Answers

Note: The ACCA does not require candidates to quote section numbers or other statutory or case references as part of their answers. Where such references are shown below [in square brackets], they are given for information purposes only.

Marks

1 All Sports (Pty) Ltd

(a)

		R	R	
(i)	Sales	5,400,000		½
	Less non-refundable deposits received in the prior year	(200,000)		1
	Add non-refundable deposits received in the current year	270,000	5,470,000	1
	[**Tutorial note:** *The gross income principle requires the amount to be recognised at the earlier of receipt or accrual. As the deposits are refundable, the company is not unconditionally entitled to the amount. The deposit has been received and the company can utilise those funds until repayment (if needed) is to be made.*]			
(ii)	No accelerated capital allowance in the current year for the machine sold – fully depreciated for tax purposes.			
	Disposal to a connected person:			
	Recoupment – Market value (limited to cost) less tax value = R550,000 – R0		550,000	1
	Capital gains effect:			
	Proceeds (deemed to be market value)	550,000		1
	Less recoupment	(550,000)		½
		0		
	Less base cost:			
	Expenditure less allowances – R600,000 – R600,000	0		1
	Capital gain/capital loss	0		
(iii)	Lease payments: R13,589 x 3 less (R1,140,000 x 14/114 x 3/60)		(33,767)	1
	Recoupment of lease payments up to market value		250,000	1
	Accelerated capital allowance [s.12E] on acquired leased machine R250,000 x 50%		(125,000)	1
	Accelerated capital allowance [s.12E] on furniture:			
	Allowance: R100,000 x 20% (final year of accelerated small business allowance)		(20,000)	1
	Machine acquired from James' Gym (Pty) Ltd:			
	Acquired from a connected person who used the asset as a depreciable asset.			
	Use lower of actual cost or cost to connected person.			½
	Actual cost	R200,000		½
	Cost to connected person:			
	Cost	320,000		1
	Less allowances to date R320,000 x 20% x 1/12	(5,333)		1
	Add recoupment (Market value limited to cost less tax value): R320,000 – (R320,000 – R5,333)	5,333		1
	Add 50% x capital gain:	5,000		
	Proceeds (MV): R330,000 – recoupment of R5,333 = R324,667			1
	Base cost: R320,000 less allowances of R5,333 = 314,667			1
	Capital gain = R10,000			
		325,000		
	Use actual cost: 50% (accelerated allowance) x R200,000		(100,000)	1
(iv)	No deduction for finance charges as full lease payment permitted by the general deduction section.			½
(v)	Operating lease expense		(240,000)	½
	Leasehold improvement R1,500,000/(120 – 4) x 12		(155,172)	1
	Building allowance on remaining improvements: R500,000 x 5%		(25,000)	1

		R	R	Marks
(vi)	Bad debts – full write off		(15,000)	½
	Reversal of prior year provision: 25% x R20,000		5,000	½
	Claim for current year provision: 25% x R45,000		(11,250)	½
(vii)	Tax deductible expenses – given		(55,000)	½
	Taxable income		5,494,811	
				22

(b) An estimate of taxable income must be made for the second provisional payment as the taxable income exceeds R1,000,000. 1

The estimate must be at least 80% of the final tax liability to avoid any underestimate penalties. 1

The payment and return would be due on 31 March 2012. ½

The company qualifies to be taxed in terms of the small business tables as:

The shareholders are natural persons.	½
The gross income is less than R14 million.	½
The shareholders do not hold interests in other companies (the investments in listed shares is permitted).	½
The company income is not derived from the rendering of personal services or investment income.	½
The company is not a personal service company.	½

	R	
80% of taxable income (as calculated in (a) above)	4,395,849	½
Tax per the small business tables	1,170,863	1
Less the first provisional payment	(250,000)	½
Amount due for the second provisional payment	920,863	
		7

(c)

	R	
Tax per the small business tables	1,478,572	½
Less first and second provisional tax payments	(1,170,863)	½
Final normal tax liability	307,709	
		1
		30

2 Ms Odendaal

Normal tax liability

	R	R	
Cash salary R44,000 x 12 months		528,000	½
Pension contributions:			
Actual contributions – R528 000 x 8%	42,240		½
Limited to the greater of:			
R1,750 or			½
7·5% x R528,000 = R39,600		(39,600)	½
No value is placed on the use of a laptop or mobile phone where the majority of the use is for business purposes.			1
Travel allowance R10,000 x 12 months		120,000	½
Business kilometres for both options is 45,000.			½
Option 1: Actual costs			
Wear & tear R400,000/7 years	57,143		1
Fuel	62,000		½
Maintenance, licensing and miscellaneous costs	3,000		½
Total costs	122,143		
Reduction R122,143 x 45,000 kms/60,000 kms	91,607		1

