 machine B, with a purchase price of R500 000, was purchased for the factory in terms of an instalment sales agreement and was brought into use on the same date. Interest of R113 201 will be paid over a 5 year period of which R7 585 relates to the period 1 February 2016 to 30 April 2016.

   This machine was purchased to replace machine Z which was technologically obsolete. Machine Z was purchased 31 October 2011 for R228 000 (including VAT) and the original installation costs amounted to R10 000. The cost to move machine Z from the old to the new factory AAA amounted to R5 000 in the current year. Machine Z was sold on 1 February 2016 for R25 000. Assume that there was no paragraph 65 or 66 of the 8^{th} schedule application for the replacement.

2. Whizzers (Pty) Ltd further decided to build a new factory on vacant premises BBB, which has been leased for a 10 year period from GGG Property Ltd. The lease contract was signed on 1 July 2015 and stipulated the following:

   On the signing of the contract a lease premium of R80 000 for the right of use of the land was payable.

   The erection of a factory building to the value of R480 000. Building commenced on 1 August 2015 and the factory was completed on 1 October 2015 at a total cost of R500 000 and brought into use on 31 October 2015.

   The monthly rental amounted to R10 000 and was payable from 1 July 2015

   The contract makes provision for a renewal period of 5 years.

3. The following legal costs were incurred during the year of assessment:

   3.1 Legal costs relating to the collection of long outstanding debtors to the amount of R3 900.

   3.2 Costs to draw up the lease contract, amounting to R2 800. This contract relates to the lease on the factory premises BBB as set out in note 2.

   3.3 Court, representations and witness fees arising out of a court case which was settled in June 2015. Whizzers (Pty) Ltd was ordered to pay damages to a client after the client's child was accidentally poisoned by a product due to negligence during the manufacturing process. The legal costs amounted R40 000. Indemnification insurance was taken out to protect Whizzers (Pty) Ltd against similar claims and the damages were paid by the insurers.

4. Patent A was acquired during the year of assessment by Whizzers (Pty) Ltd to be used in the business. on 1 December 2015 at a cost of R10 000 and had an expected useful life of 10 years.

5. A trademark, GIZZ®, was purchased on 1 January 2015 for R100 000. The expected useful life of the trademark was 8 years.

6. Whizzers (Pty) Ltd wants to claim bad debts and a doubtful debts allowance. SARS grants an annual allowance of 25% to Whizzers (Pty) Ltd based on the list of doubtful debts at year end. The debtor statistics was as follows:

	Bad debts recovered R	**List of doubtful debts at year end R**
2016	-	10 000
2015	500	16 000
2014	1 000	9 000

   Outstanding debtors at year end (before bad debts were deducted) were:
   2014 R38 600
   2015 R48 000

   Bad debts for the previous two years were as follows:
   2014 R 4 600
   2015 R12 000

   A debtor, Twizzers CC, was placed in liquidation during January 2016. It is expected that the creditors will receive 50c in the rand. The client debt at year end amounted R16 000. **This amount was not yet included in the above mentioned bad debts or list of doubtful debts for 2016.**

7. Dividends to the amount of R20 000 were distributed to the only shareholder, Mr Whizz and a salary of R60 000 was paid to him for the 2016 year assessment.

8. A fax machine with a tax value of Rnil and a market value of R500 on 29 February 2016, was donated to the shareholder, Mr Whizz on this date. The fax machine originally cost R3 000.

9. Provisional tax payments for the 2016 year assessment amounts to R100 000.

10. All amounts **exclude VAT** unless otherwise stated.

11. The undertaking is not a small business corporation as defined in the Income Tax Act.

You are required to:

Calculate the income tax liability for the 2016 year of assessment for Whizzers (Pty) Ltd. Assume that current legislation is applicable. Ignore Capital Gains Tax.

QUESTION 2 (40 marks, 48 minutes)

Dash Trading (Pty) Ltd is an importer of goods into the Republic which it then distributes locally.

The following information relates to the year of assessment ended 31 March 2017:
(All amounts **exclude VAT** unless stated otherwise).

1. Total sales amounted to R4 735 220. Of this amount R260 540 was not yet received in cash on 31 March 2017, but still owing to the company as debtors. Included in these debtors of R260 540 is R68 220 that is regarded as doubtful by Dash Trading. You may assume that the Commissioner will apply its normal practice relating to doubtful debts. No
2. allowance for doubtful debts has ever been claimed by Dash Trading.

3. Details of goods purchased and imported were as follows:

Date	**Spot rate**	**Amount**
	Hong Kong Dollar (HKD)	Hong Kong Dollar (HKD)
10/06/2016	HKD 1.14 = R1	1 240 000
20/03/2017	HKD 1.20 = R1	185 000

2.1 The amount for stock purchased on 20/03/2017 was still outstanding as a creditor on 31 March 2017, although stock was received by Dash Trading.

2.2 The average rate for the year of assessment was HKD 1.23 = R1. The spot rate on 31 March 2017 was HKD 1.25= R1.

3. The cost price of opening stock amounted to R182 300 with a market value of R273 000. The cost price of closing stock amounted to R203 500 with a market value of R192 000.

4. Dividends received were as follows:

4.1 On 22 April 2016 a dividend of R23 000 was received from Import (Pty) Ltd. Dash Trading (Pty) Ltd holds 75% of the shares in Import (Pty) Ltd.

4.2 On 2 May 2016 a dividend of R35 000 was received from Exporters (Pty) Ltd. Import (Pty) Ltd holds 25% of the shares in Exporters (Pty) Ltd and Dash Trading (Pty) Ltd holds 45% of the shares in Exporters (Pty) Ltd.

4.3 On 17 August 2016 another dividend of R68 000 was received from Exporters (Pty) Ltd (see note 4.2). This dividend was funded from capital profit from the sale of land by Exporters (Pty) Ltd. The full profit relates to the period after 1/10/2001. You may assume that if dividends are paid and received between companies which forms part of the same group of companies (as defined), all the other requirements relating to the exemption of these dividends from STC where applicable, will be met.

5. Salaries and wages paid amounted to R540 000. Included in this amount is an amount of R55 000 for a loan to a shareholder and director which was written off on 30 June 2016.

6. Dash Trading leases office and store room space for Leasecor CC. This agreement was concluded during March 2011. According to the agreement Dash Trading will lease office and store room space from 1 May 2011 until 30 April 2016 (a 5 year period). A monthly rental of R2 000 is payable. A lease premium of R480 000 was paid on 1 May 2011.

7. On 1 January 2016 Dash Trading commenced erecting a new building, containing their offices and store rooms on land owned by Dash Trading. The building was completed at a cost of R1 750 000 on 15 April 2016 and bought into use on 1 May 2016. Dash Trading depreciate this building for accounting purposes at 5% per annum.

   Interest paid on the loan for erecting this building were analysed as follows:

Period	**Amount**
	R
01/01/2016 – 31/03/2016	24 728
01/04/2016 – 30/04/2016	8 230
01/05/2016 – 31/03/2017	88 765

8. A trade mark was purchased for R385 000 from an unconnected person on 01/11/2016. Dash Trading regards the useful life of this trade mark as being not more than 10 years.

9. Legal expenses incurred during the year of assessment were as follows:

   9.1 R3 800 for the collection of trade debtors;

   9.2 R6 500 for setting the dispute arising from the unsuccessful renewal of the lease contract (see note 6).

10. Insurance payments were as follows:

   10.1 Short term insurance premiums on the business assets is paid monthly in advance and amounted to R40 300 for the current year of assessment. Included in this amount is the premium for April 2017 (R3 100) which was paid on 31 March 2017

   10.2 The insurance on the building is paid annually in advance. The premium for the period 1 May 2017 to 30 April 2018 amounted to R52 000 and was paid on 31 March 2017.

11. Fixed assets:

   11.1 A luxury passenger vehicle was leased by Dash Trading from 1 June 2016 and the use of the vehicle was granted as a fringe benefit to the managing director. The cost price of the vehicle was R438 900 (including VAT). The monthly lease payment amounted to R95 350 in total for the period 1 June 2016 – 31 March 2017.

   11.2 A delivery vehicle with a cost price of R142 500 (including VAT), was purchased and brought into use on 1 January 2016. This vehicle was involved in an accident and consequently scrapped by the insurance company on 28 February 2017. The insurance indemnity payment amounted to R91 200 (VAT included). Refer to paragraph 11.5 for the relevant write off period.

11.3 A new delivery vehicle was purchased on 1 March 2016 and brought into use on 1 April 2016. The cost price of the vehicle was R148 000.

11.4 An antique desk with a cost price of R36 000 and a tax value of R32 500 was donated to the father of the managing director (who is not a shareholder) on 1 April 2016. The market value of this desk was determined for insurance purposes as R36 000.

11.5 Computers with a cost price of R72 000 was purchases and brought into use on 1 July 2013.

The applicable Practice Note 19 write off periods are as follows:

Passenger vehicles	5 years
Delivery vehicles	4 years
Office furniture and equipment (including antique desks)	6 years
Computers	3 years

12. The assessed loss brought forward to the current year of assessment amounted to R286 000.

13. Provisional tax payments amounted to the following:

30/09/2016	First payment 2017	R122 000
31/10/2016	Third/additional payment 2016	R105 200 and
31/03/2017	Second payment 2017	R118 000

14. On 1 January 2017 a dividend of R50 000 was declared to shareholders registered on 1 February 2017. The last dividend declared before this declaration was declared on 1 January 2016 and any STC related to this dividend was paid.

    Revenue reserves were available at all times for the funding of any dividend or deemed dividend.

YOU ARE REQUIRED TO:

(a) Calculate the **normal tax payable** by Dash Trading (Pty) Ltd for the year of assessment ended 31 March 2017. You may ignore any Capital Gains Tax consequences. (30)

<u>QUESTION 3</u> (22 marks, 26 minutes)

Mbisi CC manufactures plastic irrigation pipes for garden and agricultural use. Mbisi qualifies as a small business corporation for the 2009 year of assessment.

The net profit for the financial year ended **31 March 2009** amounted to R1 796 530, **before** taking into account the following information: (All amounts **exclude VAT**, unless stated otherwise).

The stock figures for the year were as follows:

	01/04/2008		31/03/2009	
	Cost Price	Market value	Cost Price	Market value
	R	R	R	R
Raw material	1 560 840	3 650 300	1 897 520	3 970 540
Packing material	867 230	950 460	880 450	550 640

Mbisi CC's factory and office building needed extensive repairs to be effected. The following are the details of amounts spent:

	R
Replacing carpets and linoleum on the floors with tiles………………………………..	22 700
Painting the factory and office building………………………………………………..	28 720
Erecting new car ports for customers to park under	38 900
Replacing the old diamond mesh wire fence with palisade fencing…………………..	18 300

Machine 20 was totally destroyed due to a technical error and consequently scrapped on 15 June 2008. This machine was purchased second-hand and brought into use on 10 March 2006 and had a cost price of R438 900 (VAT included). The insurance company settled the claim on 8 July 2008 and the indemnity amounted to R320 000 (VAT excluded).

An order was placed on 1 July 2008 (the transaction date) for a replacing machine with a supplier in England to replace Machine 20. This machine, Machine 35, was taken into use on 10 March 2009. The cost price of the machine amounted to £100 000. Air freight, customs and clearing costs amounted to R25 000. A foundation needed to be built for the machine which cost R37 000 to build. The purchase price of Machine 35 was settled in full by bank transfer on 1 January 2009.

The applicable exchange rates were as follows:

Date	**R**	**£**
1 July 2008	16.90	1
1 January 2009	14.85	1
10 March 2009	16.20	1
31 March 2009	17.00	1
Average rate for the year	15.42	1

A second hand machine, Machine 45, was purchased and brought into use on 1 November 2008 at a cost of R85 000 (VAT excluded).

Computers were purchased on 15 August 2008 for the administration section of the business. The cost amounted to R150 000. The computers were installed and taken into use on 1 October 2008.

A passenger vehicle was purchased and taken into use on 1 January 2005 to be granted as a fringe benefit to the managing member, Mr Maluleke. The cost of this vehicle amounted to R256 000 (VAT included). You may ignore the calculation of the fringe benefit consequences of this transaction.

Mbisi CC wanted to rent a vacant piece of land adjacent to the factory for store, parking and loading space. The owner of the land actually wanted to sell the property and only granted the use of the land on a leas to Mbisi CC and after Mbisi CC had agreed to pay a lease premium of R120 000 on 1 January 2009. The lease contract granted the use of the land to Mbisi CC for a period of 5 years from 1 January 2009. A monthly rent of R1 800 was also payable from 1 January 2009.

You may assume that where applicable any choice in terms of paragraph 65 and 66 of the Eighth Schedule relating to the roll over provisions has been exercised by Mbisi CC.
Practice Note 19 lists the following write-off periods. Apply it where applicable.

Passenger vehicles	5 years
Computers	3 years

<u>REQUIRED:</u>

Calculate the **normal tax payable** by Mbisi CC for the year of assessment ended 31 March 2009. (22)

QUESTION **(20 marks, 24 minutes)**

Veli Jeans (Pty) Ltd manufactures and sells fashionable jeans and jackets. The company's financial year ends on 31 March. Veli Jeans (Pty) Ltd is a registered vendor for VAT purposes and is not a small business corporation. The following information is available for calculating the 2015 taxable income (all amounts **exclude VAT** unless otherwise stated):

1. General income and expenses

   Veli Jeans (Pty) Ltd's income from sales is R7 500 000.

   Manufacturing costs and purchases of stock during the year amounted to R3 500 000.

2. Closing stock

   Jeans – manufactured stock

   The following costs were incurred in respect of manufactured jeans stock on hand at 31 March 2015 and not disposed of, as counted and calculated by the auditors at 17:00. These costs are included in the total manufacturing costs and purchases of stock of R3 500 000 above.

	R
Direct materials and labour	1 900 000
Maintenance of manufacturing machines	400 000
Bonus: marketing manager	500 000

   On the evening of 31 March 2015, after the stock taking, there was a heavy rainstorm. The water on the roof of one of the storerooms leaked onto some of the jeans stock and caused damage to these items, to the amount of R250 000. These jeans were considered unsaleable.

   Jackets – purchased stock

   Veli Jeans (Pty) Ltd bought blue jackets from an agent in Cape Town. The cost incurred in purchasing these items was R800 000. Transport costs of R10 000 were also paid to transport the stock to Johannesburg. (Both these expenses are included in the manufacturing costs and purchases of stock of R3 500 000 above). During the South African fashion week, the company was shocked to discover that there had been a sudden change in fashion: blue jackets had suddenly become unfashionable and only black jackets were in demand. Veli Jeans (Pty) Ltd estimated that the value of the jacket stock had now diminished by R600 000 owing to these unforeseen circumstances. None of the blue jackets had been sold at year-end.

