

BICA TAX COMPLIANCE EXAM DEC 2018 SOLUTIONS

1.1 Professional accountants are obliged to evaluate any threats as soon as they know, or should be expected to know, of their existence.

Most threats to compliance with the fundamental principles fall into the following categories:

- Self-interest threats may occur as a result of the financial or other interests of a professional accountant or of an immediate or close family member. Self-interest threat may cause the professional accountant to become compromised.
- Self-review threats may occur when a previous judgement needs to be re-evaluated by the professional accountant who was responsible for the earlier judgement.
- Advocacy threats may occur when a professional accountant promotes a position or opinion to the point that his or her subsequent objectivity, may be compromised.
- Familiarity threats may occur when because of a close relationship causes a professional accountant to becomes too sympathetic to the interests of others.
- Intimidation threats may occur when a professional accountant may be deterred from acting objectively by threats, actual or perceived.

1 mark each

Max 4 Marks

1.2 To resolve the disagreement or conflict with the Finance Manager, Mmatema should first consider consulting with the officers responsible for governance in the organization. 1 mark

If a significant conflict cannot be resolved within the organization, she may consider seeking advice from relevant professional bodies or legal advisors.

1 mark

If the conflict still remains unresolved she may consider excusing herself from the specific assignment or resigning from the firm. 1 mark

Total: 7 marks

2.1 Computation of VAT payable or refundable for Loapi Ltd for November 2018:

	P	
Output VAT		
Local sales invoiced in November 2018 –		
- P560,000 x12%	67,200	1.5
Local sales invoiced in December 2018 –	0	1.5
- Exports to Zimbabwe – Zero rated	0	1
Sales from servicing computers – P124,000 x 12%	14,880	1.5
Sales from servicing computers for Zimbabweans -	0	1
	82,080	
Input VAT		
Purchases from local registered suppliers		
- P312,000 x12%	37,440	1.5
Second hand goods – P61,600 x 12/112	6,600	1.5
Rent – P24,000 x 12%	2,880	1.5
Electricity – P1,500 x 12%	180	1.5
Fuel – P23,000 x 12%	2,760	1.5
	49,860	
VAT payable	P32,220	14

2.2 Mexico Ltd – VAT/ transfer duty implications on the purchase of a plot of land:

Mexico Ltd will be required to pay transfer of:

Purchase price	400,000	
Less exemption	(200,000)	
	200,000	
Transfer duty at 5% x P200,000	P10,000	2

The transfer duty payable is treated as deductible input VAT when calculating the VAT payable or refundable for the tax period.

2

 4

Total 18

3.1 Computation of chargeable gain/loss arising on the disposal of shares:

	P	
Sales proceeds	360,800	1
Allowable cost (W1)	(97,000)	3

	263,800	
Moveable allowance at 25% of P263,800	(65,950)	1

Chargeable gain	197,850	5

Working 1 – allowable cost

Shares	Cost
	P
30,000 b/f	75,000
10,000 bonus shares at P0	0

40,000	75,000
4,000 rights issue at P5.50	22,000

44,000	97,000

Computation of chargeable gain/loss on disposal of warehouse:

	P	P	
Sales proceeds		1,500,000	1
Less allowable cost:			
- Warehouse	820,000		1
- Legal fees	16,400		1

	836,400		
- Replacement of roof	108,000		1
- Tiling	82,000		1

		(1,026,400)	

Un-indexed gain		473,600	
Indexation allowance:			
- Warehouse (July 2013 – Apr 2018)			
- (1856.3 – 1576.7)/1576.7 x P836,400		(148,321)	1
- Roof/tiling (Nov 2015 – Apr 2018)			
- (1856.3 – 1709.9)/1709.8 x P190,000		(16,280)	1

- Chargeable gain		308,999	

Tax on trading income			
First P144,000	13,050		
Next P6,000 at 25%	1,500		
	-----	14,550	1
Tax on net chargeable gains			
First P144,000	13,950.00		
Next 362,799 at 25%	90,699.79		
	-----	104,649.75	2
		-----	-----
Total tax liability		119,199.75	10
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3.2 Computation of chargeable transfers

Capital transfer tax is levied on the donees as follows:

