

# Accountancy@UJ



## DEPARTMENT OF ACCOUNTANCY

### TAXATION 2A [TAX02A2 / BEL2A01]

#### SUPPLEMENTARY SUMMATIVE ASSESSMENT OPPORTUNITY

JANUARY 2020

**TIME: 150 minutes**

**MARKS: 100**

**ASSESSOR: Mr J Wessels**

**MODERATORS: Mr S Makhaya**

#### INSTRUCTIONS TO CANDIDATES

1. This paper consists of **7 pages** including the cover page and Appendix A.
2. You are reminded that answers may **NOT** be written in pencil. **NO** tippex may be used.
3. The marks shown against the requirement(s) for every question should be regarded as an indication of the expected length and depth of your answer.
4. Answer the questions by the use of:
  - Effective structure and presentation;
  - Clear explanations;
  - Logical arguments; and
  - Clear and concise language.
5. Show all calculations clearly.
6. All open spaces must be crossed out with a pen. Failure to cross out the open spaces will **disqualify you from handing in your script for remark.**
7. Round all amounts to the nearest Rand, where applicable.
8. **Question papers must be handed in with answer sheets.**

Question	Marks	Time Allocated
1	45 Marks	67 minutes
2	30 Marks	45 minutes
3	10 Marks	15 minutes
5	15 Marks	23 minutes
<b>Total</b>	<b>100 Marks</b>	<b>150 minutes</b>

## QUESTION 1

45 MARKS

Karen Jones is a 48 year old South African resident. She recently inherited a small-holding in Kyalami from her aunt and decided to move there. Her aunt had been a horse breeder and trainer. Karen has the same passion for horses. She decided to quit her job as an accountant and take over the horse breeding business she inherited. Karen is not a registered VAT vendor.

She handed in her resignation letter to her employer on 1 January 2018, but had a three month notice period which she was required to work. She earned a salary of R60 000 per month. Her employer paid over to SARS R21 000 per month in employees tax.

Karen sold her house in Auckland Park. She bought the house in August 2006 for R500 000. In September 2008 she had a pool put in the house at a cost of R30 000. She sold it in March 2018 for R4 000 000.

While packing and moving house she sold the following items on eBay in March 2018. The money would help with the B&B cottages (see below).

Asset	Purchase date and cost	Selling Price
Art work	December 2009, R300 000	R500 000
Kruger Rands	September 2011, R25 000	R40 000
Time Share	March 2014, R37 000	R20 000

The property is quite large and Karen decided to build some cottages on the property to run a Bed and Breakfast accommodation business to supplement the income from the horse business. Karen had three cottages built. Construction started on 15 January 2018 and was completed on 30 April 2018. The cottages were open to guests from 1 June 2018.

- ☐ Construction costs – R300 000 per cottage
- ☐ Furniture and fittings – R50 000 per cottage

The contractor also constructed 5 small cottages for the staff to live in. Construction started on 1 March 2018 and was completed on 1 June 2018. The staff moved in on 15 June 2018. The cottages cost R150 000 each.

Karen went to Monaco (in Europe) in September 2018 to meet with a race horse owner there as he was interested in purchasing a race horse from her. The cost of the trip (flights and accommodation) amounted to R18 000. She sold the horse for R220 000. When she inherited the horse, he had been valued at R150 000.

While in Monaco she went to the casino and gambled. She won R200 000 at the Black Jack table. This was the first time Karen had ever gambled.

Karen is also a keen gardener. Now that she has extra space and land she has started a small organic vegetable garden where she grows vegetables for the local organic market on a Saturday. She purchased a small plough for R6 500 to assist with the gardening.

The following additional information relates to Karen's 2019 year of assessment:

## QUESTION 1 CONTINUED

### Income:

1. Horse stabling fees received R850 000.
2. Sale of organic vegetables R65 000.
3. Income from the B&B cottages R500 000.
4. R6 000 per month, annuity income from her deceased father's estate, which she has been receiving for 3 years already.