   T-shirts – donated stock

   The CEO of Veli Jeans (Pty) Ltd (Jeepee) has a brother (Pololo) who owned a clothing shop. He closed down his business in January 2015 and donated all his T-shirts to Veli Jeans (Pty) Ltd. Pololo acquired the T-shirts at a cost of R300 000, but the market value on the date of the donation was R200 000. None of these T-shirts had been sold at year-end.

QUESTION (continued)

3. Opening stock

The cost of all closing stock on hand as at 31 March 2014 was R955 000 and the market value R1 000 000, on the same date.

4. Restraint of trade

One of Veli Jeans (Pty) Ltd's employees (John) resigned on 1 April 2014 and accepted an appointment at BRO Jeans (Pty) Ltd, one of Veli Jeans (Pty) Ltd's competitors. Veli Jeans (Pty) Ltd thought it necessary to restrain John from sharing any of Veli Jeans (Pty) Ltd's manufacturing and trade secrets with his new employer for two years, and gave John a restraint of trade payment of R300 000. This amount constitutes income in the hands of the recipient.

5. Fixed assets

The following information relates to the transactions regarding fixed assets:

Machine S was purchased second hand on 1 January 2012 for R798 000 (including VAT). It was brought into use on 15 January 2012.

An additional Machine M was purchased new on 1 February 2014 for R950 000 and brought into use on the same day. Soon after, Veli Jeans (Pty) Ltd decided that it no longer required the extra machine, and sold it on 1 May 2014 for R930 000.

Factory F was purchased on 30 November 2008 for R2 500 000. This building was erected by the seller and never used prior to its purchase by Veli Jeans (Pty) Ltd.

6. Doubtful debts

A list of doubtful debts of R80 000 was supplied to the Commissioner. There were no doubtful debts in the prior year of assessment.

REQUIRED:

Calculate the **taxable income** of Veli Jeans (Pty) Ltd for the year of assessment ended 31 March 2015. (20)

QUESTION **(23 marks, 28 minutes)**

Part A **(15 marks, 18 minutes)**

Digital Systems (Pty) Ltd is a **small business corporation.** It researches, develops and manufactures electronic tracking systems.

The following information is available to calculate the company's tax liability for the year of assessment ended 31 March 2015. All amounts **exclude VAT,** unless otherwise stated.

Receipts and accruals	**Notes**	**R**
Sales		9 200 000
Profit on sale of Machine A	1	31 900
Expenditure		
Purchase of machinery	1	524 400
Patent	2	21 700
Trademark	3	7 700
Salaries – administrative staff		470 000
– research staff	4	1 190 000
Operating research expenses	4	2 350 000
Building improvements	5	4 500 000
Office furniture	6	68 000

Notes:

1. Machine A was used in a process of manufacture. Because the machine no longer met the company's production requirements, it was sold on 1 March 2015 for R387 600. The machine was purchased second hand for R400 000 on 1 June 2014.

   To replace Machine A, the company purchased Machine Z on 1 May 2014. Machine Z cost R524 400. In order to install it correctly, Machine Z was attached to a supporting structure costing R12 540.

   The company elected that paragraph 66 of the Eighth Schedule relating to the roll-over provision, apply.

2. In order to expand its operations, the company purchased a patent at a cost of R21 700 on 1 October 2014.

3. Management decided that the company's brand needed to be protected, and as a result, the company's trademark registration was renewed on 1 February 2015, at a cost of R7 700.

4. The company researched and developed a completely new tracking device invention. Operating research costs amounted to R2 350 000 and salaries paid to research staff totalled R1 190 000. The company received no external funding for its research.

5. The company added an extension to its existing premises to house its research facilities. The extension cost R4 500 000 and was completed and brought into use on 1 July 2014. Eighty per cent (80%) of the new building is used exclusively as a research laboratory and 20% for general office administration.

6. Office furniture costing R68 000 was purchased on 1 March 2015.

REQUIRED:

Calculate the **income tax payable** by Digital Systems (Pty) Ltd for the year of assessment ended 31 March 2015. (15)

Part B **(8 marks, 9 minutes)**

Clivia Nursery (Pty) Ltd sells plants and flowers to the public and is not a small business corporation.

The draft financial statements were prepared by the company's accountant and reflect net (accounting) profit before tax of R4 250 000 for the financial year ended 28 February 2015. The accountant requested you to help him calculate the company's income tax liability.

The following information was supplied to you, but the accounting effect of these transactions has already been recorded in the draft financial statements **(you may ignore any VAT consequences):**

1. Fixed assets

   Clivia Nursery (Pty) Ltd purchased a bakkie for delivery purposes on 1 January 2013 for R140 000. The accounting depreciation expense for this vehicle for the 2015 financial year is R40 000 and the entry in the accounting records was as follows:

Debit	Depreciation (Expense)	R40 000	
Credit	Accumulated depreciation		R40 000

   Practice note 19 allows the following write-off periods for assets:

   - passenger cars 5 years
   - delivery vehicles 4 years

2. Lease premium

   On 1 December 2014, Clivia Nursery (Pty) Ltd entered into a lease contract with Warehouse CC for a period of ten years. The lease can be extended for a further period of five years. In terms of the contract, a lease premium of R600 000 was paid on 1 December 2014.

This transaction was recorded as follows for accounting purposes:

Debit	Lease premium (Expense)	R600 000	
Credit	Bank		R600 000

3. Prepayment

   An annual insurance premium to the amount of R90 000 for the period 1 January 2015 until 31 December 2015 was paid on 1 January 2009. The accountant knows that this entry is incomplete, but has not made the correction in the accounting records. Assume this is the only accounting entry, in respect of the prepayment, that needs to be adjusted for tax calculation purposes. The accounting entry was as follows:

Debit	Insurance (Expense)	R90 000	
Credit	Bank		R90 000

REQUIRED:

Calculate the **income tax liability** of Clivia Nursery (Pty) Ltd for the year of assessment ended 28 February 2015. (8)

You must commence your answer with the net profit before tax as per draft financial statements.

QUESTION 2 (30 MARKS / 37 MINTUES)

Earthquip (Pty) Ltd manufactures and sells earth moving machinery. Its current financial year ended 30 June 2007.

The following information relates to Earthquip's activities in respect of the current financial year:

1. The erection of an administrative building commenced on 1 September 2006. It is financed by a loan of R1 000 000, bearing interest at a fixed simple rate of 18% per annum. Repayment of the loan commences 1 September 2007, in 10 annual instalments. The building was completed 31 January 2007, and occupied by the administrative personnel from 28 February 2007.

2. Earthquip contributes to a provident and medical aid fund on behalf of its employees. Its annual contribution to the provident fund amounts to R75 000, and to the medical aid fund R95 000. The Commissioner regards Earthquip's approved remuneration as R2 500 000.

3. One of Earthquip's customers has been liquidated. The liquidators advised Earthquip that it will receive 10 cents for each rand owned to it. The total amount of the debt owing to Earthquip by this customer amounts to R100 000.

4. Included in Eaqrthquip's outstanding debtors (after deducting the amount in note 3), are doubtful debts of R3 000 000. The previous year's amount of the doubtful debts were R2 000 000. The South African Revenue Service allows 25% of the doubtful debt list as an allowance. Earthquip makes use of this provision.

5. Earthquip has 2 patents. Patent A's development was completed at a cost of R93 000 on 30 November 2006, and its probable duration of use was estimated at 10 years. Patent B was acquired at a cost of R20 000 on 31 May 2007.

6. Earthquip had the following stock on hand:

	1 July 2006	30 June 2007
	R	R
At cost	12 000 000	15 000 000
At market value	11 000 000	17 000 000

7. On 1 July 2006 Earthquip paid an amount of R600 000 as compensation to one of its former directors, as a restraint of trade payment. The restraining agreement is effective for 5 years. Only R300 000 of the amount paid to the former director was taxable in his hands.

8. Earthquip acquired Trax, a new manufacturing machine on 15 September 2006 for R2 700 000, and paid a further R300 000 in respect of transport and installation costs. The machine was brought into use on 15 October 2006.

The machine was bought to replace another machine, Crax, that had a cost of R1,500,000 that was bought 2nd hand 2 years ago. The insurance paid out R1 200 000. Earthquip elected to make use of the provisions of section 8(4)(e) and paragraph 66.

The wear-and-tear allowances for Crax are as follows:

Year of assessment	Wear and tear
2006	R300 000
2007	R300 000

9. Earthquip has 4 delivery trucks and 4 trailers. A truck and a trailer operates as one unit. Each truck and trailer cost R750 000 as a unit. They were all acquired on 31 December 2003. In terms of practice note 19, it can be written off over 4 years. On 31 December 2006, one of the drivers arranged a New years party on the back of one of the truck/trailers which was traveling along the coast of Cape Town. He drove it onto a beach, where it got stuck. As the party mood got higher, so did the tide and waves, and the vehicle was smashed by the waves against rocks and damaged beyond repair. The insurance company did not pay out the claim. Earthquip scrapped the asset.

   The wear-and-tear allowances for the 4 delivery trucks and trailers are as follows:

Item	Year of assessment	Wear-and-tear
3 remaining delivery trucks and trailers	2004	R281 250
	2005	R562 500
	2006	R562 500
Scrapped delivery truck and trailer	2004	R93 750
	2005	R187 500
	2006	R187 500

10. Earthquip acquired 2 vehicles on 1 October 2006 and brought them into use on that date. The vehicles consists of a delivery vehicle, costing R102 600 and a passenger vehicle for the managing director's use cost R285 000. **Both the amounts include VAT.** In terms of practice note 19, delivery vehicles can be written off over 4 years and passenger vehicles over 5 years.

11. All amounts exclude VAT unless otherwise stated.

YOU ARE REQUIRED TO:

Calculate all the relevant allowances, deductions and income relating to Earthquip (Pty) Ltd's taxable income for the year ended 30 June 2007. (30)

Show all calculations.

Ignore the effect of Capital Gains Tax.

Items that are not taxable, or not deductible must clearly be indicated as such.

QUESTION 2 **(28 Marks, 33 Minutes)**

Sparky CC is an enterprise which manufacture motorcar spare parts. Mr Shiny Sparky is the only member and manager of the close corporation. The auditors are at present compiling the annual financial statements for the financial year ending **28 February 2007** and has requested you, the accountant, to calculate the normal income tax liability of the enterprise, in order for this calculation to be checked. The enterprise is a registered vendor for Value Added Tax (VAT) purposes. All amounts **exclude VAT** where applicable, unless otherwise stated.

The following information relating to Sparky CC for the financial year ending 28 February 2007 was supplied to you:

	Note	**R**
INCOME		
Sales		2 520 000
Cost of sales		1 348 000
Gross profit		1 172 000
Dividends received from South African companies		15 000
EXPENSES		
Operating expenses (all tax deductible)		875 000
Bad debts	1	9 000
Legal fees	2	6 200
Depreciation	3.1	156 440
Fines and interest	4	7 300
Repairs	5	22 000
Patent development and registration cost	6	143 000
Trade mark purchased	6	100 000
Payments in respect of new machine	3.2	147 324
Distribution to member	7	80 000

Notes

1. Bad debts comprises:

	R
Trade debtors	5 500
Loan to former employee	3 500
	9 000

2. Legal fees comprises:

Collection of trade debtors	5 700
Loan to former employee – collection fees (refer Note 1)	500
	6 200

3. Fixed assets

3.1 Depreciation

- On 1 October 2006 computer department with a cost of R91 200 (VAT included was taken into use. Practice Note 19 makes provision for a three year write-off period in respect of computer equipment. 18 500

- On 1 June 2006 a new motor vehicle was purchased by the CC for Mr Sparky's use. The cost price amounted to R273 600 (VAT inclusive). Practice Note 19 allows a five year write-off period for passenger vehicles. 51 300

- On 1 February 2006 a second-hand machine (Machine A) with a cost price of R433 200 (inclusive of VAT) was purchased. This machine was only taken into use directly in as process of manufacturing on 1 May 2006, in order to replace a machine (Machine B) that was destroyed.

  The original machine was destroyed in a fire which broke out in the factory of Sparky CC on 1 November 2006.

  The following information relates to the destroyed machine (Machine B):

Original cost on 1 September 2003	R210 000 (purchased secondhand)
Proceeds from scrap sales	R 20 000
Insurance payment received	R 200 000

3.2 Payments in respect of new machine:

The new machine (Machine A) was purchased in terms of an instalment sale agreement and the following information is applicable:

Period	Interest paid	Capital redemption	Total payment
	R	**R**	**R**
01.02.2006 – 28.02.2006	5 776	6 501	12 277
01.03.2006 – 28.02.2007	62 209	85 115	147 324

4. Fines amounting to R6 900 and interest amounting to R400 levied on the late submission of a VAT return.

5. Repairs comprises the cost to replace water pipes and electrical wiring which were damaged during the fire (refer Note 3). R2 000 of this cost however comprises cost to install a security gate in order to improve security on the premises.

6. During November and December 2006 R120 000 was spent by Sparky CC in order to design their own patent, "Sparks". This patent was registered on 31 December 2006 at a total cost of R10 000. An existing patent right was also renewed on 1 February 2007 at a total cost of R13 000. A trademark was purchased on 1 February 2007 at a cost of R100 000.

7. A distribution of reserves of R80 000 was done to Mr Sparky on 1 February 2007.

8 The company tax rate is 29%. The close corporation does not comply with the requirements of the Income Tax Act in order to be taxed as a small business corporation.

YOU ARE REQUIRED TO:

Calculate the normal income tax liability of Sparky CC, for the year of assessment ending on 28 February 2007.

QUESTION 4 **(14 Marks, 17 Minutes)**

ABC (Pty) Ltd is a manufacturing concern and a small business corporation as defined.

The following income statement of ABC (Pty) Ltd for the year ended 31 March 2007 was presented to you. The net profit amounted to R755 000 and was calculated after taking into account the following items:

	Note	R
INCOME		
Profit on sale of building	1	185 000
EXPENSES		
Loss on sale of warehouse	2	65 000
Depreciation	3	183 250
Insurance paid	4	135 000

Notes:

1. On 10.08.2006 ABC sold their office building to an unconnected person. The profit of R185 000 is a capital gain and calculated correctly according to the Eighth Schedule of the Income Tax Act.

2. On 05.11.2006 ABC sold a warehouse, also to an unconnected person. The loss of R65 000 is a capital loss and calculated correctly according to the Eighth Schedule of the Income Tax Act.