	Alice	Tshegofatso	Kenosi	
	P	P	P	
House in Mochudi	420,000			1.5
Flat in Johannesburg		660,000		1.5
Home in Phakalane			1,800,000	1.5
Shares BDD Ltd				
- 20,000 x P10.20		204,000		1.5
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	420,000	864,000	1,800,000	
Less allowable deduction	(13,619)	(28,015)	(58,366)	2
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Chargeable transfer	406,381	835,985	1,741,634	8
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3.3 Tax implications of an interest free loan to the close company:

Tax implications for Boikhutso

Boikhutso shall be deemed to receive interest of P10,000 (i.e. P200,000 x 5%) for the tax year ended 30 June 2018. 2 marks

The deemed interest shall be included in his gross income. 1 mark

Tax implications for the close company:

The close company shall not be allowed to deduct the deemed interest on the interest free loan. 2 marks

Total: 28 marks

4 i) Computation of taxable income fye 30 September 2018:

	P	
Operating profit	1,570,000	
Depreciation/ amortization	445,200	½
Lease rentals	0	½
Entertainment of customers	0	½
Entertainment of employees	0	½
Gifts to customers	0	1
Legal fees	25,000	1
Allowable deduction for leasehold premium		
o P180,000/20 years	(9,000)	1
Interest on business loan	(16,230)	1
Industrial building allowance – cost P688,000		
o Initial allowance – P688,000 x 25%	(172,000)	1
o Annual allowance – P688,000 x 2.5%	(17,200)	1
Capital allowances on P & M (W1)	(249,070)	4
Allowances on warehouse – P300,000 x 2,5%	(7,500)	1
Balancing charge (W2)	320,550	2

	1,889,750	
Less tax loss on hotel business	(228,000)	1

Taxable income	1,661,750	16

Working 1 – Capital allowances on plant & machinery fye 30 September 2018:

	Delivery Trucks P	Mercedes Benz P	F & F P	Computer P
Cost b/f	530,000	175,000	108,200	0
Additions during year	220,000	175,000	-	28,000
Disposals during year	-	(175,000)	-	-
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	750,000	175,000	108,200	28,000
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	25%	25%	10%	25%
Annual allowances	187,500	43,750	10,820	7,000
Total allowances = P249,070				

Working 2 – Computation of balancing adjustments

	Mercedes Benz P	Computer P
Cost – restricted	175,000	0
Less allowances granted - 3 years x P175,000 x 25%	(131,250)	0
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	43,750	0
Sales proceeds	360,000	4,300
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Balancing charge	316,250	4,300
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ii) Computation of tax liability for the year ended 30 September 2018:

P1,661,750 x 22% = P365,585 2

iii) a) Self-assessment quarterly assessment paid, based on estimated tax liability:

P1,500,000 x 22% x 25% = P82,500 2

b) Quarterly instalment payable, based on 20% of the actual tax liability:

P365,585 x 20% = P73,117 2

c) Final top-up payable:

P
Actual tax liability 365,585

Less instalments paid P82,500 x 4 =	(330,000)	

Final top-up amount payable	35,585	2

5.1(i) Computation of employment income for 2017/18 – Tshepang

	P	
Annual salary	447,120	
Entertainment allowance – P24,000 – P8,000	16,000	1
Commission	56,000	½
Employer’s medical aid contribution	0	½
Employer’s pension contribution	0	1
Car benefit	20,000	2
- First P200,000	10,000	
- Next P100,000 at 15%	15,000	
-	-----	
-	25,000	
- Less fuel cost adjustment	(5,000)	
-	-----	
-	20,000	
-	-----	
School fees	60,000	1
Utilities allowance	30,000	1
Gratuity:	184,065	2
- (P447,120 + P402,410) x 30%	254,859	
- Less exemption:		
- (P447,120 + P402,410) x 25% x 1/3	(70,794)	
-	-----	

	813,185	

Less employee's pension contribution:		
- P447,120 x 10%	(44,712)	1
- Capital allowance on laptop – P32,000 x 25%	(8,000)	2

Employment income	768,473	

ii) Computation of tax payable for Tshepang for 2017/18:

	P	
First P144,000	13,050	
Next P616,473 at 25%	154,118	

	167,168	1
Less PAYE deducted at source	(88,830)	1
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Tax payable	78,338	14
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5.2 Computation of total taxable income for Tshepiso for 2017/18:

	P	
Employment income	420,000	1
Local dividends	0	1
Farming loss	0	1
Trading income	260,000	1
Rental income	180,000	1
Debenture interest	16,000	2
Bank deposit interest	0	1
Consultancy fees	28,000	1
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Total taxable income	904,000	9
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Total: 23 marks