
Answers

Fundamentals level – Skills Module, Paper F6 (ZAF)
Taxation (South Africa)

December 2011 Answers
and Marking Scheme

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.

			<i>Marks</i>
1	Super Golf Ltd		
		R	
(a)	(i) Sales – local	11,400,000	$\frac{1}{2}$
	Sales – foreign	3,600,000	$\frac{1}{2}$
	All sales are taxable		
	(ii) Prior year doubtful debtors reversal (R1,000,000 – R200,000) x 25%	200,000	1
	Current year doubtful debtors list (R1,000,000 x 25%)	(250,000)	$\frac{1}{2}$
	Bad debt write-off (R150,000 x 100/114)	(131,579)	1
	(iii) Recoupment of trading stock (at market value) R250,000 x 5	1,250,000	1
	Application of proviso (deemed expenditure where used for business purpose) – recoupment deemed advertising expense	(1,250,000)	1
	Sale of golf carts after tournament R250,000 x 100/114/2 x 5	548,246	$1\frac{1}{2}$
	(iv) Salaries (without lumpsum payment) (R3,000,000 – R230,000)	(2,770,000)	$\frac{1}{2}$
	Retirement lumpsum – not permitted as a deduction – not in the production of income [WF Johnstone]	0	1
	(v) Opening stock	(7,000,000)	$\frac{1}{2}$
	Closing stock (at cost as Commissioner does not accept the write-down)		
	R4,000,000 + R500,000	4,500,000	1
	Purchases (R9,000,000 + R4,000,000 – R7,000,000)	(6,000,000)	1
	Tutorial note: The determination of purchases had to be based on the accounting figures as the accounting cost of sales would have taken into account the stock write-down.		
	(vi) New machine R2,500,000 x 40% (not apportioned)	(1,000,000)	1
	Recoupment and not scrapping allowance as compensation and payment for scrap metal exceed tax value:		
	R2,000,000 + R11,400 x 100/114 = R2,010,000 (selling price less than cost, therefore not limited) less tax value (R2,500,000 – R1,000,000)	510,000	2
	Legal fees (compensation for machine – capital nature – no deduction; compensation for raw materials permitted – revenue nature: R200,000 x 100/114 x 1m/3m)	(58,480)	$1\frac{1}{2}$
	(vii) New premises (manufacturing) – R13,000,000 x 5%	650,000	1
	Some non-manufacturing use permitted: must only mainly be for manufacturing purposes to qualify for allowance based on full value of building		
	Leasehold improvements (before the move): R500,000 x 1 month/(60 – 12 months (i.e. the period of the lease))	(10,417)	$1\frac{1}{2}$
	Leasehold improvements not yet claimed at termination of the lease: R500,000 x 26 months/48 months	(270,833)	$1\frac{1}{2}$
	Lease payment	(15,000)	$\frac{1}{2}$
	(viii) Machinery moving costs (over remaining life of machines – which in this case is none, therefore full write-off)	(35,000)	<u>1</u>
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Marks

(b) Value-added tax (VAT)

	Output R	Input R	
(i) Sales – local R11,400,000 x 14%	1,596,000		½
Sales – foreign (zero-rated)	0		1
(ii) Provision (no VAT effect)		0	½
Bad debt – R150,000 x 14/114		18,421	½
(iii) No change in use adjustment on use in golf tournament (still being used in the course of the enterprise – advertising)	0		½
Sale of carts (not to a connected person, therefore based on consideration) R250,000/2 x 5 x 14/114	76,754		1
(iv) Payment to employees (the rendering of services by employees is not an 'enterprise' therefore no VAT is levied by the employee or claimable by the employer)		0	½
(v) Purchases R6,000,000 x 14%		840,000	½
(vi) New machine R2,500,000 x 14%		350,000	½
Legal fees R200,000 x 14/114		24,561	½
Compensation received (not a good or service)	0		1
Scrap metal payment received R11,400 x 14/114	1,400		½
(vii) New premises R13,000,000 x 14%		1,820,000	½
Lease payment – R15,000 x 14%		2,100	½
(viii) Moving costs R35,000 x 14%	4,900		½
			9
			30