3. The schedule for depreciation is as follows:

Item	Purchase date	Cost	Book value 01.04.2006	Write off period in years	Depreciation	Book value 31.03.2007
		R	R		R	R
Delivery vehicle	01.07.2006	285 000	213 750	4	71 250	142 500
Manufacturing Machine A	01.09.2001	1 020 000	561 000	10	102 000	408 000
Manufacturing Machine B	01.03.2007	600 000		5	10 000	590 000
Total depreciation					183 250	

ABC (Pty) Ltd complies with all the requirements of Practice Note 19. The write-off period for delivery vehicles according to Practice Note 19 is 4 years.

4. The short term insurance policy of the company was renewed on 01.03.2006, for a period of 12 months until 28 February 2008, at an amount of R135 000.

5. The following provisional tax payments were made by ABC (Pty) Ltd:

   - on 30 September 2007 R10 000
   - on 31 March 2007 R20 000

YOU ARE REQUIRED TO:

Calculate the income tax payable by / refundable to ABC (Pty) Ltd for the year of assessment ended 31 March 2007. You may ignore VAT for purposes of this question.

QUESTION (30 marks, 36 minutes)

Cellcom (Pty) Ltd is in the cellphone industry reception and call services. They have an extensive customer base which were created during the past few years. The current financial year ended on 30 June 2007. You can assume that current legislation applies.

The following information relates to Cellcom's activities for the current financial year:

1. Gross income amounts to R2 240 000, before taking into account the following information:
2. Cellcom's employees belong to the company's pension fund and medical aid fund. Cellcom contributes to these funds on behalf of the employees. Contributions, on behalf of the employees, during the year to the pension fund amounted to R110 000 and to the medical aid fund R135 000. Cellcom's total remuneration approved by the Commissioner is R2 350 000.
3. The financial manager, Mr Amounts, resigned on 31 July 2006. In order to prohibit him from trading in direct competition to Cellcom, the company paid him an amount of R550 000 as compensation for him restraint trade for the following 5 years. The full amount was included in Mr Amounts' income on his 2007 income tax return.
4. The debtors clerk indicated that the doubtful debts amount to R2 500 000. The commissioner will allow a doubtful debt allowance of R625 000 in the current year. The doubtful debt allowance claimed in the 2006 year of assessment amounted to R760 000.
5. Cellcom's management decided to establish another service provider and concluded an agreement with Shop-a-lot shopping centre to rent shop space from them. The period of the lease is 10 years and occupation date is 1 October 2006. According to the lease contract, Cellcom has to pay a lease premium of R40 000 on occupation date, as well as monthly rent of R7 000.
6. Cellcom concluded and agreement with Office Space (Pty) Ltd to lease a piece of land with a small office building for their head office activities. The lease determines that the lease period is 20 years as of 1 September 2006. According to the contract, Cellcom has to affect improvements to the existing buildings and extend the office space at a cost of R1 500 000. The improvements commenced on 1 October 2006 and was completed on 1 January 2007 at a cost of R1 400 000. The building was also brought into use on this date.

7. Legal cost to the amount of R175 000 was incurred for the following:

	R
- Drafting all of the above lease contracts and agreements	35 000
- Collection of outstanding trade debtors	85 000
- Court case in respect of employees remuneration	55 000

(note: employee remuneration is deductible for purposes of this question)

8. Penalties and interest paid to the south African Revenue Service amounts to R16 000.

9. Bad debts written off consist of:

	R
- Loan to director	80 000
- Trade debtors	122 000

10. The following prepaid expenditure was incurred:

- Rental of the switchboard system for head office for the period 1 July 2007 to 31 January 2008	40 000
- Security services for the period 1 July 2007 to October 2007	20 000
- Deposit for the purchases of a delivery vehicle that will be delivered on 1 September 2007	85 000

11. Repairs were incurred for the following reasons:

- Service and repair of leased photocopy machine	4 000
- Repaving the parking area which was in a bad condition. Undercover parking was erected at the same time at a cost R20 000 (this cost is included in the total amount of R35 000)	35 000

12. The fixed assets of Cellcom that were used during the year consisted of the following:

- Furniture (desks and chairs) purchased on 1 February 2004	120 000
- Photocopy machine purchased on 1 January 2002	8 000
- Computers purchased on 1 August 2006	90 000

Practice note 19 allows the following write-off periods for these assets:

- Furniture	6 years
- Photocopy machine	5 years
- Computers	3 years

YOU ARE REQUIRED TO:

Calculate the taxable income of Cellcom (Pty) Ltd for the year of assessment ended. (30)

All amounts exclude VAT. Show all calculations. Items which are not taxable or deductible should be indicated clearly as such. Round of all amounts to the nearest Rand.

Question (22 marks, 26 minutes)

Gizmo CC is a small business corporation that was incorporated in 2006 and started trading on 1 May 2009. It rents out a commercial building in Johannesburg from which it earns rental income. Gizmo CC owns the building and has only one tenant, Mega Music, which occupies the building. Gizmo CC is a registered VAT vendor

The following information relates to the year of assessment ended 29 February 2010: (All amounts exclude VAT unless stated otherwise.):

Income
1. Rental income Gizmo CC receives a monthly rental of R20 000 from Mega Music. The lease agreement was entered into on 1 May 2009. Mega Music moved into the building on the same date.
2. Lease premium Gizmo CC received an initial lump-sum amount of R50 000 (excluding the monthly rent) from Mega Music on signing the lease contract on 1 May 2009. MEGA Music is entitled to occupy the building from 1 May 2009 for a period of five years, with the right to extend the period for a further five years. (assume a discounting rate of 0,74)
3. Leasehold improvements The lease agreement imposed an obligation on Mega Music to effect improvements to the building by adding a secured parking lot for customers at a cost of R90 000. The construction of the parking lot commenced on 1 June 2009 and was completed and brought into use on 1 December 2009 at a cost of R110 000. (Assume a discounting rate of 0,74.)

Expenses
1. Improvements to commercial building The commercial building in Johannesburg was purchased by Gizmo CC in December 2008. When Gizmo CC purchased the building it was very run-down. R200 000 was expended by Gizmo CC in improving the existing structural and exterior framework of the building. The improvements were completed and the building was bought into use on 1 May 2009 when Mega Music commenced renting the building. The building is situated within an urban-development zone (demarcated by the municipality).
2. Interest on loan Gizmo CC obtained a loan from a bank in order to effect the improvements made to the rundown commercial building. Interest paid on the loan was incurred as follows: - R31 200 for the period 1 January 2009 to 30 April 2009 - R18 000 for the period 1 May 2009 to 29 February 2010

3.	Legal fees Gizmo CC incurred legal fees in the amount of R12 000 in drawing up the deed of lease between itself and Mega Music.
4.	New computer Gizmo CC purchased a new computer on 1 June 2009 for R13 500 (VAT included), which is to be used for running the business.
5.	Second-hand motorcycle In November 2008 a second-hand motorcycle was purchased for R32 000, for making ad hoc deliveries. In January 2010 the motorcycle was scrapped after being in an accident. Gizmo CC elects the section 11(o) allowance.
6.	Rates and taxes Gizmo CC paid rates and taxes amounting to R8 400 for the period December 2008 to 30 April 2009.
7.	Other Expenses in the amount of R46 000 were incurred by Gizmo CC for the 2010 year of assessment. Assume they were all tax deductible.

REQUIRED:

a) Calculate the income tax liability of Gizmo CC for the year of assessment ended 29 February 2010. (16)

b) Calculate the allowance tax deductions that Mega Music would be able to claim only in relation to the lease agreement entered into with Gizmo CC. mega Music has a 31 December year end. (6)

Question (38 marks, 46 minutes)

You are a trainee accountant and a member of the audit team currently performing the audit of Betty B (Pty) Ltd ("Betty B"). Betty B manufactures lipsticks at its factories. One of the factories is located in the south of Johannesburg, and it manufactures and distributes lipsticks locally. The other factory is in East London, and it manufactures and distributes lipsticks to overseas markets. Betty B is a registered VAT vendor.

The financial accountant at Betty B has almost completed the calculation of the taxable income for the year of assessment ended 31 December 2009. She is unsure how to handle some of the transactions that occurred during the year for taxation purposes and has asked that you complete the taxable income calculation taking these transactions into account.

The taxable income she arrived at was R2 356 000. Assume the calculation of this figure is correct (in terms of the provisions of the Income Tax Act).

The following are the transactions she is unsure of: (All amounts exclude VAT unless stated otherwise.)

1. Dividends

   Betty B received the following dividends during the year of assessment:

   - R200 000 from a South African subsidiary company of Betty B
   - R45 000 from a Nigerian company

   Betty B also paid out a dividend of R780 000 to its shareholders on 31 December 2009.

2. Insurance premiums

   Insurance premiums of R245 000 were paid in full for the 12-month period from 1 August 2009 to 31 July 2010.

3. Fixed assets

   3.1 Machine Forex was purchased new from a supplier in Germany for 100 000 Euros on 1 October 2009. Freight and insurance costs of R23 000 were paid. The machine was delivered on 31 October 2009 and brought into use on 22 December 2009. The purchase price was settled on 31 January 2010. Machine Forex is used to manufacture the lipstick holders.

   The spot rates were as follows:

1 October 2009	1 Euro = R9,20
31 October 2009	1 Euro = R9,80
22 December 2009	1 Euro = R10
31 December 2009	1Euro = R10, 50
31 January 2010	1 Euro = R11,10

   3.2 Betty B purchased a portable generator from its South African subsidiary company for R150 000 on 31 May 2009 and brought into use on the same day. (The cost of the

	generator for the subsidiary was R80 000 and the current market value is R95 000). Assume that the subsidiary had written R20,000 off the generator at the date of sale. Interpretation note 47 accepts a five-year write-off period for portable generators. Betty B sold the generator on 30 November 2009 for R200 000 as it had been decided to purchase a more powerful generator in the next year. 3.3 Machine Hotex2 is a second-hand wax-melting machine that was purchased and brought into use on 30 October 2009. The purchase price was R1 million. It cost Betty B another R50 000 to install the machine in the factory. Machine Hotex2 was purchased to replace Machine Hotex1 which had been destroyed in a fire earlier in the year. Machine Hotex1 was purchased new in January 2006 for R850 000. It had a tax value of R340 000 at the beginning of the current year of assessment. Betty B received an insurance payout of R285 000 (including VAT) from the insurance company for the destroyed Machine Hotex1. Betty B elected to apply paragraph 65 of the Eighth Schedule.
4.	Trademark On 30 June 2009 one of the lipstick trademarks Betty B had registered in 2006 was renewed for a further three years at a cost of R75 000.
5.	Design On 31 May 2009 Betty B purchased a specific design to be used for their lipstick winter range from Levron Cosmetics for R120 000.
6.	Research and development A dedicated team employed by Betty B was used in a highly scientific research and development project. The aim of the project was to develop a lipstick range that would colour lips for up to 16 hours without reapplying. Salaries amounting to R451 440 were paid to the team in the year of assessment. On 1 January 2009 the team purchased a machine used in the research and development of the range for an amount of R108 000.
7.	Advertising An extensive advertising campaign was launched to promote Betty B's summer lipstick range. The campaign included a billboard positioned near a Sandton shopping centre in Johannesburg and a series of television advertisements during the seven o'clock news. The campaign ran for a period of three months, from 1 July 2009 to 30 September 2009. The total cost of the campaign was R450 000.
8.	Disposal of the East London factory Betty B decided to move all operations to Johannesburg and therefore disposed of their East London factory. On 30 June 2010 the factory was disposed of for R2 750 000. The valuation date value of the factory is R2 million. Betty B purchased the factory for R750 000 on 1 January 2001. In May 2006 the factory was expanded. The expansion costs amounted to R250 000. The expansion was completed and

brought into use on 1 November 2006.

The tax value of the factory on the date of disposal is calculated as follows:

	Original factory	**Expansion**	**Total**
	R	**R**	**R**
Cost	750 000	250 000	1 000 000
Allowances (section 13)	(262 500)	(37 500)	(300 000)
Tax value on date of disposal	**487 500**	**212 500**	**700 000**

The current year allowances for the factory have already been taken into account in the taxable income of R2 356 000.

9. Capital loss during the prior year

The accountant does not know what to do with a capital loss that Betty B incurred on various disposals of capital assets in the prior year. The loss amounted to R45 000.

REQUIRED:

Complete the taxable income calculation of Betty B (Pty) Ltd for the year of assessment ending 31 December 2009. (38)

You must start your calculation with the taxable income of R2 356 000 taking into account the above-mentioned transactions for taxation purposes only.

SOLUTIONS

QUESTION

		DED	INCOME	
Sales			10 000 000	(1)
Interest allowed			800 000	(1)
Receipts from debtors			NIL	(1)
Recoupment – sale of patent (Working 2)			18 000	(1)
Patent write off		6 000		(1)
Capital gain on sale of patent (30,000 X 66.6%)			20 000	(1)
Opening stock		700 000		(1)
Purchases		5 050 000		(1)
Closing stock			750 000	(1)
Add: doubtful debts last year			50 000	(1)
Less: doubtful debts this year				
$240\ 000 \times 25\%$		60 000		(1)
Building allowance warehouse		NIL		(1)
Leasehold	$\left(950\ 000 \times \frac{3}{12} \times \frac{1}{10} \times \frac{1}{9.5}\right)$	30 000		(2)
Additional allowance	(1 000 000 - 950 000) x 5%	2 500		(1)
Interest Dec - Feb	$\left(\frac{3}{12} \times 160\ 000\right)$	40 000		(1)
Interest Jun – Nov (pre-production interest) 8 months.		80,000		(1)
Bad debts		100 000		(1)
Salaries and wages)		1 000 000		(1)
Contributions to fund	(limited to 10% X 1000000)	100 000		(1)
Annuity contributions to 3 former employees dependants		15 000		(1)
Repair to pave railing lot		50 000		(1)
Additional parking space (25 000/5)		5 000		(1)
Office furniture wear and tear		NIL		(1)
Scrapping on donation of office furniture		35 000		(1)
Office equipment wear and tear		24 999		(1)
Forex less realised ($10 000 $\times$11 – 9)		20 000		(1)
Forex less unrealised (10 000 $\times$10 – 9)		10 000		(1)

QUESTION

WORKING 1 FURNITURE

Cost	1 March		100 000	
	Wear and tear	2014 year end	(20 000)	(½)
		2015 year end	(20 000)	(½)
		2016 year end	(NIL)	
			60 000	
Donated for			25 000	(1)
Scrapping	Allowance		35 000	

WORKING 2

Patent

Cost			120 000	
Less:	Patent section 11gA writeoff 2014 year	120000 X 5%	(6 000)	(1)
	Patent section 11gA writeoff 2015 year		(6 000)	(½)
	Patent section 11gA writeoff 2016 year		(6 000)	(½)
			102 000	
Sold for 150 000 but recoupment limited to			120 000	(1)
	Recoupment		18 000	