	R	R	*Marks*
Option 2: Deemed costs			
Fixed cost per km: R105,809/60,000 kms	176·35 cents		1
Fuel rate	100·9 cents		½
Maintenance rate	65·8 cents		½
	343·05 cents		
Reduction: R3·4305 x 45,000 kms	154,372		½
Best reduction is therefore option 2 limited to the allowance		(120,000)	½
United States trip:			
Allowance received: $200 x 9 days x R8	14,400		1
Reduced by greater of:			
Actual cost – R7,500			½
Deemed cost – $142 x 9 x R8 = R10,224	(10,224)	4,176	½
Austrian trip:			
Allowance received: €150 x 8 days x R10	12,000		1
Reduced by greater of:			
Actual cost – R9,000			½
Deemed cost – €108 x 8 x R10 = R8,640	(9,000)	3,000	½
Entertainment allowance R5,000 x 12 months		60,000	½
Entertainment expenses (not permitted as mainly earns a salary)			½
Tutorial note: *The entertainment expenses may be not claimed and are restricted by virtue of income being derived mainly from salary [see s.23(m)].*			
Investment income			
South African dividends received	7,000		½
South African dividend exemption	(7,000)	0	½
South African interest	12,000		½
South African interest exemption (limited R22,800 further limited to actual interest)	(12,000)	0	½
		555,576	
Contribution to retirement annuity fund:			
Actual – R24,000 limited to greater of:			½
R1,750; or			½
R3,500 – R39,600 (N/A); or			½
15% x (R555,576 – R528,000 + R39,600) (being 15% of non-retirement funding income) = R10,076		(10,076)	1
		545,500	
Less donation deduction: Actual R5,000 limited to 10% of taxable income before this and the medical deduction 10% x 545,500 = R54,550. Therefore limited to actual		(5,000)	½
		540,500	
Less medical deduction:			
Employee contributions R1,500 x 12	18,000		½
Restrict to monetary limit: R720 x 12 months	(8,640)	(8,640)	½
		531,860	
Disallowed contributions (R18,000 – R8,640)	9,360		1
Add other qualifying medical expenses:			
Costs incurred	13,000		½
Qualifying medical costs	22,360		
Reduced by 7·5% x R531,860	(39,890)	0	1
Taxable income		531,860	
Tax per the tables		149,957	½
Less rebate (primary only as less than 65 years of age)		(10,755)	½
Total normal tax		139,202	
Less employees tax		(110,000)	½
Normal tax liability		29,202	
			25

Marks

3 Mpho Bassier

(i) **Penthouse flat – primary residence**

	R	R	
Proceeds		8,000,000	½
Base cost:			
Valuation date value:			
Market value 1 October 2001	5,000,000		½
20% x (Proceeds less post-valuation date exp)			
20% x (R8,000,000 – R180,000 – R400,000)	1,484,000		1
Time apportioned base cost:			
B = R150,000 + R30,000	180,000		½
A = R180,000	180,000		½
R = R8,000,000 – R400,000 (selling costs)	7,600,000		1
Therefore: P = R x B/(B + A) =	3,800,000		1
N = (limited to 20 years)	20		½
T =	12		½
Time apportioned base cost:			
Y = B + ((P – B) x N)/(T + N)	2,442,500		½
Choose market value on 1 Oct 2001		(5,000,000)	½
Post-valuation date expenditure: R180,000 + R400,000		(580,000)	½
Capital gain		2,420,000	

	Period in property	Period not in property	
Months applicable [**Tutorial note:** *The calculation would usually use days, but insufficient information is given in the question to ensure apportionment by months*]	320	72	1
Capital gain apportioned	1,975,510	444,490	½
Less primary residence exclusion	(1,500,000)		½
Capital gain for aggregation for period in the property		475,510	½
Capital gain to be aggregated with other gains and losses		920,000	
			10

(ii)

	R	R	
Proceeds		9,000,000	½
Base cost:			
Valuation date value:			
Market value 1 October 2001	10,500,000		½
20% x (Proceeds less post-valuation date exp)			
20% x R9,000,000	1,800,000		½
Time apportioned base cost:			
B =	8,000,000		½
P =	9,000,000		½
N =	3		½
T =	12		½
Time apportioned base cost:			
Y = B + ((P – B) x N)/(T + N)	8,200,000		½
Choose market value on 1 Oct 2001 (but must limit to proceeds) i.e. R10,500,000 limited to [**Tutorial note:** *The provision being applied here is paragraph 26(3) of the 8th Schedule*]		(9,000,000)	1
Capital gain to be aggregated with other gains and losses		0	
			5

