

BICA – PRINCIPLES OF TAXATION
ANSWERS TO DECEMBER 2017 EXAMS

Computation of Letoaba's total taxable income fye 30 June 2017:

Employment income	1	517,300
Alimony	1	-
Dividend income	1	-
Total Taxable Income		517,300
Working 1 - Employment income		P
Basic salary	1	450,000
Employer's pension contribution	1	-
Employee's pension contribution	1	(45,000)
School fees	1	60,000
Housing benefit (P270,000 x 10%)	1	27,000
Furniture benefit (P43,000 – P15,000) x 10%	1	2,800
Car allowance (P450,000 x 5%)	1	22,500
Chargeable employment income		517,300

Computation of Makwala Ltd's total taxable income fye 30 September 2017:

	P	
Accounting profit for year	2,380,000	
Depreciation	366,000	1
Provision for future costs	238,000	1
Loss on sale of plant	25,000	1
Donations	0	1
Approved staff training expenditure	(125,000)	1
Balancing allowance or charge	16,000	1
Replacement tools	(14,000)	1
Capital allowances on plant	(443,000)	1
Capital allowance on CEO's car (W1)	(43,750)	2
Total taxable income	2,413,250	

W1 - Capital allowances on CEO's car

	P
Eligible cost	175,000
Annual capital allowance at 25%	43,750

1 A Progressive taxation

D Indirect tax

A system whereby the overall proportion of taxation increases as income rises is known as a progressive system. Originally income tax represented 0% to 18.75% of Pauline's income. After her pay rise it had risen to 25%. VAT payments are a form of indirect taxation.

2 A (i) and (ii) only

Collect and administer direct taxes

Collect and administer indirect taxes

3 C This is an example of legitimate tax planning so is tax avoidance. The others are all examples of tax evasion.

4 B The relationship that her firm has with the client

The other three are factors to consider.

5 B The relationship that her firm has with the client

The other three are explicitly stated in the IFAC Code as factors to consider.

6 B Professional competence and due care

7 A 31 July 2017

8 A Interest on overpaid tax from BURS

D Bank deposit interest of P6,300 received by resident individual

9 A Employer's contributions to an approved pension fund

E Replacement of roof tiles on the company's head office building

10 C

11. B – 31 December 2016

12. A

13.	C – Due – 20% x P1,200,000 =	240,000
	Amount paid	200,000

	Underpayment of tax	40,000

14. Assessable car benefit – P41,000

First 200,000 10,000

Next 240,000 at 15% 36,000

46,000

Less fuel Adj cost (5,000)

Assessable benefit 41,000

15. Housing benefit: P485,000 x 10% = P48, 500

Furniture benefit: (P50,000 – P15,000) x 10% = P3500

16. The gross salary is P169,400

	Net	Tax	Gross
First	130,950	13,050	144,000
Next (19,50x25/75)	<u>19,050</u>	<u>6,350</u>	<u>25,400</u>
	<u>150,000</u>	<u>19,400</u>	<u>169,400</u>

17. B & D

18. A

19. A & B

20. P1, 200 Add back

21. C Machine with no VAT invoice – Not recoverable

F Purchase of car – Not recoverable

22 C P1,232

D P0

A supply of goods or services occurs when-

(a) an invoice for the supply is issued by the supplier; or

(b) any payment for the supply is received,

whichever is the earlier Output VAT is due on the earlier of :

The deposit was paid towards the consideration for the supply and therefore the supply occurred when payment was first received. The whole amount must be charged at the time the supply occurs.

23 A Amount of VAT payable – P107.14 (P1,000 x 12/112)

C VAT is payable by Nonfo

24 B A trader can voluntarily register for VAT if he makes only zero rated supplies which exceed P500,000 in 12 months.

C A trader making both zero rated and standard rated supplies is required to register only if the level of taxable supplies exceeds the VAT registration limit.

25 Output VAT = P35,472

Output VAT

$P295,600 \times 12\% = P35,472$

26 Input VAT P30,300

$P(9,000 + 21,300)$

27 P229,800

Sales proceeds	540,000
Less estate agent fees	(16,200)

Net sales proceeds	523,800
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Less allowable cost:

Cost	280,000
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Legal fees	14,000
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	(294,000)
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Un-indexed gain	229,800
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- 28 B
- C
- F

29 D P60,400

A person who fails to apply for registration as required is liable for a penalty equal to double the amount of output tax payable from the time the person becomes liable to be registered until the person files an application for registration with the Commissioner General.

30 C Daniel's full income tax return for 2016/17 should be submitted to BURS by 30 September 2017

E Frank Ltd's ITW 10 for 2016/17 should be submitted to BURS by 31 July 2017

31 A True

D False

32 C – P6,975

33 B No later than Friday, 24 November 2017

34 D Sale of shares in a private company

35 E Intimidation threat

36 D Value of the asset

37 D Acquisition of tools to replace worn out tools used in taxpayer's business

38 B Familiarity threat

D Self-interest threat

Oarabile is experiencing familiarity threats which occur when, because of a close relationship, a professional accountant becomes too sympathetic to the interests of others. As Katso's husband, he is himself also financially involved, which poses a self-interest threat.

39 B and D

40 D Construction of a residential house for the farm manager