Proceeds = 150,000 – R18,000 =	R132,000	(1)
Base cost =	(R102,000)	(1)
	R 30,000	

QUESTION

Taxable net income	910 000	(1)
Depreciation S 12C machine Z (228000X100/114+10000)	(42 000))	(1)
Recoupment machine Z	25 000	(1)
Moving cost machine Z	(5 000)	(1)
Machine B section 12C at 40%	(200 000)	(1)
Interest paid on instalment credit agreement	(7 585)	(1)
Less premium 80 000 x $1/15 \times 10/12$	(4 444)	(1)
Building allowance factors 5% x (500 000 – 480 000)	(1 000)	(1)
Rent 1 July – 31 October not in production of income	(NIL)	(1)
Rent 1 Nov – 30 April 6 months x 10 000 per month	(60 000)	(1)
Leasehold improvements 480 000 x $\frac{1}{9\,years\ 8\,months} \times 6/12$	(24 828))	(1)
Legal costs - debtors	(3 900)	(1)
- lease agreement	(NIL)	(1)
- negligence	(NIL)	(1)
Patent A 10 000 x 5%	(500)	(1)
Trademark	(NIL)	(1)
Bad debts recovered	NIL	(1)
Add: Doubtful debts last year 25% x 16 000	4 000	(1)
Less: Doubful debts this year 25% x 10 000	(2 500)	(1)
Twizzlers CC bad debts	(8 000)	(1)
Dividends paid not deductible	(NIL)	(1)
Salary	(60 000)	(1)
Recoupment fax machine	500	(1)
	519 743	
Tax at 28%	145, 528	(1)
Less: Provisional tax payments	(100 000)	(1)
	45, 528	

WORKINGS

<u>MACHINE Z</u>

Cost	31/10/2011		210 000
Less:	Dep.	2012 yr	(42 000)
		2013 yr	(42 000)
		2014 yr	(42 000)
		2015 yr	(42 000)
		2016 yr	(42 000)
Tax value			NIL
Sold for			25 000
Recoupment			25 000

QUESTION 1

Calculation of the taxable income of Veli Jeans (Pty) Ltd for the year of assessment 31 March 2015:

		R	R	
Sales			7 500 000	(1)
Manufacturing costs and purchases			(3 500 000)	(1)
Closing stock:				
Jeans				
Cost: jeans			2 050 000 (4)	
- Direct materials and labour			1 900 000	
- Maintenance of manufacturing machines			400 000	
- Bonus: marketing manager - not manufacturing			-	
- Damage: jeans			(250 000)	
Jackets			210 000 (3)	
- Cost: jackets			800 000	
- Transport cost: jackets			10 000	
- Change in fashion: jackets			(600 000)	
T-shirts				
- Donation: at market value			200 000 (1)	
Opening stock at cost			(955 000)	(1)
Restraint of trade payment - R300 000/3 (1)			(100 000)	
Restraint for 2 years, but minimum write off is over 3 years				
Machine S - s12C wear and tear allowance			(140	
000) (R798 000 x 100/114 = R700 000) (1) x 20% (1)				
Machine M - recoupment and wear and tear allowance				
Cost		950 000		
Less: s12C wear and tear allowance				
2014: R950 000 x 40% (1)		(380 000)		
2015: R950 000 x 20%		(190 000) (1)	(190 000)	
Tax value		380 000		
Proceeds		(930 000)		(1)
Recoupment		(550 000)	550 000	(1)
Factory F - s13 building allowance	R2 500 000 x 5% (1)		(125 000)	
Doubtful debt allowance	R80 000 x 25%		(20 000)	(1)
Taxable income			7 740 000	

QUESTION 1

Calculation of the taxable income of Veli Jeans (Pty) Ltd for the year of assessment 31 March 2015:

		R	R	
Sales			7 500 000	(1)
Manufacturing costs and purchases			(3 500 000)	(1)
Closing stock:				
Jeans				
Cost: jeans			2 050 000	(4)
- Direct materials and labour			1 900 000	
- Maintenance of manufacturing machines			400 000	
- Bonus: marketing manager - not manufacturing			-	
- Damage: jeans			(250 000)	
Jackets			210 000	(3)
- Cost: jackets			800 000	
- Transport cost: jackets			10 000	
- Change in fashion: jackets			(600 000)	
T-shirts				
- Donation: at market value			200 000	(1)
Opening stock at cost			(955 000)	(1)
Restraint of trade payment - R300 000/3 (1)			(100 000)	
Restraint for 2 years, but minimum write off is over 3 years				
Machine S - s12C wear and tear allowance			(140 000)	
(R798 000 x 100/114 = R700 000) (1) x 20% (1)				
Machine M - recoupment and wear and tear allowance				
Cost		950 000		
Less: s12C wear and tear allowance				
2008: R950 000 x 40% (1)		(380 000)		
2009: R950 000 x 20%		(190 000)	(190 000)	(1)
Tax value		380 000		
Proceeds		(930 000)		(1)
Recoupment		(550 000)	550 000	(1)
Factory F - s13 building allowance	R2 500 000 x 5% (1)		(125 000)	
Doubtful debt allowance	R80 000 x 25%		(20 000)	(1)
Taxable income			7 740 000	

QUESTION 4

PART A

Calculation of income tax payable by Digital Systems (Pty) Ltd for the year of assessment ended 31 March 2015

			R	R	
Sales				9 200 000	(1)
Machine A					
	Cost price		400 000		
Less:					
s12E wear & tear allowance		(R400 000 x 100%)	(400 000)	(400 000)	(1)
	Tax value		-		
Sellling price - Machine A			387 600		
Less:	Tax value		-		
Recoupment			387 600		(1)
Taxable portion of recoupment	Par 66	(100% x R387 600)		387 600	(1)
Award mark if % recoupment agrees with Machine Z w & t %					
Machine Z					
	Cost price		524 400		
	Supporting structure		12 540		(1)
	Total cost		536 940		
S 12E wear & tear allowance		(R536 940 x 100%)		(536 940)	(1)
Patent		(R21 700 x 5%)		(1 085)	(1)
Trademark s11(gB)				(7 700)	(1)
Salaries	- administrative staff			(470 000)	(1)
	- research staff	(R1 190 000 x 150%)		(1 785 000)	(1)
Operating research expenses		(R2 350 000 x 150%)		(3 525 000)	(1)
Building improvements: research facility					
	section 11D	(R4 500 000 x 80%) (1) x 50% (1)		(1 800 000)	
	section 13*quin*	(R4 500 000 x 20%) x 5%		(45 000)	(1)
Office furniture		(R68 000 x 50%)		(34 000)	(1)
Taxable income				982 875	
Tax due (R982 875 - R300 000) x 28% + R24 580				216 585	(1)
Total normal tax payable				216 585	
				max	15

QUESTION 4 **(continued)**

PART B

Calculation of the income tax liability of Clivia Nursery (Pty) Ltd for the year of assessment 28 February 2015

			R	
Net profit before tax			4 250 000	
Delivery vehicle - bakkie				
Add: Accounting depreciation			40 000	(1)
Less: Practice note 19- wear and tear	R140 000/4		(35 000)	(1)
Lease premium				
Add: Accounting total lease premium paid			600 000	(1)
Less: Lease premium (s11(f))	R600 000/15 (1) x 3/12 (1)		(10 000)	
Prepayment				
Add: Prepaid insurance (s 23H)	R90 000 x 10/12	Note 1	75 000	(2)
Taxable income			4 920 000	
Income tax liability	R4 920 000 x 28% (1)		1 377 600	

Note 1

The prepaid expense was for a period greater than six months after year end and therefore may not be deducted for taxation purposes. Only the portion of the expense relating to the year end may be deducted, therefore resulting in the prepaid portion being adjusted for.

QUESTION 2

Sparky CC : Calculation of normal income tax for the year of assessment ending 28 February 2007

	Calculations	**R**	**R**	
Sales			2 520 000	(½)
Cost of sales			(1 348 000)	(½)
Dividends received	Exempt (R15 000 - R15 000)		-	(1)
Operating expenses			(875 000)	(1)
Bad debts	Trade debtors		(5 000)	(1)
	Loan to former employee (not included in income previously)		-	(1)
Legal fees (s11(*c*)	Collection of trade debtors		(5 700)	(1)
	Loan to former employee (not in the production of income)		-	(1)
Computer equip (s11(e))	(R91 200 x 100/114)/3 x 5/12		(11 111)	(2)
Motor vehicle (s11(*e*))	R273 600/5 x 9/12		(41 040)	(2)
New machine A (s12C)	[(R433 200 x 100/114) – R26 000] x 20%		(70 800)	(2)
Original machine B	Cost price	210 000		(½)
	2004: R210 000 x 20%	(42 000)		(½)
	2005: R210 000 x 20%	(42 000)		(½)
	2006: R210 000 x 20%	(42 000)		(½)
	2007: R210 000 x 20%	(42 000)	(42 000)	(1)
	Tax value on date of destruction	42 000		
	Proceeds (R16 000 + R200 000)	220 000		(1)
	Recoupment (limited to original cost not included in gross income as per paragraph 65)	168 000		(1)
	Capital gain (not all included paragraph 65)	10 000		(1)
New machine A (s12C)	(R443 200 x 100/114) x 20%		(77 754)	(1)
Paragraph 65 recoup	20% X 168 000		33 600	(1)
Paragraph 65 CGT	20% X 10 000 X 50%		1 000	(1)
Interest paid	Pre-production interest (s11(bA))		(5 776)	(1)
	Current year (s11(*a*))		(62 209)	(1)
Fines	Section 23(d)		-	(1)
Interest	Section 23(d)		-	(1)
Repairs (s11(*d*))	Replacement of a component		(20 000)	(1)
	Security gate – (capital in nature)		-	(1)
Patent dev & reg cost	All own development therefore write off in full		(130 000)	(1)
Patent renewal (s11(gB))			(13 000)	(1)
Trademark purchased	No allowance after 29.10.99		-	(1)
Distribution to member	Capital in nature		-	(1)
Taxable income			(152 790)	
Tax liability	@ 29%		Nil	(1)

QUESTION 2:

t• Workings• Deduction• Income• • Sales• • • 4 735 220• • Doubtful debts• 68 220 x

	Workings	Deduction	Income
Sales			4 735 220
Doubtful debts	68 220 x 25%	17 055	
Purchase stock	1 240 000 / 1.14	1 087 719	
Purchase stock	185 000 / 1.2	154 167	
Forex loss	(185 000 / 1.2) – (185 000 / 1.25)		6 167
Opening stock	Lower cost or market value	182 300	
Closing stock	Lower cost or market value		192 000
22 April –div rec			23 000
Div exemption			(23 000)
2 May Div			35 000
Div exemption			(35 000)
17 Aug Div			68 000
Div exemption			(68 000)
Salary	(540 000 – 55 000)	485 000	
Loan written off	Not deductible	-	
Rent paid	1 x 2 000	2 000	
* Lease premium	480 000 x $1/5$ x $1/12$	8 000	
Depreciation office building	Not depreciable	-	
Pre-production interest	1/1/06-31/03/06 deductible when brought into use	24 728	
Pre-production interest	1/4/06 -30/09/06 deductible when brought into use	8 230	
Post production interest		88 765	
Trademark	Not deductible	-	
Legal expense debtors		3 800	
Legal expenses–lease	Capital therefore not deductible	-	
Insurance	Fully deductible < 6 months	40 300	
Building insurance	> 50 000 > 6 months therefore deductible next year	-	
Lease payments		95 350	
* Fringe benefits output	438 900 x $\frac{100}{114}$ x $\frac{14}{114}$ x 0,3% x 10	1 418	

Delivery vehicle	Cost incl VAT	142 500		
	Less VAT	(17 500)		
	Cost	125 000		
	Less: W+T 1/1/06-31/3/06	(7813)		
	Less: W+T 1/4/06- 28/2/07	(28646)	28 646	
	Tax value	88541		
	Sold for (91200 x $\frac{100}{114}$)	80 000		
	Scrapping allowance	8541	8 541	
New delivery vehicle	148 000 x $\frac{12}{12}$ x $1/4$		37 000	
Recoupment	Value on donation	36000		
Antique clock	Less: tax value	32 500		
		3 500		3 500
* Computers	(72 000 x $3/12$ x $1/3$) - 1		5 999	
Assessed loss C/F			286 000	
			2 453 022	4 936 887
Taxable income			2 483 865	

Tax per tables	720 321
Less: 1st prov tax payment	(122 000)
Less: 2nd prov tax payment	(118 000)
Less: 3rd payment (2016)	-
	480 321

Dividend cycle 1
1 Jan 2016 – 30 June 2016

Deemed div 30 June loan w/off	55 000
Less: div rec'd importers (same group co exempt)	-
Less: div rec exporters	(35 000)
	20 000
STC payable (20 000 x 12,5%)	2 500
STC payable – 31 July 2016	

Dividend cycle 2
1 July 2006 – 1 Feb 2007

Dividend declared	50 000
Less: Exporters div received	68 000
	(18 000)

No STC payable R18 000 – STC utilized credit carried forward

QUESTION 3

Net profit		1 796 530	
Add: closing stock Raw material		1 897 520	(1)
Add: closing stock Pack material		550 640	(1)
Less: opening stock Raw material		(1 560 840)	(1)
Less: opening stock Pack material		(867 230)	(1)
Replacements		(22 700)	(1)
Painting		(28 720)	(1)
New car ports		-	(1)
Fence		(18 300)	(1)
Machine 20 Capital Allowance		-	
Cost 438 900 X 100/114	385 000		(1)
Written off 2006 tax year	<u>(385 000)</u>		(1)
	-		
Sold for	<u>320 000</u>		
Recoupment	320 000		(1)
Defer but replacement asset written off at 100%			(1)
New machine		(85 000)	(1)
Replacement machine Cost 16.90 x 100 000=1 690 000			(1)
Freight	25 000		(1)
Install	<u>37 000</u>		(1)
	1 752 000 written off at 100%	(1 752 000)	(1)
Forex 100 000 x (16.90-14.85)		205 000	(1)
Recoupment now recognised		320 000	
Computers	150 000 x 50%	(75 000)	(1)
Passenger vehicle	256 500 x 20%	(51 300)	(1)
Lease premium	120 000 x 1/5 x 3/12	(6 000)	(1)
Rent	1 800 x 3	<u>(5 400)</u>	<u>(1)</u>
		297 200	
Tax 0 - 46 000		NIL	
40 000-300 0000		25 720	(1)

SOLUTION TO QUESTION 2

Calculation of allowances, deductions and income of Earthquip (Pty) Ltd for the year of assessment ended 30 June 2007