			Marks
(iii)		R	
	Proceeds	500,000	½
	Base cost	(120,000)	½
	Capital gain	380,000	
	Small business asset or interest exclusion:		
	Limited to R900,000 for the life of a natural person		1
	Previous disposal used R600,000 of the R900,000, therefore only R300,000 remains		1
	Capital gain to be disregarded	(300,000)	1
	Capital gain to be aggregated with other gains and losses	80,000	
			4

(iv) The artworks are considered personal use assets. The capital gain or capital loss is disregarded. 1

20

4 Mrs Cloth

(a) Mrs Cloth would need to consider her reasons for registering voluntarily for value added tax (VAT). Based purely on the consideration of the VAT Act and her laundry trade, Mrs Cloth should not register for VAT as the nature of her business is such that output VAT would be leviable on the prices charged to the customers, whereas inputs would be limited to her rental charges on an annual basis. VAT registration may benefit Mrs Cloth on the acquisition of new machines, but this is an irregular event and should not, it is submitted, impact the decision. ½ ½ ½ ½

Her customer base is mainly hotel guests who are not VAT registered in their personal capacities and would not be eligible to claim a VAT input. ½

In conclusion, Mrs Cloth should not register for VAT. ½

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(b) The coin operated laundry machines would be considered similar to vending machines. This means that the time of supply and therefore the levying of the output VAT occurs when the coins are collected from the machines. 1

(c) Normal tax

An annual tax return will have to be filed. The due date will be dependent on the dates declared by the Minister of Finance. Upon assessment, the second date on the assessment is the latest date by which any amount outstanding (as assessed) must be paid to prevent any further interest charges. 1 1

Provisional tax

As Mrs Cloth earns trade income other than from employment (i.e. the laundry business and investment income), she will have to be registered for and file two compulsory provisional tax returns. The first will be due on 31 August in the relevant year of assessment and the second on the last day of February of the relevant year of assessment. To avoid interest on normal tax, Mrs Cloth may elect to make a voluntary third payment. The latest date for such a third payment is the last day of September (after the year of assessment ended). 1 1 1 1

Employees tax

Employees tax would be withheld on behalf of Mrs Cloth by the pension fund. Pensions are considered remuneration and the Pension Fund the employer. 1

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(d)	R	*Marks*
Laundry income	550,000	½
Rental of premises	(50,000)	½
South African dividends	10,000	
Dividend exemption	(10,000)	½
Pension	70,000	½
	570,000	
Normal tax per the tables	164,450	½
Primary rebate	(10,755)	½
Employees tax withheld	(1,845)	½
Provisional tax payments	(125,000)	½
Total normal tax liability	26,850	4
		15

5 **LongBoard Ltd**

(a) A person (including a company) is required to register for value added taxation (VAT) when the taxable supplies made regularly and continuously in the course of the enterprise exceed R1,000,000 in a 12-month period or will exceed R1,000,000 in the forthcoming period. 1

Based on the anticipated turnover in the coming 12-month period, LongBoard Ltd will be liable to register for VAT from the start of the month in which the taxable supplies made regularly and continuously are anticipated, in the next 12-month period, to exceed R1,000,000. ½ The company then has 21 days within which to apply to the Commissioner to register as a vendor. 1

It should be noted that the 'application' to register as a vendor is only accepted as an application when all necessary documentation is submitted. ½

3

(b) A tax invoice must have been received in order to claim VAT. ½ However, the same is not true for outputs, that is, the charging of output VAT is not delayed by the failure to issue a tax invoice, but rather is required to be accounted for on the earlier of issue of invoice or receipt of payment. ½

1

(c) The following requirements must be met for an invoice to be a tax invoice:

Must be denominated in Rands

Must state 'Tax Invoice'

Have the name, address and VAT number of the supplier

* Have the name, address and, where relevant, the VAT number of the recipient

Unique invoice number and date of the invoice

Full description of the goods or services (indicating if the goods are 'second-hand')

* Quantity or volume supplied

Either:

Value of the supply, the tax charged and the consideration; or

The consideration and the amount of tax charged or a statement that tax was charged and the rate of the tax

* These are not required for abridged tax invoices (i.e. tax invoices issued for less than R3,000).

½ each, maximum 2

(d) As the goods have a value of greater than R3,000, the computer shop would have to have issued a full tax invoice to permit the input claim by LongBoard Ltd, unless the Commissioner is prepared to accept the till slip as sufficient evidence for the claim. 1

		Marks
(e)	The total VAT charged to LongBoard Ltd on these goods was: (R7,500 + R1,500) x 14/114 = R1,105. However, the full amount cannot be claimed. The computer and printer are to be used in relation to the entire business. The rental of the flat is an exempt supply and the VAT input in relation to such a supply is disallowed. The VAT input would have to be apportioned:	1 1
	R1,105 x 90% = R995 may be claimed (i.e. in relation to the making of taxable supplies.	1
		3
		10