

Tutorial letter 203/1/2014

The Taxation of Business Activities

TAX3701

Semester 1

Department of Taxation

SUGGESTED SOLUTION

ASSIGNMENT 2

Bar code

Dear Student

This tutorial letter contains the solution to assignment 2. Good luck with your preparation for the examination.

Kind regards

TAX3701 LECTURERS

Telephonic contact with lecturers:	<p>012 429 4133</p> <p>(this is a hunting line – you will need to let it ring so that the exchange can find a free extension)</p>
<p>The lecturers available to assist you are:</p> <p style="padding-left: 40px;">Prof AP Swanepoel Mrs MSI Wentzel Ms R Matenche Mrs C Stedall Mr M van Dyk Mrs E Doussy Mrs R Moosa Ms N Thoothe Mr A Swanepoel Mrs C Cass</p>	
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SUGGESTED SOLUTION: ASSIGNMENT 2/1/2014**QUESTION 1 (40 marks, 48 minutes)**

Calculation of the tax liability of Felicity Fashions (Pty) Ltd for the year of assessment ended 31 March 2014:

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Taxable income (given)		2 656 345	
Opening inventory	@ market value (lowest)	(315 655)√	(1)
Closing inventory - @ cost price (lowest)	@ cost price (lowest)	358 920 √	(1)
Learnership agreements			
Commencement			
- Not disabled	(R30 000 x 10/12√)	(25 000)	(1)
- Disabled	(R50 000√ x 10/12√)	(41 666)	(2)
Completion			
- Not disabled		(30 000)√	(1)
- Disabled		(50 000)√	(1)
Bad debts written off		(26 300)√	(1)
Doubtful debts - 2013	(R37 548 x 25%√)	9 387	(1)
Doubtful debts - 2014	(R41 652 x 25%√)	(10 413)	(1)
	Give a mark for adding 2013 doubtful debt allowance and subtracting 2014 allowance.	√	(1)
Research and development			
Operating research expenses	(R136 000 x 150%√)	(204 000)	(1)
Administrative staff		(62 300)√	(1)
Water and electricity	Deductible in full as services are supplied within six months after the end of year of assessment.	(54 525)√	(1)
Fixed assets			
Machine AA – s12E allowance	(R279 300 x 100/114√ x 100%√)	(245 000)	(2)
Desk and chair – s11(e) allowance	(R6 500 x 100%) Deductible in full as the desk and chair is less than R7 000	(6 500)√	(1)
Delivery vehicle – s12E allowance	(R119 700 x 100/114√ x 20%√)	(21 000)	(2)
Disposal sewing machine BB	Cost 125 650 Less: s12E 2013 (R125 650 x 50%√) (62 825) s12E 2014 (R125 650 x 30%√) (37 695)	(37 695)√	(1) (2)
	Tax value 25 130 Proceeds on disposal (12 000) s11(o) scrapping allowance 13 130	(13 130)√	(1)
Donation of computer	Donation @ market value 15 000 √ Less: Tax value (9 000) Recoupment 4 000	4 000 √	(2)
Office block – Eclectic E	(R350 000 x 55%√ x 5%√)	(9 625)	(2)
Rental	(R18 000 x 8)	144 000 √	(1)
Lease premium		100 000 √	(1)
Leasehold improvement	(R260 000√/9.67√ x 3/12√) or (R260 000/116 x 3)	(6 724)	(3)
s13(1) building allowance	(R280 000 – R260 000√ x 5%√)	(1 000)	(2)
Sub-total		2 112 119	

QUESTION 1 (continued)

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<u>Less:</u> Donation	(R2 112 119 x 10% [√] = R211 212) but limited to actual donation	(30 000) [√]	(2)
<u>Less:</u> Assessed loss brought forward from 2013		(40 000) [√]	(1)
Taxable income		2 042 119	(1)
Tax liability	R59 702 [√] + (R2 042 119 – R550 001) x 28% [√])	477 495	(2)
Total marks			40