		R	R	
Pre-production interest s 11(bA)				
(R1 000 000 × 18% × 6/12)			90 000	(1)
Interest on loan s 11(a)				
(R1 000 000 × 18% × 4/12)			60 000	(1)
Contributions to funds:	Provident	75 000		(½)
	Medical aid	95 000		(½)
		170 000		
Limited to 10% of R2 500 000 s11(1)		250 000		(½)
Thus			170 000	(½)
Bad debts s11(i)				
[R200 000 × (R1 – R0,10)]			90 000	(2)
Doubtful debt allowance s 11 (j)				
2006: Add back to income (25% × R2 000 000)			(500 000)	(1)
2007: Deduct from income (25% × R3 000 000)			750 000	(1)
Patents s11(gA)				
Patent A: Greatest of (R30 000/10 years)				
or (4% × R30 000)			93 000	(1)
Patent B: (R20 000 × 5%)			1 000	(1)
Stock: Opening 1 July 2005			11 000 000	(1)
Closing 30 June 2006			(15 000 000)	(1)
Restraint of trade payment s 11(cA)				
Deductible portion = portion regarded as				
income in receiving person's hands = R300 000				(1)
Limited to lesser of:				
R300 000/5 years = R60 000; or				(1)
R300 000/3 = R100 000, thus			60 000	(2)
s 12C allowance				
Trax:	Cost	2 700 000		
	Transport and installation	300 000		(1)
		3 000 000		
Less:	wear and tear:			
	2007 (R3 000 000 × 40%)	1 200 000	1 200 000	(1)

	R	R	
Crax's 8(4)(e) recoupment:			
Cost	1 500 000		
<u>Less</u>: Wear and tear:			
2006 (R1 500 000/5 years) given	300 000		
2007 given	300 000	300 000	(1)
Tax value	900 000		
Insurance proceeds	1200 000		(1)
Recoupment	300 000		(1)
Recoupment included per paragraph 65 (300x40%)		(120000)	(1)
Delivery trucks/trailers s 11(e)			
3 remaining trucks/trailers wear and tear:			
2007 (R2 250 000/4 years) given	562 500	562 500	(1)
Scrapped truck/trailer:			
Cost	750 000		
<u>Less</u>: Wear and tear:			
2004 (R750 000/4 years × 6/12) given	93 750		
2005 (R750 000/4 years) given	187 500		
2006 (R750 000/4 years) given	187 500		
2007 (R750 000/4 years × 6/12)	93 750	93 750	(2)
Tax value	187 500		
Proceeds	-		
Scrapping allowance s 11(o)	187 500	187 500	(1)
Delivery vehicle			
(R102 600 × 100/114 ×1/4 years × 9/12)		16 875	(2)
Passenger vehicle			
(R285 000 × 1/5 years × 9/12)		42 750	(2)

SOLUTION TO QUESTION 3B

<u>Calculation of Profit CC's taxable capital gains or assessed loss for the year of assessment ended 31 December 2006</u>

	R	
Proceeds	200 000	
Less: Base cost	171 429	(1)
Capital gain	28 571	
Less: Assessed capital loss, brought forward from previous year of assessment	25 000	(1)
Net capital gain	3 571	
Taxable capital gain (R3 571 × 50%)	1 786	(1)

<u>Calculation of proceeds</u>

Proceeds	3 500 000	(1)
Less: Tax value (see below)	-	
but limited to allowances in the past, of R3 300 000	3 500 000	(1)
Proceeds	3 500 000	
Less: Recoupment – s 8(4)	3 300 000	(1)
Proceeds for CGT purposes	200 000	

Calculation of the tax value of the asset

Given – Rnil

<u>Calculation of base cost</u>:

❖ Divide cost between pre 1/10/01 and post 1/10/01 costs: (1)

	Pre 1/10	Post 1/10	Total	
	R	R	R	
Cost	3 300 000	-	3 300 000	
Less: Allowances	3 300 000	-	3 300 000	(1)
Cost for CGT purposes	-	-	-	

❖ Calculate the valuation date value:

As the proceeds exceeds the expenditure, determine the following three items:

➢ market value at 1/10/01, not given; or (1)

- 20% $\times$ (proceeds after deducting expenditure incurred after the valuation date)
  = 20% $\times$ (R200 000 – R0)
  = R40 000 (1)

- time apportionment base cost R171,429 (1)

- Calculate base cost:

  Base cost = valuation date value + cost after 1/10/01
  Base cost = R171 429 + R0 (1)
  = R171 429

QUESTION 4

Calculation of the tax payable by / refundable to ABC (Pty) Ltd the year of assessment ended 31 March 2007:

	R	**R**	
Net profit (given)		755 000	(1)
Plus / minus:			
Profit on sale of building		(185 000)	(1)
Loss on sale of warehouse		65 000	(1)
Depreciation – delivery vehicle		-	(1)
Depreciation – machine A		102 000	(1)
Wear-and-tear – machine A (written off in full)		-	(1)
Depreciation – machine B		10 000	(1)
Wear-and-tear – machine B		(600 000)	(1)
Insurance		135 000	(1)
Insurance – s23H (R135 000 / 12 x 1 mnth)		(11 250)	(1)
Calculation of total capital gain:			
Capital gain – office building	185 000		
Capital loss – warehouse	(65 000)		
Total capital gain	120 000		
Include at inclusion rate (50%)		60 000	(1)
Taxable income		330 750	
Calculation of tax payable:			
Up to R40,000		-	(1)
From R40,000 to R300,000		26,000	
Above R300 000 R26 000 +29% of excess		34 918	(1)
Total tax		60 918	(1)
Minus: Provisional tax paid		(30 000)	
Tax payable by /(refundable to) ABC (Pty) Ltd		30 918	

QUESTION

Calculation of the taxable income of Cellcom (Pty) Ltd for the year of assessment ended 30 June 2007

		R	
Gross income		2 240 000	(1)
Doubtful debt allowance – 2006		760 000	(1)
Contribution to funds (R110 000 + R135 000) = R245 000 limited to: 10% $\times$ R2 350 000		(235 000)	(1)
Restraint of trade payment (lesser of: R550 000/5 or R550 000/3)		(110 000)	(2)
Doubtful debt allowance – 2007		(625 000)	(1)
Lease premium – Shop-a-lot (R40 000/10 $\times$ 9/12)		(3 000)	(2)
Rent paid – shop-a-lot (R7 000 $\times$ 9)		(63 000)	(1)
Leasehold improvements – Office Space (R1 400 000/19y 8m $\times$ 6/12)		(35 593)	(3)
Legal costs	- lease contracts	-	(1)
	- collection costs	(85 000)	(1)
	- court cases	(55 000)	(1)
Penalties and interest – not deductible		-	(1)
Bad debts	- loan to director (not previously included in income)	-	(1)
	- trade debtors	(122 000)	(1)
Prepaid expenses	- rent 7 months > 6 months)	-	(1)
	- security services (4 months < 6 months)	(20 000)	(1)
	- deposit (capital expenditure)	-	(1)
Repairs	- photocopy machine	(4 000)	(1)
	- paving (R35 000 – R20 000)	(15 000)	(1)
	- undercover parking (renewal)	-	(1)
Wear-and-tear	- furniture (R120 000/6)	(20 000)	(1)
	- photocopy machine (8 000/5 $\times$ 6/12) - last few months	(800)	(2)
	- computers (R90 000/3 $\times$ 11/12)	(27 500)	(2)
Taxable income		1 579 107	(1)

[30]

Question 2

	Workings	Deduction	Income
Rental	10 x 20 000		200 000
Lease premium			50 000
Lease improvement			90 000
11 (h) reduction	(1 – 0.74) x 90 000 There was a net lease improvement of 66 600	23 400	
Building		-	
Improvement – Urban development building	200 000 X 20%	40 000	
Pre production interest		31 200	
Post production interest		18 000	
Legal fees		0	
Computer	13 500 x 100/114 x 50%	5 921	
2nd hand motor cycle	Cost 32 000 2008 yr (16 000) 16 000	16 000	
	Sold for Nil Loss 16 000		
		16 000	
Expenses		46 000	
		196521	340 000
Profit			143 479
Pre trade	Rates 8 400	(8 400)	(8 400)
			135 079

0-54 200 nil

(123 079-57 000) x 10% 6 608

6 608

Part B

Lease premium = 50 000 x 1/10 x 8/12 = R3,333

Lease improvements 90 000 x ¼ yrs 5months x 1/12 = R1,698

Rent 20 000 x 8 = 160 000

Question

	Workings	Deduction	Income
Taxable income			2 356 000
Div received – SA co			200 000
Exempt			(200 000)
Div Rec – Foreign co			45 000
Div paid	Not deductible	0	
Insurance	245 000 x 5/12	102 083	
	Prepayment		
	245 000 x 7/12		
	=142 917		
	>6 months	-	
	> 80 000		
	Not deductible		
Machine	Cost 100 000 x 9.2= 920 000		
	Freight 23 000		
	943 000		
	x 40%	377 200	
Forex loss	(10.5 – 9.2) X 100,000	130 000	
Generator	Cost is the lesser of actual		
Acquired from a	cost R150,000 or		
connected person			
	Original cost 80,000		
	Less: Allowances (20,000)		
	Plus receoupment 20,000		
	Plus Taxable capital		
	Gain 70,000x50% 35,000		
	115,000		
	Thus use 115,000		
	Cost 115,000		
	X 1/5 x 6/12 (11,500)	11 500	
	103,500		
	Sold for 200,000		
	Recoupment		11 500
	Proceeds		
	200,000 – 11,500 = 198,500		
	Base cost		
	150,000 – 11,500 = 138,500		
	Capital gain = 50,000		

Machine Hotex 1	Cost	850 000		
	w/of	(340 000)		
		(170 000)		
	TV B.O.Y	340 000		
	W/OF	(170 000)	170 000	
		170 000		
	Sold for			
	285 000 x 100/114	250 000		
	Profit	80 000		
	But defer			
Machine motor 2	Cost	1 000 000		
	Installation	50 000		
		1 050 000		
	X 20%		210 000	
	Recognise profit			
	80 000 x 20%			16 000
Trademark			75 000	
Design	10% x 120 000		12 000	
Research salaries	451 440 x 150%		677 160	
Research machine	50% x 108 000		54 000	
Advertising			450 000	
Cap gain (see workings below)	242,500 X 50%			221,250
			2 268 943	2 649 750
Taxable income				380,807

Working 1 – Generator

Per above – gain is R50,000

Workings 2

On sale of factory

Lower of cost or selling price	1,000,000
Tax value	(700,000)
Recoupment	300,000

Proceeds = Selling price – recoupment = R2,750,000 – 300,000 = R2,450,000

Base cost = Base cost pre 2001 and Base cost post 2001

Base cost post 2001 = Cost – tax allowances post 2001

= R250,000 – R37,500 = R212,500

Base cost pre 2001 = valuation date value = R2,000,000

Base cost = R2,000,000 + R212,500 = R2,212,500

Capital gain = R2,450,000 – R2,212,500 = R237,500.

Total cap gain = R50,000 + 237,500 – 45,000 cap loss carried forward from last year = R242,500

QUESTION **(17 Marks, 21 Minutes)**

(Part A and B related to each other)

PART A

Manuals Ltd purchased a manufacturing building for R2 500 000 on 1 July 2001. They were allowed the section 13 allowance (assume 5%) for buildings used in a process of manufacture. The market value of the building on 1 October 2001 was R5 000 000. Due to constructional defects that arose in the design, management decided to scrap the building. On 1 April 2006 the building was disposed of for R500 000.

On 15 December 2004, Manuals Ltd purchased 1 000 shares in Budget (Pty) Ltd for R400 per share. These shares were sold on 1 June 2006 for R500 per share. Manuals Ltd is not a share dealer as defined.

All transactions took place with unconnected persons.
The year-end of the company is 30 June.
All amounts exclude VAT.

The time apportioned base cost of the building when sold was R1,125,000.

YOU ARE REQUIRED TO:

a) Calculate the proceeds and base cost for both the sale of the asset and shares for capital gains tax purposes for the year of assessment ending 30 June 2006. (11)

b) Calculate the taxable capital gain or loss to be included in Manuals Ltd taxable income for the year of assessment ended 30 June 2006. (4)

PART B

In the next year of assessment Manuals Ltd made a R800 000 capital profit on a sale of an administrative building. There were no other capital gains or losses for the year of assessment.

YOU ARE REQUIRED TO:

Calculate the taxable capital gain or loss for the year of assessment ended 30 June 2006. Assume current legislation is applicable for all years covered. (2)

UNISA Adapted question

QUESTION 3 **(15 Marks, 18 Minutes)**

Manufac CC is a manufacturing business. On 1 August 1999, it acquired a 2nd hand manufacturing building for R3 000 000. Transfer duty and legal costs amounted to R325 000. Repairs of R180 000 were effected during April 2004. The building was sold on 31 May 2007 for R5 000 000. The building was valued on 1 October 2001 at a market value of R3 500 000.

The previous owner claimed building allowances at 5% per annum.

All amounts **exclude Value Added Tax.**

Assume that the time apportioned base cost is R2 832 500 if applicable.

YOU ARE REQUIRED TO:

a) Calculate the capital allowances and recoupments of Manufac CC for the year of assessment ended 30 June 2007. (5)

b) Calculate Manufac CC's capital gain or capital loss for the year of assessment ended 30 June 2007. (Refer to Annexure A). (10)

(You may assume that current legislation is applicable).

QUESTION 3 (17 marks, 20 minutes)
X Ltd incurred the following transactions during the year of assessment ended 31 March 2007. (All amounts include VAT, unless stated otherwise. All transactions were concluded between unconnected persons):

1. A delivery vehicle, purchased on 1 July 2005 for R205 200, was sold on 30 November 2006 for R114 000. X Ltd qualified for the section 11(e) wear-and-tear allowance (practice note 19) as well as the section 11(0) allowance on this asset.

   Practice note 19, allows a 4 year write-off period on delivery vehicles.

2. An office building was sold on 24 January 2007. The selling price amounted to R2 250 000 (**excluding VAT**). The office building was purchased on 10 December 2004 for R1 600 000 (**excluding VAT**).

   Costs incurred in connection with the office building, for the period 10/12/2004 until 20/01/2007, amounted to R1 076 000 (**excluding VAT**) and consisted of:

	R
Improvements	220 000
Transfer duty paid	236 000
Interest paid on mortgage bond	410 000
Property tax	210 000
	1 076 000

   Interest paid on the mortgage bond and property taxes were allowed as deductions for income tax purposes.

3. X Ltd's assessed capital loss brought forward from the previous year of assessment, amounted to R75 000.

YOU ARE REQUIRED TO:
Calculate x Ltd's taxable capital gain for the year of assessment ended 31 March 2007. (17)

VAT 101
(14 MARKS, 17 MINUTES)

Formatica Limited has been manufacturing spare parts for computers for the past 10 years. They have been registered for VAT on the **invoice basis** since the inception of VAT in 1991.