2 Mr Zola

(a) Employees tax calculation

	R	R	
Annual cash salary		350,000	½
Monthly travel allowance R5,000 x 80% x 12		48,000	1
Employer medical cost payment (all taxable)		120,000	½
Laptop – no value [p6(4)(bA) – 7th Schedule]		0	½
Mobile phone – no value [p10(2)(bA) – 7th Schedule]		0	½
Yacht – while entertaining customers – not for private use		0	½
Yacht – while with family R3,000,000 x 15% x 5/365		6,164	1
Subsistence allowance R2,000 x 14	28,000		½
No receipts, therefore deemed reduction R1,150 x 14	(16,100)	11,900	½
Flight paid by company for wife – fringe benefit		13,000	½
		549,064	
Contribution to provident fund (not permitted – no deduction provision exists)		0	½
Contribution to pension fund:			
Actual – R350,000 x 4% = R14,000 limited to greater of:			½
R1,750 or			
7.5% x R350,000 (being retirement funding employment income) = R26,250		(14,000)	1
		535,064	
Contribution to medical aid scheme:			
Actual – R3,000 x 12 = R36,000 limited to:			½
(R1,340 (for first 2 dependants) plus R410 (for each further dependant)) x 12 = (R1,340 + [R410 x 2]) x 12		(25,920)	1½
Taxable income from employment trade for employees tax		509,144	
Tax per the tables – R114,750 + 38% x (R509,144 – R431,000)		144,445	½
Less rebate (primary only as less than 65 years of age)		(10,260)	½
Total employees tax withheld		134,185	
			11

		R	R	Marks
(b)				
Taxable income from employment			509,144	½
Less travel allowance for employees tax purposes			(48,000)	½
			<u>461,144</u>	
Travel allowance R5,000 x 12		60,000		½
Less business travel				
Fixed cost per kilometre (in cents)				
R106,367/40,000 kms x 100		265·9c		1
Fuel (in cents per km)		94·6c		½
Maintenance (no cost incurred)		0c		½
		<u>360·5c</u>		
Cost per km				
Reduction: Business kms (25,000) x cost per km (R3.605)				
limited to the allowance received		(90,125)	0	1
		<u></u>	<u>461,144</u>	
Investment income				
South African dividends received		7,000		½
South African dividend exemption		(7,000)	0	½
		<u>2,000</u>		½
Foreign interest		(2,000)	0	½
Interest exemption (first R3,700 limited to actual)		<u>13,000</u>		½
South African interest				
Less interest exemption for persons under 65				
R22,300 less used R2,000 = R20,300 limited to actual		(13,000)	0	1
		<u>24,500</u>		½
Annuity from insurer 7 months x R3,500		(14,583)	9,917	1½
Exemption for capital portion R500,000/(R3,500 x 12 x 20) x R24,500		<u>430,000</u>		
Lump sum received from insurer (gross income)				1
Less unused exemption:				
Initial capital	500,000			½
Exempt in 2011 year of assessment	(14,583)			½
Exempt in 2010 year of assessment:				
R500,000/(R3,500 x 12 x 20) x 9 x R3,500	(18,750)			1½
	<u>466,667</u>	(430,000)	0	½
Remaining capital limited to actual		<u></u>	<u>471,061</u>	
Taxable income				<u>14</u>
				<u>25</u>

Marks

3 (a) Studio A disposal:

Machinery would have been fully depreciated for tax purposes as the write-off period was four years, spread 40% in year 1 and 20% in each of the succeeding years.

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As the machinery has been sold for more than original cost, a recoupment arises.

1/2

	R	R	
Selling price (R700,000) limited to cost (R565,000) less Tax value (R0 – see above note)	565,000		1 1/2
Capital gain/capital loss:			
Amount received	700,000		1/2
Less recoupment (included in gross income)	<u>(565,000)</u>		1/2
Proceeds		135,000	
Less base cost:			
Expenditure	565,000		1/2
Less allowances previously allowed	<u>(565,000)</u>	0	1/2
Capital gain		<u>135,000</u>	1/2

Studio B disposal:

Tax value:

Purchase price	750,000	1/2
Allowances (2008; 2009; 2010 at 40:20:20)	<u>(600,000)</u>	1 1/2
	150,000	1/2

