



**NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY**

FACULTY OF MANAGEMENT SCIENCES

DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION : BACHELOR OF ACCOUNTING	
QUALIFICATION CODE: 07BAOC	LEVEL: 7
COURSE CODE: GTA711S	COURSE NAME: TAXATION 310
SESSION: JULY 2019	PAPER: THEORY & APPLICATION
DURATION: 3 HOURS	MARKS: 100

SECOND OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	Mr. G Jansen and Ms. M Weyulu
MODERATOR:	Mr. C Kotze

INSTRUCTIONS	
<ol style="list-style-type: none">1. This question paper is made up of four (4) questions.2. Answer ALL the questions and in blue or black ink.3. Start each question on a new page in your answer booklet.4. The names of people and businesses used throughout this examination paper do not reflect the reality and may be purely coincidental.5. Questions relating to this examination may be raised in the initial 30 minutes after the start of the paper. Thereafter, candidates must use their initiative to deal with any perceived error or ambiguities & any assumption made by the candidate should be clearly stated.	

THIS QUESTION PAPER CONSISTS OF 8 PAGES (Including this front page)

QUESTION 1

(20 MARKS)

PART: A

(5 MARKS)

- a) A Brazilian company signs a deed of sale in Namibia for the delivery of Brazilian manufactured goods in Mexico. Explain where the income would be taxable. (2)
- b) A Namibian resident receives a Royalty from a Russian publisher in terms of a contract negotiated in Russia for a book written in Namibia. Explain where the royalty would be taxable. (3)

PART: B

(5 MARKS)

FunTaxit (Pty) Ltd is an accounting and tax consulting company operated from the private residence of Chris Luhe, the sole shareholder of the company. He has converted a granny flat, located on the same stand as his private residence, into company offices. FunTaxit (Pty) Ltd has concluded the following transactions for the year of assessment ended 28 February 2019 and requires your advice on the correct tax treatment of each of the transactions below:

- 1. N\$3 700 paid to Swift Maintenance on 16 September 2018 to replace the front door of the offices that was damaged by an angry client. Fortunately, the full amount could be recovered from the company's insurance. (3)
- 2. N\$750 paid to the Receiver of Revenue on 1 November 2018 for administrative penalties relating to the late sub-mission of the annual income tax return for the 2017 year of assessment. (2)

REQUIRED:

Briefly discuss whether or not the expenses relating to the transactions 1 and 2 above would be deductible by FunTaxit (Pty) Ltd for the 2019 year of assessment in terms of the general deduction formula section 17 and section 24 (prohibited deductions) of the Income Tax Act.

PART: C

(10 MARKS)

In each of the following questions, indicate whether the statement is **TRUE** or **FALSE**. If a statement is **FALSE**, provide full supporting reasons.

- a.) The premiums paid towards life insurance of the partners is a non-deductible tax expense. (2)
- b.) The partnership entity is classified as a corporation for tax purposes and will be taxed at a rate of 32%. (2)
- c.) A partnership may never claim a section 17 (1) (m) deduction because of the nature of the entity. (2)
- d.) A partnership entity may not claim the section 17 (1) (e) capital allowances that are generally available to entities that carries on a trade. (2)
- e.) Dividends received by a partnership will be included in the gross income of the partnership entity. (2)

QUESTION 2**(20 MARKS)**

VIVA (Pty) Ltd manufactures and distributes spray tan cans. VIVA have been registered for VAT since 2016. Mr. Mahindi wants to appoint you as the new Accountant; however, he first wants to test your VAT knowledge as it is an important output required from their Accountants. During its current two-month period (which ended on 30th November 2018) it entered into, amongst others, the following transactions.

1. VIVA sold two hundred crates of spraytan cans for cash to Wellness Spa Bar in Windhoek.
2. VIVA sold two truckloads (a truckload consists of 500 crates) on credit to Seabreeze Spa (Pty) Ltd situated in Walvis Bay.
3. VIVA sold and exported a 100 hundred crates of spraytan cans on credit to Tan-I-See (Pty) Ltd in Kang, Botswana.
4. On the 15 November VIVA purchased two new vehicles. A new Hilux pickup truck for a Sales rep of N\$275 000 (VAT exclusive), that will be used as a trade vehicle. And a new Corolla for the marketing manager, costing N\$215,000 (VAT exclusive). VIVA will pay Indongo Toyota 30 days after the invoice date.
5. Wages for the cleaner amounted to N\$3,000 per month.
6. Advertising, printing, relabeling and marketing related to the new improved spraytan amounted to N\$546,250 (VAT inclusive)
7. Mr. Mahindi adopted the practice where he will provide the employees with free office refreshments; this will create more productive employees. The costs of this benefit amount to N\$2,500 per month (VAT Inclusive). These expenses are paid out of the petty cash register.

NOTE:

Price list	Amount (Incl. VAT)
Spraytan cans per crate (100 cans in 1 crate)	N\$9,200.00

REQUIRED:

- a.) List any five (5) requirements for an invoice to be a valid tax invoice. (5)
- b.) Calculate VIVA (Pty) Ltd's VAT liability relating to the above specific transactions for the 2-month period ending 30 November 2018. (15)

QUESTION 3

(35 MARKS)

Frana Distributors Printing (Pty) Ltd ('Frana') is a local manufacturer and supplier of printers and faxes. Its year-end is 31 December 2018. Frana is not an approved manufacturer.