The following information has been extracted from the applicable account in the General ledger for the two months ended 30 April 2007. All amounts **exclude** VAT (all tax invoices are available).

Income section of General ledger	**R**
Sales account (note)	750 000
Interest received on business current account	373
Bad debts recovered (in respect of sales in South Africa)	12 750
Expenditure section of General ledger	
Salaries and Wages	217 000
Bank charges on business current account	78
Entertainment expenditure	1 340
Fuel	1 200
Oil	40
Sundry expenses (for which input tax can be claimed)	323 498
Provisional tax paid	9 000
Telephone account	500
Stationery	680

Note:

30% of all sales relate to sales made to customers in Zimbabwe which are all on credit.
Sales in South Africa are 20% cash sales and 80% credit sales.

Other information

During the two months ended 30 April 2007, debtors made payments amounting to R159 600. this amount **includes** VAT.

Extract from asset register (all amounts include VAT at 14%):

Asset description	**Date purchased R**	**Amount**	**Date disposed of**	**Amount R**
Manufacturing machinery:				
Machine A (second hand)	20/02/2005	68 400	31/03/2007	57 000
Machine B	01/04/2007	79 800	-	
Other assets:				
Passenger vehicle	30/06/2007	91 200	-	
Delivery vehicle	30/09/2006	121 000	-	
Office furniture	30/04/2007	15 500	-	

<u>Additional information relating to assets:</u>

- Machine A, which was purchased second-hand from a manufacturer, was destroyed in a fire on 31 March 2007. The insurance company paid out R57 000 (including VAT). Machine B was purchased new and brought into use on the same date to replace Machine A.

- The passenger vehicle is a pool vehicle for use by all management for business purposes only. In terms of practice note 19 the write-off period is five years.

- Delivery vehicle is used to deliver orders to customers. Mr Zuma, an employee of the company, has the right of use of this vehicle for business and private purposes. He has had the right of use from the day the vehicle was purchased. Formatica Ltd. pays for all maintenance and fuel in respect of the vehicle. In terms of practice note 19 the write-off period is four years.
- New office furniture was purchased from a non-registered vendor. No VAT was paid. In terms of practice note 19 the write-off period is six years.

REQUIRED:

(a) Calculate the **VAT payable by or refundable to** Formatica Limited for the two month period ended 30 April 2007. (12)

VAT 150 **(24 Marks, 28 Minutes)**

Maloi Vusi Manufacturers (Pty) Ltd trades as MV Manufacturers. The company is registered on the invoice basis for VAT purposes. The company's financial year-end is 28 February.

The accountant provided you with the following extract from the company's records for the VAT period 01.11.2007 to 30.11.2097. (All amounts **include VAT**, unless stated otherwise).

	R
INCOME	
Sales	
- within RSA	1 589 425
- direct exports	15 895 467
AIS Insurers (Note 1)	205 200
EXPENSES	
Raw materials purchased	7 659 448
Telephone	8 456
Petrol	18 965
Office tea and refreshments	1 852
Repairs – rented vehicles	25 312
Bank charges	3 894
Salaries and wages	485 742
Rent paid – existing factory building	228 000
Instalments – BASA Bank – new factory building (Note 3)	130 000

Notes:

1) One of the manufacturing machines, machine 42, was totally destroyed due to a mechanical fault. The insurance company paid MV Manufacturers R205 200 in connection with the insurance claim on 20 November 2007. Machine 42 was purchased second hand on 1 February 2006 at a cost price of R239 400.

2) A new manufacturing machine, machine 78, was purchased on 5 November 2007 at a cost price of R285 000, with the intention to replace machine 42. The machine had to be installed first, before it could be brought into use on 1 December 2007.

3) In order for MV Manufacturers to expand its capacity, the company began to erect its own factory building during April 2007. The building was completed on 31 August 2007 at a cost of R9 690 000 and was brought into use on 1 September 2007. The first instalment on the mortgage loan from BASA Bank was payable on 1 October 2007. The instalments amount to R130 000 per month.

YOU ARE REQUIRED TO:

a) Calculate the VAT payable by / refundable to MV Manufacturers for the VAT period ended 30 November 2007; and (14)

b) Calculate all the capital allowances, scrapping allowances and recoupments which will be included in the taxable income of MV Manufacturers for the year of assessment ended 28 February 2008. (Ignore Capital Gains Tax). Assume that paragraphs 65 and 66 of the 8^{th} schedule will not apply to the replacement of any assets. (10)

VAT 100
(12 MARKS, 22 MINUTES)

The accounting system operated by Pebbles CC has provided the following analysis of income and expenditure for its two-month tax period ended on 31 January 20X8. (All amounts are **inclusive of VAT** where applicable):

Pebbles CC is registered on the **invoice basis** and the necessary tax invoices were issued by the CC or received by the CC unless otherwise stated.

	R
Income	
Cash sales – Republic	279 300
- foreign country	57 000
Credit sales – Republic	182 400
- foreign country	114 000
Interest received on overdue accounts	3 420
Insurance settlement (note 1)	36 480
Expenditure	
Bank charges	1 254
Audit fees	13 680
Salaries and Wages	66 120
Delivery vehicle (note 2)	62 700
Depreciation (note 2)	5 016
Insurance premiums (note 3)	15 048
Office equipment rentals (note 4)	5 244

Notes:

1. The insurance settlement of R36 480 was received in respect of a delivery vehicle which was stolen from the CC 's premises in November 20X7. In January 20X8, on receipt of the insurance settlement a new delivery vehicle was purchased by the CC (See note 2).

2. Depreciation is calculated in respect of the following two vehicles owned by the CC .

   - A Yotoya passenger vehicle driven by the sales manager which was purchased in 20X6 for R99 850 (including VAT of R12 262). The sales manager had the full use (private and business use) of this vehicle for the entire tax period and he bears all costs relating to the vehicle.

   - A delivery vehicle which was purchased in cash during January 20X8 at a cost of R62 700 (including VAT of R7 700) to replace the vehicle that was stolen (see note 1).

3. Insurance premiums were incurred in respect of the vehicles as well as the various buildings owned by the CC.

4. Office equipment rentals incurred, consist of the following:

	R
Facsimile machine	2 736
Photocopier	1 482
Coffee machine	1 026
	5 244

REQUIRED:

Calculate the **net amount of VAT due to or by** the Receiver of Revenue for the two-month tax period ended on 31 January 20X8.

SOLUTION SCHEDULE TO VAT 100 FOR MARKING PURPOSES

	R
Output	
Cash sales – Republic	
Foreign sales	
Credit sales – Republic	
Foreign credit sales	
Interest received	
Insurance proceeds	
Fringe benefits	
Input	
Bank charges	
Audit fees	
Salaries and Wages	
Delivery vehicle	
Insurance premiums	
Depreciation	
Office rentals	
Total VAT payable	

VAT 103
(20 marks, 24 minutes)

Rentals (Pty) Limited is a property owning company which derives its income from commercial rentals. Rentals (Pty) Limited is registered for VAT on the invoice basis.

The financial manager has provided you with the following analysis of income and expenditure for its two-month tax period ending 31 January 2007All amounts are **inclusive of VAT** where applicable, except where otherwise stated.

	R
Income	
Rentals	307 230
Interest levied on overdue rentals	10 659
Insurance settlement (Note 1)	40 128
Expenditure	
Bank charges	1 380
Audit fees	15 675
Salaries and Wages	72 732
Sozo delivery vehicle (Note 2)	68 970
Depreciation (Note 2)	16 047
Maintenance (Note 3)	18 058
Insurance premiums (Note 4)	16 550
Interest on mortgage bonds	94 050
Office equipment rentals (Note 5)	5 760
Staff subsistence (Note 6)	815
Petrol	2 070
Bad debts	10 784

Notes:

1. The insurance settlement of R40 128 was received in respect of a delivery vehicle that was stolen from the company's premises on 1 November 2006. The book value of the delivery vehicle at the time it was stolen was R28 820.

   The delivery vehicle was originally purchased for R39 900 (including VAT of R4 900) on 1 December 2005 and brought into use on the same date. In December 2006, on receipt of the insurance settlement a new delivery vehicle was purchased by the company (see Note 2).

2. Depreciation is charged in respect of two vehicles owned by the company:

   - First, a Benzo passenger vehicle used by the managing director of the company which was purchased in 2005 for an amount of R145 350 (including VAT of R17 850). The managing director had the full use of this vehicle for the entire tax period.
   - Secondly, a Sozo delivery vehicle that was purchased and brought into use on 1 December 2006 at a cost of R68 970 (including VAT of R8 470) to replace the delivery vehicle that was stolen (see Note 1). the Sozo delivery vehicle is used by various maintenance staff to transport the maintenance teams between the buildings owned by the company.

3. Maintenance costs include paint, paint brushes and other hardware items purchased in order to effect repair work to the various buildings owned by the company.

4. Insurance premiums were incurred in respect of the Benzo, the Sozo as well as the various buildings owned by the company.

5. Office equipment rentals were incurred in respect of the following assets:

	R
Facsimile machine	3 010
Photostat machine	1 630
Coffee machine	1 120
	5 760

6. Staff subsistence includes tea and coffee provided to staff during working hours.

7. The write-off periods for vehicles in terms of Practice note 19 are as follows:

   Passenger vehicles - 5 years
   Delivery vehicles - 4 years

REQUIRED:

(a) Calculate the VAT payable by or refundable to Rentals (Pty) Limited for the two-month tax period ended 31 January 2007. (14)

VAT 151 **(15 Marks, 18 Minutes)**

Zedcom Ltd is a manufacturer of children's toys. Zedcom Ltd is registered for VAT on the invoice basis.

The accountant printed the following extracts from the general ledger for the period 1 April – 31 May 2006. All amounts **include VAT** unless otherwise stated.

		R
Receipts		
Sales of toys – within RSA	(Note 1)	300 000
Sales of toys – delivered outside RSA	(Note 1)	150 000
Shares issued	(Note 2)	500 000
Interest received on fixed deposit		25 000
Payments		
Cash purchases of raw materials		200 000
Payments of suppliers	(Note 3)	210 000
Fuel		7 500
Assets purchased for cash	(Note 4)	166 000
Water and electricity		6 000

Notes:

1. Zedcom sells on credit to all its customers, both within and outside the RSA. Due to the struggling economy the debtors have not been paying as they should. The directors decided to write off R5 000 worth of bad debt on 1 May 2005. The debt was more than 180 days old.

2. Zedcom Limited offered ordinary shares to the public. The company was authorised to issue 15 000 shares at R50 each. A total of 10 000 shares at R50 each were sold.

3. Invoices received from suppliers were as follows:

March	R 70 000
April	R120 000
May	R 60 000
June	R 90 000

4. Assets purchased:

   - Second hand computers were purchased from Seedy CC (not a registered VAT vendor) to the value of R110 000.

   - Chairs and tables to be used in the staff tea room, purchased from Easy Seats (Pty) Ltd. for R56 000.

5. Zedcom provided one of their managers with a single cab bakkie as a fringe benefit from 1 May 2006. This light delivery vehicle could be used by the manager for all his private travelling needs. The cost price of the vehicle was R100 000 (excluding VAT), and was purchased during 2004.

YOU ARE REQUIRED TO:

Calculate the amount of VAT due by or refundable to Zedcom Ltd for the tax period ending 31 May 2006.

VAT DETAILED EXAMPLE

QUESTION 1 - VAT DETAILED NUMBER CRUNCH EXAMPLE

Hannah Ltd is a vat vendor that is registered as a category B vat vendor. You have been asked to assist in the preparation of the February vat return. Hannah Ltd is a B category vendor.

The following details have been presented to you

Income

Sales – Local	See note 1		1,200,000
Sales – Direct export	All appropriate export documentation has been kept by Hannah Ltd. See note 2	Note 1	300,000
Sales – Indirect export	The customer insisted on taking the goods and exporting them himself		100,000
Issue of shares	The company issued share capital via a rights issue on 1 February.		600,000
Loan raised	The company procured a bank loan		400,000
Insurance payout	The company received R70,000 payout for a car that was stolen from a sales representative. There was R68,000 paid for the car and R2,000 for stock samples.		70,000
Asset replacement	A fax machine with a market value of R8,000 was stolen. The insurance company replaced the fax.		8,000
Profit on sale of a building	A commercial building with a cost of R1,200,000 was sold for R2,000,000. The building will be paid off in 4 equal monthly installments starting on 15 January. Registration into the buyers name will be done once all 4 payments have been made.		800,000
Profit on the sale of a company house	The marketing manager stayed in the house till the end of January. He paid R2,000 a month to stay there. A market related rental of R8,000 would have been appropriate. The house was sold for R1,300,000 at the end of February. The buyer paid the company cash up front.		502,000
Discount received	During this vat period, they received a discount of R34,200 for early settlement of an amount owed to a creditor		34,200

Interest received	From ABC Bank	13,200
Bad debts recovered	R10,000 bad debt was recovered from a staff loan and R5,700 was recovered from a debtor for trading stock sold	15,700
Profit on sale of canteen furniture	Canteen furniture was sold for R114,000 to a 2nd hand dealer.	27,650
Services rendered	The company rendered services outside of SA to help a similar company in Africa manage their business	360,000

Expenditure

Purchase of goods from auction	There was a liquidation sale in which the company bought the following goods at way below cost from a non vendor	
	New stock in original packaging	30,000
	1998 Citi Golf	3,000
Second hand antiques acquired	The antiques were acquired from Jeffrey Livingstone, and had a market value of R24,000 in the opinion of the company. Jeffrey was paid R10,000 on 18 February and R10,000 on 18 March.	20,000
Purchase of tables and chairs	These were used in the staff canteen	50,000
Trip out of town	The company's primary salesperson went out of town looking for antiques. The following expenses were incurred	
	• Hiring of motor car	7,000
	• Insurance on car	1,000
	• Life insurance on his life paid to hiring company	500
	• Accommodation	2,000
	• Meals for himself	1,500
	• Meals for clients	800
Finance lease	This was taken out by the company on machine A. The machine was delivered to the company on 27 December and was brought into use by the company on 10 January. The first installment of R5,000 was paid on 2 January 2010. The machine had an open market value of R160,000. Installments are paid monthly	10,000

Installment credit agreement	This was taken out on January 15 for a new delivery vehicle that had a cost of R300,000. The delivery vehicle was picked up on 18 January and brought into use immediately. Installments of R10,000 a month are payable on the last day of each month	20,000
Operating lease	The lease was signed on 2 January for a copier. The cost of the photocopier was R46,000 and rentals of R2,000 a month are payable on the 2nd day of each month. The fax was delivered to the company on 3 January.	4,000
Depreciation on residential property acquired	They bought a new unit in a townhouse complex for R570,000 including vat from a developer. They paid for the unit in cash on 17 January and it was transferred into the company's name immediately.	2,500
Depreciation on commercial property 1 acquired	This property was acquired in October from a vendor when a deposit of R200,000 was paid. The remaining R800,000 of the purchase price was paid on 17 February when the property was registered in Hannah Ltd's name in the deeds office.	3,000
Transfer duty paid commercial property 2	Commercial property 2 was acquired from a non vendor. Transfer duty was paid on 26 February, and the building will be occupied by the company on 1 March. The building cost R500,000.	40,000
Importation of goods from Swaziland	The company imported goods that cost R300,000 from Swaziland. Import surcharges of R20,000 were paid.	320,000
Importation of machine from the USA	A machine with a cost of $100,000 was brought into customs on 1 January when the exchange rate was $1 = R8. The machine was loaded FOB on 15 December when the exchange rate was $1 = R7.90 and the company paid R795,000 for the machine on 28 December. Import surcharges of R50,000 were incurred.	