Recoupment:

Selling price (R800,000) limited to cost (R750,000) less Tax value (R150,000 – see above working)	600,000		1 1/2
Capital gain/capital loss:			
Amount received	800,000		1/2
Less recoupment (included in gross income)	<u>(600,000)</u>		1/2
Proceeds		200,000	
Less base cost:			
Expenditure	750,000		1/2
Less allowances previously allowed	<u>(600,000)</u>	(150,000)	1/2
Capital gain		<u>50,000</u>	1/2
Total capital gains	185,000		1
No capital losses	0		
No annual exclusion (non-natural person)			
No assessed capital losses brought forward			
Aggregate and net capital gain	<u>185,000</u>		1/2
Taxable capital gain at 50%		92,500	1/2

New machinery has no impact on the above.

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			<i>Marks</i>
(b) The recoupment calculated will be deferred over the tax life of the replacement asset.			1
Studio A:	R	R	
Recoupment to be recognised in 2010:			
R565,000 x 40%		226,000	1
Capital gain to be deferred on same basis			
R135,000 x 40%	54,000		1
Studio B:			
Recoupment to be recognised in 2010:			
R600,000 x 40%		240,000	½
Capital gain to be deferred on same basis			
R50,000 x 40%	20,000		½
Total capital gains	74,000		1
No capital losses	0		
No annual exclusion (non-natural person)			
No assessed capital losses brought forward			
Aggregate and net capital gain	74,000		½
Taxable capital gain at 50%		37,000	½
			<u>6</u>
			20

4 Majaya Courier Services Ltd

	Output	Input	
1. The box hire and the catering represents 'entertainment' for which the input is denied		0	1
The flights for the directors is 'local' air travel and there is an input claim			
R25,000 x 14/114 (rounded to nearest Rand)		3,070	1
2. The donation of the boxes does not generate a 'change in use' adjustment as the boxes were still used for the purpose of the enterprise, namely advertising.	0		1
3. Finance lease acquisition – VAT effect is calculated based on the 'cash cost' in terms of the lease. R224,000 x 14/114 x 2 vehicles		55,018	2
4. Courier services to a connected person – output VAT at market value as the consideration paid is less than market value. R75,000 x 14/114	9,211		1
5. International airfare – zero-rated		0	1
Subsistence amounts (outside the Republic – no VAT consequence)		0	1
6. Motor car purchased (input denied)		0	1
Fringe benefit on use of the car R430,000 x 100/114 x 0.3% x 14/114 x 1 month	139		2
7. Insurance payout for destroyed vehicle – deemed output – R200,000 x 14/114	24,561		1
Insurance payout for customer goods – deemed output – R50,000 x 14/114	6,140		1
8. Property purchase from non-vendor: Second-hand good therefore notional input of R2,500,000 x 14/114 limited to the Transfer duty paid		200,000	2
			<u>15</u>

5 Joseph

(a) Own practice

If Joseph is conducting his own practice and providing advice and compliance services in respect of taxation Acts, he is required [in terms of s 67A] to register with SARS as a tax practitioner. He is required to register within 30 days of the date on which he first provides advice or assists to complete any document to be submitted to the Commissioner.

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Employed

Joseph might not be required to register as a tax practitioner, if he will be working under the direct supervision of any person who is a registered tax practitioner.

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The work Joseph does for family for no reward does not of itself require Joseph to register as a practitioner.			Marks
			<u>1</u>
			<u>4</u>
(b)	Computer equipment:		
	Pre-trade deduction (allowed in year of commencement of trade) R25,000/3 years x 1/12	694	1
	Current year wear & tear deduction R25,000/3 years x 12/12	8,333	1
	Office equipment:		
	Desk: pre-trade deduction (allowed in year of commencement of trade) R7,500/6 years x 1/12	104	1
	Current year wear & tear deduction R7,500/6 years x 12/12	1,250	1
	Chair: pre-trade deduction (allowed in year of commencement of trade) In full – less than R7,000 [per Interpretation Note 47]	3,000	1
	Consumables:		
	Pre-trade deduction (allowed in year of commencement of trade)	5,000	<u>1</u>
			<u>6</u>
			<u>10</u>