### Expenses:

1. Staff wages:
  - a. Staff working in the stables and vegetable garden R600 000
  - b. Staff working with the B&B cottages R40 000
  - c. Staff working in the family home (domestic and gardener) R90 000
2. Horse Feed R450 000
3. Vet fees R30 000
4. Industrial Washing Machine for the B&B laundry R9 000. It was purchased and brought into use on 1 July 2018.
5. Karen had B&B clients who left without settling their account. She had to write-off the R2 200 owed to her.
6. A previous staff member who helped with the horses had borrowed R5 000 from Karen and has since disappeared. Karen also had to write that amount off.
7. Karen donated R20 000 to a local charity and received a S18A certificate for the donation.

### Extract of Interpretation Note 47:

Furniture and Fittings – 6 years

Ploughs – 6 years

Washing machines – 5 years

### YOU ARE REQUIRED TO:

1. Calculate Karen Jones's 2019 taxable income. If an amount is not included in your calculation, state the reason why. **(40 marks)**

**Ignore VAT for the purposes of this question.**

**The provisions of the First schedule of the Act, which relates to farming activities, must be ignored for the purposes of this question**

2. Due to the fact that Karen earns income other than remuneration, she is required to register as a provisional tax payer. She has not received her 2018 assessment back from SARS. Her 2017 assessment had a taxable income of R850 000. In 2017 Karen had taxable capital gains of R200 000.

Calculate Karen's first provisional tax payment and state when is the payment due.  
**(10 marks)**

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## QUESTION 2

30 MARKS

**This question consist of four cases. You must answer each case independently.**

### CASE 1

Tshepo Matlou owns a block of flats which he rents out to tenants for residential purposes. On a monthly basis, he receives rental income of R90 000. His rental business is currently not registered as a vendor for VAT purposes. He heard that when a business is registered for VAT, it can claim VAT back from SARS. Tshepo has no other business.

#### **YOU ARE REQUIRED TO:**

Advise Tshepo on whether he can register his business as a vendor and whether he is allowed to claim input tax. **(6 marks)**

### CASE 2

Lindi Majola is planning to sell her private house for R1 200 000. She does not deal in houses and she is not registered as a vendor. Lindi would like to know whether she can charge VAT on the sale of this house as the expected proceeds are more than R1 million.

#### **YOU ARE REQUIRED TO:**

Advise Lindi on whether she can charge VAT on the sale of her private house. **(3 marks)**

### CASE 3

Gates (Pty) Ltd is a small professional firm. It is registered as a vendor and all its supplies are taxable supplies. It has five directors who are all Chartered Accountants (SA). Gates Inc. pays SAICA the membership fees for the directors. It has arranged with SAICA to be issued with one invoice in its name. In addition, it pays for the directors' membership fees in Golf Connection, which is a golf club. Both SAICA and Golf Connection are vendors for VAT purposes.

#### **YOU ARE REQUIRED TO:**

Discuss how VAT on the membership fees payable to SAICA and Golf Connection should be treated by Gates Inc. **(3 marks)**

### CASE 4

Jay Naidoo runs a bus transport business and courier business. The bus business transports passengers from Durban to Johannesburg and from Johannesburg to Durban. The courier business which transports customer parcels or goods around South Africa. 40% of the business relates to the passenger transport business and 60% relates to the courier of goods. His business is registered for VAT on a one-month basis.

Some of the transactions incurred in the business during October 2019 are as follows (amounts are inclusive of VAT where necessary):

1. Revenue from the bus fares amounting to R342 000.
2. Revenue from the courier services amounting to R513 000.
3. Petrol expenses for both buses and courier vehicles amounting to R71 820.
4. The salaries paid to the drivers and administration staff amounting to R288 000.
5. Rental of the office space amounting to R98 040.

6. Purchase of two new 60 seater busses during October from vendors costing R631 560 each.
7. Repairs and maintenance of buses amounting to R8 760 and for the courier vehicles amounting to R17 100.