Insurance paid on assets	Insurance on motor cars was R2,280 a month. Insurance on other assets was R5,700 a month.	
Key man policy paid on the life of directors		14,000
Company car used by MD	The managing director uses a BMW 325i that was bought 2 years ago at a cost of R300,000. The managing director pays for all private fuel and maintenance on the car. He paid R1,100 for a service for the car during this vat period and R300 fuel. The company paid for fuel. This cost R1,200 for the month.	
Hotel for sales manager	The company paid for the sales manager to go on holiday	6,000
Rent paid	Residential accommodation given to marketing manager for the month of February	10,000
Furniture acquired	To put into marketing managers house	18,000
Hotel – sales representative	Out of town hotel costs for the sales representative paid for various 2 day stays at hotels.	8,000
Hotel – consultant	Out of town costs for a consultant employed by company who stayed 35 days out of town at same hotel	10,000
Meals provided to staff	Meals provided in the staff canteen at zero cost	90,000
Second hand office furniture	Acquired from Bertie Winsor, a non vendor. R40,000 was paid in February and the remaining R60,000 is payable in April.	R100,000
Dividend in specie to shareholder	Trading stock with a cost of R3,000 and a market value of R3,500 was declared as a dividend to the sole shareholder	3,000
Dividend paid in cash		97,000
Bad debts	Trade debtors	228,000
Bad debts	Interest on trade debtors	16,000
Bad debts	Export sales	60,000
Bad debts	Staff loans	76,000
Salaries		467,000
Promotional material	Promotional material with a cost of R11,400 and an open market value of R17,100 was handed to	

	customers	11,400
Payment to Wanderers club	The managing director networked at the Wanderers Golf Club and the company paid his club subscriptions	6,500
Payment to UNISA	For a employee studying CTA at UNISA	11,100
Shares in supplier acquired	B Ltd supplied 30% of the raw material needed by the company. A 21% share in B Ltd was acquired	789,000

Notes

1. Cash sales of R20,000 that were stolen On 27 February, the insurance company indicated R12,000 would be paid as a result of an insurance claim in respect of the stolen cash. None of the above has been recorded in the sales figure.
2. Trading stock was bought in December 14 months ago for R11,400. The quality of the material was found to be substandard and an amount of R2,280 was paid to the supplier. The remainder has been under dispute for 14 months now.
3. The company was overpaid for goods in January by R3,000. They have not refunded the amount to the debtor.
4. A deposit of R15,000 was received by the company. The amount is refundable by the company. Another R5,000 deposit was forfeited. The deposit was for trading stock debtor owing. Neither was recorded in the income statement.
5. A loan of R700,000 was taken out to acquired to buy the shares in B Ltd (see above)
6. Goods worth R9,000 were repossessed to settle a debtors account that was shown at R5,700. No entries had yet been processed in this regard.

All amounts include VAT unless otherwise stated. Assume all expenditure was incurred with vendors and the relevant vat invoices have been obtained unless otherwise stated.

Calculate vat input and vat output

QUESTION 2 - VAT DETAILED EXAMPLE - APPORTIONMENT

New South African Breweries Ltd (NSAB) is a company that is registered for vat as a category C vendor.

In the past, SARS has agreed with the company that a turnover basis will be used to apportion vat and the following percentages has been agreed upon:

- 50% local sales of beer
- 15% export sales of beer
- 10% commercial accommodation renting of chalets at a game farm
- 5% commercial rentals
- 20% residential accommodation provided to staff working in the factory

The following income statement has been provided. All amounts exclude vat.

Income		
Local sales of local beer		3,000,000
Export sales of beer		900,000
Commercial rentals		275,000
Residential rentals		1,300,000
Sale of a commercial building	Profit on sale of building sold for R6,000,000. The building was acquired in 1988 before vat was introduced	4,800,000
Commercial accommodation	More than 28 days	12,000
	Less than 28 days	200,000
Profit on sale of computer	The mainframe computer for the accounting department was destroyed by a fire. The computer cost R125,000 and was fully written off as at the date of the fire. The insurance company paid out R30,000 for the computer.	30,000

Expenditure

Computer 1 acquired	A computer was acquired for use in the accounting department	10,000
Computer 2 acquired	A computer was acquired for use in the factory	5,000
Conversion of vehicle expense	A vehicle that was a motor car as defined was acquired in the previous vat period for R200,000. The vehicle was converted to a 9 seater game viewing vehicle during the current period when its open market value was R180,000.	30,000
Training course for accounting staff		7,000
Bad debt	Commercial accommodation bad debt for customer who spent 45 days at resort	9,000
Cost of international flight	Flight overseas for managing director who was trying to negotiate distribution rights for an international beer brand	23,000
Canteen expenses	The canteen was operated to provide subsidized lunch to factory employees	140,000
Local flight	Flight by beer factory manager	5,000
Salaries of staff	At residential accommodation	125,000
Salaries of staff	Other staff	760,000
Rates paid	For all buildings other than residential accommodation	-
Electricity and water	For residential accommodation	15,000
Bank charges	All bank accounts	1,900
Bus purchased, at cost	The bus was purchased to transport employees from the residential accommodation to the factory. The employees were not charged.	800,000
Bus coupons	Purchased for other staff that do not live in residential accommodation	45,000

Calculate all the output vat and input vat based on the information provided above.

SOLUTIONS

QUESTION

PART A

1. Calculate the value

Cost: building		2 500 000	
Less: Building allowance 2002		(125 000)	
Building allowance 2003		(125 000)	
Building allowance 2004		(125 000)	
Building allowance 2005		(125 000)	
Building allowance 2006		(125 000)	
		1 875 000	
Sold for		500 000	
Loss		1 375 000	
			(3)

However the loss is not allowed for tax purposes as taxpayers cannot claim scrapping allowances on the sale of buildings.

2. Proceeds = 500 000 – nil tax effects = 500 000 (1)
   Base cost – acquired prior to 1 October 2002 and exp > proceeds MV 1/10/2002 > expenditure therefore use lower of value or time apportioned base cost. (1)

   MV = 5 000 000 (1)
   Time apportioned base cost = R1,125,000 (1)

   Time apportionment will be used. (1)

   Therefore base cost = R1,125,000 (base cost pre 2002) + Nil (Base cost post 2002) = 1 125 000 + Nil = 1 125 000 (1)

Shares proceeds – 500 × 1 000 shares =	500 000	(1)
Base cost = 400 × 1 000 shares =	(400 000)	(1)
Capital gain on sale of shares	100 000	

PART B

Proceeds machine	500 000
Base cost machine	(1 125 000)
Capital loss machine	(625 000)

Net capital loss = 100 000 – 625 000 = (525,000) (1)
No capital gain or loss will be included in taxable income.
The capital loss of 525,000 will be carried forward to the next tax year.

Capital gain next tax year	800 000	(1)
Capital loss previous year	(525 000)	(1)
Net capital gain	275 000	
Inclusion rate	X 66.6%	(1)
	183,333	

QUESTION 3

a) Calculation of the allowances and recoupments of Manufac CC for the year of assessment ended 30 June 2007

	Total	
	R	
Cost price	3 000 000	
Plus: Transfer duty and legal fees	325 000	(1)
Total cost price	3 325 000	
Less: Capital allowance	(1 330 000)	(1)
R3 325 000 x 8 years x 5% straight line no pro-rata		
Tax value	1 995 000	
Selling price limited to cost price	3 325 000	(1)
Less: Tax value	(1 995 000)	(1)
Recoupment for income tax purposes	1 330 000	

b) Calculation of taxable capital gain or capital loss of Manufac CC for the year of assessment ended 30 June 2007

	R	
Proceeds (Note 1)	3 670 000	
Less: Base cost (Note 2)	(3 500 000)	
Capital gain	170 000	(1)

1. PROCEEDS

Selling price	5 000 000	
Less: Recoupment	(1 330 000)	
Proceeds for capital gains tax purposes	3 670 000	(1)

2. BASE COST

- Divide cost between pre and post 01.10.01

	Before 01.10.01 R	After 01.10.01 R	Total R	
Cost price	3 000 000	-	3 000 000	
Plus: Transfer duty and legal fees	325 000	-	325 000	
Total cost price	3 250 000	-	3 250 000	
Less: Capital allowances R332 500 x 3 years	(975 000)	-	(975 000)	
Total Value / Cost for CGT	2 275 000	-	2 275 000	(1)

-	**Calculate valuation date value**	**R**	
Apply par, 26, as adjusted proceeds > cost, thus choose the greater of:			
•	market value on 01.10.2004; or	3 500 000	(1)
•	20% x (proceeds – allowance expenditure incurred after valuation date)	734 000	(1)
•	= 20% x (R3 670 000 – R0): or		
•	time apportionment base cost	2 832 500	(4)
•	Given = R2 832 500		
.			

-	**Calculate base cost**	**R**	
Base cost = valuation date value + cost incurred after 01.10.2001		3 500 000	
			(1)

QUESTION 3

Calculation of X Ltd's taxable capital gain for the year of assessment ended 31 March 2007:

Delivery vehicle

INCOME TAX CALCULATION:	R
Tax value of delivery vehicle on 30/11/2006	
Cost 1/7/2005 (205 200 × 100/114)	180 000
Less: Wear-and-tear s 11(e)	
31/03/2006 R180 000/4 × 9/12	33 750
30/11/2006 R180 000/4 × 8/12	30 000
Tax value on 30/11/2006	116 250
Calculation of s 11 (o) allowance on delivery vehicle	
Selling price 30/11/2006 (R114 000 × 100/114)	100 000
Less: Tax value on 30/11/2006	116 250
S 11(o) allowance on 30/11/2006	16 250
CAPITAL GAINS TAX CALCULATION:	
Calculation of proceeds	
Selling price (R114 000 × 100/114)	100 000
Plus: Adjustments (no adjustments, as there is no recoupment)	
Proceeds	100 000
Calculation of base cost	
Cost 1/7/2005 (R205 200 × 100/114)	180 000
Less: Wear-and-tear (as above) (R33 750 + R30 000)	63 750
S 11(o) allowance	16 250
Base cost	100 000

Calculation of capital gain	
Proceeds	100 000
Less: Base cost	100 000
Capital gain	-

Office building

Calculation of base cost	R

Cost 10/12/2004	1 600 000
Plus: Improvements	220 000
Transfer duty	236 000
Interest paid	-
Property tax	-
Base cost	2 056 000

Calculation of capital gain

Proceeds (selling price)	2 250 000
Less: Base cost	2 056 000
Capital gain	194 000

Taxable capital gain:

Capital gain on delivery vehicle	-
Capital gain on office building	194 000
Total capital gain	194 000
Less: Assessed capital loss (brought forward)	(75 000)
Net capital gain	119 000
Taxable capital gain (R119 000 $\times$ 66.6%)	79 333

[17]

SUGGESTED SOLUTION TO VAT 101

(a) Calculation of the VAT payable by or refundable to Formatica Ltd for the two months ended 30 April 2007

Output tax	R	
Sales - Zimbabwe (zero rated)	-	(½)
- South Africa (750 000 x 70% = R525 000) (cash and credit) (525 000 x 14%)	73 500	(1)
Interest received	-	(½)
Bad debts recovered (12 750 x 14%)	1 785	(1)
Insurance pay-out (R57 000 x 14/114)	7 000	(1)
Debtors payments (invoice basis)	-	(½)
Fringe benefits (R121 000 x 100/114) x 14/114 x 0,6% X 2 months	156	(1)
	82 441	

Input tax		
Salaries and Wages	-	(½)
Bank charges (R78 x 14%)	11	(1)
Entertainment expenditure	-	(½)
Fuel	-	(½)
Oil (R40 x 14%)	6	(1)
Sundry expenses (R323 498 x 14%)	45 290	(1)
Provisional tax	-	(½)
Telephone account (R500 x 14%)	70	(1)
Stationery (R680 x 14%)	95	(1)
Machine B (R79 800 x 14/114)	9 800	(1)
Office furniture (no deemed input tax) not second hand	-	(½)
	55 272	

VAT payable by Formatica Ltd. (R82 441 – R55 272	27 169	
		(1)

SUGGESTED SOLUTION TO VAT 150

Sales within RSA	$\left(1\ 589\ 425 \times \frac{14}{114}\right)$	195 193	(1)
Sales – direct exports	(zero rated)	Nil	(1)
Insurance proceeds		25 200	(1)
		220 303	

INPUT

Raw materials	$\left(7\ 659\ 448 \times \frac{14}{114}\right)$	946 634	(1)
Telephone	$\left(8\,456 \times \frac{14}{114}\right)$	1 028	(1)
Petrol		NIL	(1)
Office tea and refreshments (Exempt)		NIL	(1)
Repairs on rented vehicles	$\left(25\ 312 \times \frac{14}{114}\right)$	3 108	(1)
Bank wages	$\left(3\ 894 \times \frac{14}{114}\right)$	478	(1)
Salaries and wages		NIL	(1)
Rent paid	$\left(228\ 000 \times \frac{14}{114}\right)$	28 000	(1)
New manufacturing machine	$\left(285\ 000 \times \frac{14}{114}\right)$	35 000	(1)
Instalments Basa Bank		NIL	(1)
		1 028 258	
Net refund due		8908 055	(1)

PART B

MACHINE 42

CALCULATION OF RECOUPMENT

Cost	$\left(239\ 400 \times \frac{100}{114}\right)$	210 000	(1)
Section 12C	2006 tax year	(42 000)	(1)
Section 12C	2007 tax year	(42 000)	(1)
Section 12C	2008 tax year	(42 000)	(1)
		84 000	
Sold for	$\left(205\ 200 \times \frac{100}{114}\right)$	180 000	(1)
Recoupment		96 000	(1)

CAPITAL ALLOWANCES

Machine 42		42 000	(1)
Machine 78	$\left(285\ 000 \times \frac{100}{114} \times 40\%\right)$	100 000	(1)
Factory building	$\left(9\ 690\ 000 \times \frac{100}{114} \times 5\%\right)$	425 000	(1)

SCRAPPING ALLOWANCES

There are no scrapping allowances (1)

Note that the recoupment would have been deferred and recognised over the life of the replacement asset if paragraph 65 of the 8th schedule had been applied.