Frana has started its operations in January 2012 and has since inception grown considerably. During the current year, Frana has made sales of N\$13,800,000 and total purchases of N\$9,800,000. The closing inventory amounted to N\$350,000 and the opening inventory only N\$100,000. Running operating expenditure in the production of income was N\$3,080,000 of which N\$2,000,000 related to salaries for the manufacturing team as well as support staff and management of the company.

Frana has leased two properties, one which is used for its manufacturing activities in Groot Aub and the other for its head office in Windhoek. During the current year of assessment Frana has built its own offices in the Central Business District (CBD) of Windhoek. The date of completion of the building was 31 July 2018 costing Frana N\$3,300,000. Frana was only able to move into the building on 01 September 2018. The monthly lease rental of its prior head office was N\$16,500. Assume that the prior rental contract ended 31 August 2018.

The manufacturing building was leased as from 01 June 2012. The lease term is 20 years. As part of the lease agreement, a lease premium of N\$20,000 was payable upon inception of the lease as well as monthly rentals of N\$15,000. The lease agreement stipulates a lease rental increase at 10% per annum due to inflation. The lease contract also stipulated that the lessee needs to make improvements to the value of N\$750,000. The actual improvements cost only N\$550,000 which was completed 02 January 2014.

As the manufacturing site is outside of Windhoek, Frana provides temporary housing for management who need to do periodic site visits to the manufacturing site. Thus, Frana has as from June 2012 also constructed housing for the management of the company close to the manufacturing site. The ownership of the properties all belongs to Frana and the total cost of construction of three houses was N\$1,350,000 in total.

As Frana manufactures printers, they had acquired as part of their business plan a patent to fully automatize (make fully automatic) the production of printers. The patent cost Frana N\$680,000 acquired from an American software developer. The expected useful life of the patent at the date of acquisition of 31 March 2016 was 35 years.

Another patent already acquired in August of 2012 was renewed at the cost of N\$150,000 on 15 September 2018.

During the year Frana had created a provision for bad debts of N\$120,000 (During 2017, N\$80,000) based on the historic experience of defaulting debtors.

Of the debtors, N\$100,000 went bad in the current year of assessment.

Frana took out a 'Key-man Policy' on Latino Roman, the chief operations officer, a resident of China on February 2013, paying a monthly premium of N\$4,500.

As part of their business activities, Frana had the following asset transactions:

1. Manufacturing machinery acquired in March 2014 at a cost of N\$1,200,000
2. Motor Vehicle no. 1 was acquired in April 2014 at a cost of N\$350,000.
 - Motor vehicle no. 1 was sold during the current year at a selling price of N\$100,000.
3. Motor Vehicle no. 2 was acquired on 01 July 2017 at a cost of N\$450,000.
 - During the current year of assessment, the motor vehicle no. 2 was taken out of use to donate it to a former employee of the company as a gift for his long-service.
 - The market value at the date of donation was N\$200,000.
4. Motor Vehicle no. 3 was acquired in April 2018 at a cost of N\$550,000.
5. Furniture and Fittings acquired in August of 2017 at a cost of N\$60,000.

NOTE: IGNORE VAT

REQUIRED:

Calculate the taxable income of Frana (Pty) Ltd for its year ended 31 December 2018. (35)

QUESTION 4**(25 MARKS)**

Lameck supplies you with the following information for the year ended 28 February 2019

	N\$
• Annuity received	22 000
• Cattle sold	840 000
• Maize sales	120 000
• Grazing fees received	4 000
• Land rentals received	8 000
• Construction of dam - wages paid	8 000
• Construction of dam - material purchased	13 900
• Purchase of machinery - used for construction of dam	17 000
• Cost of erection of fences	6 100
• Cattle purchased	652 000
• Interest paid on loan (<i>See note 3 below</i>)	6 000
• General farming expenses - all deductible	210 000
• Motor vehicle expenses (<i>See note 2 below</i>)	408 000

Notes:

1. Lameck received a refund of pension contributions on 1 March 2018 of N\$264 000 on withdrawal from the fund. He used N\$120 000 to purchase an annuity which will pay out for a period of 10 years N\$2000 per month as from 30/4/2018. His life expectancy at that date was 14,61 years. He used another N\$60 000 of the pension fund and paid it into an approved Provident fund.
2. He purchased a Toyota Hilux 4 x 4 during the year for N\$390 000 (VAT included). He uses it on the farm as well as going on holiday and private and business trips to Otjiwarongo, Swakopmund, Windhoek etc. His logbook shows the following: Farm use 12 000 km. Holidays 15 000 km, going to town for business and private purposes 50/50. His total kilometer reading on 28 February 2019 was 63 000 km. He spent N\$18 000 on fuel, oil and maintenance during the year.
3. A loan was acquired to purchase the new Toyota Hilux 4 x 4 in note 2 above.

REQUIRED:

Calculate the taxable income of Lameck for the year ended 28 February 2019. (25)

END OF EXAMINATION

TAX TABLE

INDIVIDUAL INCOME TAX	
TAXABLE INCOME (N\$)	RATES OF TAX FROM YEARS OF ASSESSMENT ENDING 2018 / 2019 (N\$)
0 – 50 000	Not taxable
50 001 – 100 000	18% for each N\$ above 50 000
100 000 – 300 000	9 000 + 25% for each N\$ above 100 000
300 001 – 500 000	59 000 + 28% for each N\$ above 300 000
500 001 – 800 000	115 000 + 30% for each N\$ above 500 000
800 001 – 1 500 000	205 000 + 32% for each N\$ above 800 000
Above 1 500 000	429 000 + 37% for each N\$ above 1 500 000


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2019-05-08

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