**YOU ARE REQUIRED TO:**

**Discuss** and **calculate** the VAT implications of the transactions above for October 2019 tax period. In your response, calculate the VAT amount (if any), indicate whether it is output or input tax, give reason(s) for your treatment. **(18 marks)**

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**QUESTION 3**

**10 MARKS**

Molo CC has a financial year that ends on 30 September. During the 2019 year of assessment, it incurred the following expenditure:

1. On 1 June 2019, it paid R60 000 for insurance premiums for the period 1 June 2019 to 31 May 2020.
2. On 1 August 2019, it paid R180 000 for the rental of office building for three months ending 31 October 2019.
3. On 16 September 2019, it paid R12 000 for licencing of the fleet vehicles in respect of its 2019 financial year.

There were no other prepaid expenditure other than the ones listed above.

**YOU ARE REQUIRED TO:**

Discuss the deductibility of the amounts paid by Molo CC in respect of the above transactions in determining its taxable income for its year of assessment ended on 30 September 2019. In your discussion, include all the necessary calculations. It must be assumed that Molo CC is carrying on a trade. **(10 marks)**

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**QUESTION 4**

**15 MARKS**

Furniture Stores CC is a resident South African store owned by the Shonhiwa family. Furniture Stores is NOT a Small Business Corporation. Their trading stock comprises of various types of office and home furniture. They purchase and manufacture their trading stock.

Profit before tax for the financial year ending 30 September 2019 **before taking any of the following amounts into account** was R5 000 000.

1. Stock balances confirmed at the stock counts on 30 September:

	<b>2019</b>	<b>2018</b>
Purchased stock	500 000	350 000
Finished Goods	300 000	270 000
Work in Progress	100 000	95 000
Raw Materials	40 000	50 000

Packing Materials	10 000	7 000
<b>TOTALS</b>	<b>950 000</b>	<b>772 000</b>

2. Mrs Shonhiwa inherited some furniture from her grandmother. She didn't have any use for it herself and therefore gave it to the shop to add to their inventory on 1 February 2019. The furniture had cost her Grandmother R20 000, but had a market value of R15 000. This furniture was sold during the year and the revenue is included in the net profit.
3. Furniture purchased from suppliers during the year cost R1 200 000.
4. Raw materials purchased during the year amounted to R500 000.
5. Some of the packing materials on hand at the end of 2019 were valued at R3 000 in the closing stock even though they cost R5 000. This fact was disclosed to SARS.
6. Furniture Stores purchased spare parts for one of their manufacturing machines at a cost of R5 850. The supplier had a special that if they bought a larger amount, they could get it at a discounted price. They therefore had spares on hand at the end of the year at a cost of R1 170. If they had not taken the discount the purchased stock would have cost R6 500 instead of the R5 850 paid.
7. Mr Shonhiwa took an office chair and desk from the store to use in his study at home. They had a cost of R7 000 and a market value of R10 000.
8. Furniture Stores donated the following trading stock:
  - a. To a local charity to use in their office space. The stock had a cost price of R12 000 and a market value of R15 000. The charity issued a S18A certificate for the donation.
  - b. Old stock was donated to a crèche in the area. The crèche is not a registered PBO and could not issue a S18A certificate. The stock had a cost of R2 000 and a market value of R4 000.

**REQUIRED:**

Calculate the normal tax payable by Furniture City for the year of assessment ending 30 September 2019. **Start your calculation with profit before tax.** Provide reasons for amounts not included in the calculation. **(15 marks)**

**Ignore VAT for purposes of this question.**

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**NORMAL TAX RATES  
PERSONS OTHER THAN COMPANIES AND TRUSTS**

*Year of assessment ending 28 February 2019*

Taxable Income		Rates of taxes	
Exceeds	Does not exceed		
R	R	R	R
0	195 850	0 + 18% of each R1	
195 850	305 850	35 253 + 26% of the amount above	195 850
305 850	423 300	63 853 + 31% of the amount above	305 850
423 300	555 600	100 263 + 36% of the amount above	423 300
555 600	708 310	147 891 + 39% of the amount above	555 600
708 310	1 500 000	207 448 + 41% of the amount above	708 310
1 500 000	+	532 041 + 45% of the amount above	1 500 000