SUGGESTED SOLUTION TO VAT 100

	R
Output	
Cash sales – Republic (279 300 x 14/114)	34 300
Foreign sales	Nil
Credit sales – Republic (182 400 x 14/114)	22 400
Foreign credit sales – 2 820 rated	Nil
Interest received (financial services exempt)	Nil
Insurance proceeds (36 480 x 14/114)	4 480
Fringe benefits (99 850 x 100/114 x 0,3% x 14/114 x 2 months)	65
	61 245
Input	
Bank charges (1 254 x 14/114)	154
Audit fees (13 680 x 14/114)	1 680
Salaries and Wages (not a supply of goods or services)	Nil
Delivery vehicle (62 700 x 14/114)	7 700
Insurance premiums (15 048 x 14/114)	1 848
Depreciation (not a supply)	Nil
Office rentals [(5 244 – 1 026) x 14/114]	518
	11 900
Total VAT payable	49 345

SUGGESTED SOLUTION TO VAT 103

1. Calculation of the VAT payable by or refundable to Rentals (Pty) Limited for the two-month tax period ended 31 January 2007.

	R	
OUTPUT TAX		
Rentals (R307 230 x 14/114)	37 730	(1)
Interest levied on overdue rentals (financial service)	-	(½)
Insurance settlement (R40 128 x 14/114	4 928	(1)
Fringe benefits (R145 350 – R17 850) x 14/114 x 0,3% x 2 months)	94	(2)
	42 752	
INPUT TAX		
Bank charges (R1 380 x 14/114)	169	(1)
Audit fees (R15 675 x 14/114)	1 925	(1)
Salaries and Wages (not goods or services)	-	(½)
Sozo delivery vehicle (VAT given)	8 470	(½)
Depreciation (not goods or services)	-	(½)
Maintenance (R18 058 x 14/114)	2 218	(1)
Insurance premiums (R16 550 x 14/114)	2 032	(1)
Interest on mortgage bond (financial service)	-	(½)
Office equipment rentals (R5 760 – R1 120) x 14/114	570	(1)
Staff subsistence (no input tax allowed)	-	(½)
Fuel (zero rated supply)	-	(½)
Bad debts (R10 784 x 14/114)	1 324	(1)
	16 708	
VAT payable by Rentals (Pty) Limited (R42 752 – R16 708)	26 044	(½)

2. Calculation of the capital allowances, recoupments and scrapping allowances applicable to the assets for the year of assessment ended 28 February 2001.

	R	
Stolen delivery vehicle		
Cost price (R39 900 – (R39 900 x 14/114))	35 000	(1)
Less: Wear and tear allowance (2000) (R35 000 /4 years x 3/12)	2 187	(1)
Wear and tear allowance (2001) (R35 000 /4 years x 8/12 months)	5 833	(1)
Tax value	26 980	
Less: Insurance settlement (R40 128 – R4 928) = R35 200, limited to cost	35 000	(1)
Recoupment	8 020	
Capital gain		
Calculation of proceeds		
Cash received(40 128 – 14/114 X 40 128)	35 200	
Less: Wear and tear (2 187 + 5 833)	(8 020)	
Proceeds	27 180	
Base cost	26 980	
Capital gain (27 180 – 29 980)	200	
New delivery vehicle		
Wear and tear allowance (R68 970 – R8 470)/4 years x 3/12 months	3 781	(1)
Benzo passenger vehicle		
Wear and tear allowance (R145 350/5 years)	29 070	(1)

SUGGESTED SOLUTION TO VAT 151

VAT due by or refundable to Zedcom Ltd for the tax period 1 April – 31 May 2006

Output tax

	R	
Credit sales – RSA (R300 000 x 14/114)	36 842	(1)
Credit sales – outside RSA (zero rated supply – export)	-	(1)
Share issue (exempt supply – financial service)	-	(1)
Interest received (exempt supply – financial service)	-	(1)
Fringe benefits (R100 000 x 0,6% x 14/114 x 1 month)	74	(2)
	36 916	
Input tax		
Bad debt (R5 000 x 14/114)	614	(1)
Cash purchases (R200 000 x 14/114)	24 561	(1)
Payments to suppliers:		
Invoices (R120 000 + R60 000) x 14/114	22 105	(1)
Invoices March and June	-	(1)
Fuel (zero rated supply)	-	(1)
Computer (R110 000 x 14/114)(deemed input on second-hand goods)	13 509	(1)
Chairs and tables (no input deduction – entertainment)	-	(1)
Water and electricity (R6 000 x 14/114)	737	(1)
	61 526	
VAT refundable (R35 916 – R61 526)	24 610	(1)

SUGGESTED SOLUTION TO QUESTION 1 VAT DETAILED EXAMPLE

As Hannah Ltd is a company, it must be registered on an invoice basis.

All amounts include VAT and as such all amounts must be multiplied by 14/114

Output

Sales Local	1,200,000 X 14/114	147,368
Cash stolen	Company was entitled to cash before it was stolen. Output vat of R20,000 X 14/114 recorded	2,456
Insurance claim on cash	Deemed supply thus record output of R12,000 X 14//14	1,474
Sales Direct export	Zero rated	-
Sales – 2^{nd} hand good acquired from non vendor exported	8,000 X 14/114	982
Sales Indirect export	100,000 X 14/114	12,281
Issue of shares	Exempt – financial service	-
Loan raised	Exempt – financial service	-
Insurance payout on car	Input vat denied on car upon acquisition, no output for insurance	-
Insurance payout on samples	2,000 X 14/114	246
Replacement of fax	No vat on replacement of assets	-
Sale of building	2 instalments paid in vat period. Payments basis used when payment from vendor to vendor. Record output of 500,000 X 2 X 14/114	122,807
Sale of house	Exempt supply residential accommodation	-
Rent from marketing manager	Exempt supply residential accommodation	-
Fringe benefit marketing director	Exempt supply residential accommodation	-
Discount received	34,200 X 14/114	4,200
Interest received	Financial service therefore exempt	-
Staff loan bad debt recovered	No vat exempt supply	-
Trade bad debt recovered	5,700 X 14/114	700
Canteen furniture	Input vat denied on acquisition (entertainment) thus no output vat charged	-
Services rendered outside SA	Zero rated	-
Dividend to shareholder	Greater of R3,000 or R3,500 X 14/114 recorded as total change	

	in use	430
Fringe benefit – car to MD	[(0,3% X 300,000 X 100/114) – 85] X 14/114 X 2	173
Fringe benefit – Holiday accommodation	No vat input claimed, no vat output	-
Fringe benefit – Residential accommodation	Residential accommodation exempt	-
Meals provided to staff	Fringe benefit, but as it relates to the supply of entertainment to staff, no output vat charged as no input vat claimed on acquisition of the meals	-
Dividend to shareholder	Greater of R3,000 or R3,500 X 14/114 recorded as total change in use	430
Promotional material	Nil consideration X 14%	-
Good not paid for within 12 months	(11,400 – 2,280) X 14/114	1,120
Overpayment	No output. Output vat only recorded if not repaid within 4 months	-
R15,000 deposit not refundable	Company not entitled thus not vat	-
R5,000 deposit forfeited	Company entitled.	614

Input		
New goods purchased on auction	Not 2nd hand thus no notional input vat	-
Citi Golf	Motor car – Input vat denied	-
Antique furniture	10,000 X 14/114	1,228
Purchase tables and chairs for canteen	Entertainment – input vat denied	-
Out of town trip • Hiring of motor car	Motor car – input vat denied	-
• Insurance on car	1,000 X 14/114	123
• Life insurance	Exempt financial service	-
• Hotel accommodation	2,000 X 14/114	246
• Meals for Himself	1,500 X 14/114	184
• Meals for client	Entertainment – input vat denied	-
Finance lease	Delivery in December, thus vat accounted for in December	-
Installment credit agreement	300,000 X 14/114	36,842
Operating lease	4,000 X 14/114	491
Depreciation	No vat as no good or service	-
Residential property acquired	Residential property is exempt	-
Commercial property 1 acquired	Payments basis on property 800,000 X 14/114	98,246
Commercial property 2	Transfer duty claimed	40,000
Importation of goods – Swaziland	300,000 X 14%	42,000
Importation machine – USA	(R800,000 + 10% X R800,000 + R50,000) X 14%	130,200
Insurance on cars	2,280 X 14/114 X 2	560
Insurance on other assets	5,700 X 14/114 X 2	1,400
Key man policy	Assurance policies are exempt	-
Fuel for MD car	Zero rated	-
Holiday accommodation for sales manager fringe benefit	Entertainment input vat denied	-
Residential accommodation for marketing manager	Residential accommodation exempt	-
Furniture	Residential accommodation exempt	-
Hotel for sales representative	8,000 X 14/114	982
Hotel for consultant	60% X 10,000 X 14/114	737
Meals provided to staff	Entertainment input tax denied	-
Second hand office furniture	Notional input claimable limited to amount paid of 40,000 X 14/114	4,912
Dividends paid in cash	Not a supply of goods and services	-
Trade debtors bad debts	228,000 X 14/114	28,000

Interest on trade debtors bad debts	Financial service exempt	-
Export sales bad debts	Zero rated	-
Staff loans bad debts	Financial service exempt	-
Salaries	Not an enterprise	-
Promotional samples given to customers	11,400 X 14/114	1,400
Club subscriptions	Input vat denied	-
UNISA payment	Educational services exempt	-
Shares acquired	Financial service exempt	-
Loan to acquire shares	Financial service exempt	-
Repossessed goods	5,700 X 14/114	700

SUGGESTED SOLUTION TO QUESTION 2 VAT DETAILED EXAMPLE APPORTIONMENT

80% of supplies are considered to be taxable supplies. The 20% exempt supplies of residential accommodation are not the provision of taxable supplies.

Output vat

Local sale of beer	3,000,000 X 14%	420,000
Export of beer	Zero rated	-
Commercial rentals	275,000 X 14%	33,772
Residential rentals	Residential accommodation exempt	-
Sale of commercial building	Even though vat not claimed on acquisition as vat had not been applicable on acquisition, output vat chargeable 6,000,000 X 14%	840,000
Commercial accommodation	>28 days 12,000 X 60% X 14%	1,008
	<28 days 200,000 X 14%	28,000
Bus coupons to staff	Fringe benefit. No output charged as bus coupons are exempt from vat on acquisition	-
Computer lost in fire	30,000 X 80% X 14% (For insurance and fringe benefits, vat output is apportioned)	4,200

Input vat

Commercial building sold	No vat claimed on acquisition of building as vat not yet introduced. Vat cannot be claimed on sale	-
Computer 1 acquired	Accounting department used for all supplies 10,000 X 80% X 14%	1,400
Computer 2 acquired	Factory 5,000 X 100% X 14%	700
Game viewing vehicle	Conversion cost 30,000 X 14%	420
	Value on date of conversion180,000X14%	25,200
Training course for accounting staff	7,000 X 80% X 14%	784
Bad debt	9,000 X 60% X 14%	756
Overseas air ticket	Zero rated	-
Canteen expenses	Entertainment – Input vat denied	-
Local flight	14% X 5,000 X 100%	700
Salaries – Res acc	Not an enterprise	-
Salaries – Other	Not an enterprise	-
Rates paid	Zero rated	-
Electricity and water	Exempt supply residential accommodation	-
Bank charges	1,900 X 14% X 80%	213
Bus purchased (30 seater)	Can claim input vat on 30 seater bus 800,000 X 14% X 100% - Used for factory only. Not exempt as the company did not charge a fare to employees	112,000
Bus coupons	Transport of fare paying employees is an exempt supply	-

Provisional tax

Question 1

Bee Ball (Pty) Ltd has a 31 December year-end. The company is neither a small business corporation nor a micro business:

The following information is available:

The 2011 assessment (assessed 21 January 2013) reflected R750 000 as taxable in- come; and

The 2012 assessment (assessed 1 October 2013) reflected R790 000 as taxable income.

The financial director of Bee Ball (Pty) Ltd resigned on 30 November 2013 and as a result the accounting records are not up to date and no estimated taxable income for the 2013 tax year is available.

When should the first provisional payment be made for the 2014 year of assessment?

First provisional payment date

When should the first provisional payment be made for the 2014 year of assessment?

First provisional payment amount

What is the first provisional payment amount for the 2014 year of assessment?

Second provisional payment date

When should the second provisional payment be made for the 2014 year of assessment?

Second provisional payment amount

What is the second provisional payment amount for the 2014 year of assessment?

Question 2

Sunshine (Pty) Ltd is not a small business corporation as defined. Its year of assessment ends on 31 March each year. Its records show the following:

Tax year	Taxable income	Date of assessment
2012	R1 200 000	4 April 2013
2013	R1 354 980	15 September 2013
2014	R1 784 432	(estimated - not yet assessed)

When should the first provisional payment be made for the 2014 year of assessment?

First provisional payment date

When should the first provisional payment be made for the 2014 year of assessment?

First provisional payment amount

What is the first provisional payment amount for the 2014 year of assessment?

Second provisional payment date

When should the second provisional payment be made for the 2014 year of assessment?

17.2.4 Second provisional payment amount

What is the second provisional payment amount for the 2014 year of assessment?

First provisional payment date

Payable on 30 June 2013

First provisional payment amount

Basic amount	R 750 000
Plus: 16%	R120 000
Basic amount	R870 000
Tax on R1 354 980 (28%)	243 600
x 50% for the first payment	**121 800**

Second provisional payment date

Payable on 31 December 2013

Second provisional payment amount

Basic amount	790 000
Tax on R790 000 (28%)	221 200
Less: 1st provisional payment	(121 800)
Amount payable	**99 4000**

Question 2

First provisional payment date

Payable on 30 September 2013

First provisional payment amount

Basic amount	R 1 354 980
(must use 2013 assessment as it was received more than 14 days	
before the provisional payment is due)	
Tax on R1 354 980 (28%)	379 394
x 50% for the first payment	**189 697**

Second provisional payment date

Payable on 31 March 2014

Second provisional payment amount

Taxable income is more than R1 million therefore based on estimated taxable income	1 784 432
Tax on R1 784 432 (28%)	499 641
Less: 1st provisional payment	(189 697)
Amount payable	309 944