Assignment 1 (study unit 1,2,3,4 and 11)

40 Marks

Question 1 (12 Marks)

Answer the following short questions.

a. Name 2 court cases that dealt with the element “in cash or otherwise
b. The court case “Peoples Stores (Pty) Ltd v CIR 1990” dealt with an important principle. Name this principle.
c. The court case “Natal Estates Ltd v SIR 1975” dealt with certain receipts. Name these receipts.
d. Name 4 key elements of the definition of gross income.
e. Name 4 ways to pay normal income tax.

Question 2 (28 Marks)

Jan (56 years old) and Martha (52 years old) are married in community of property and are residents of Namibia. The following information relates to the year of assessment ending 28 February 2016.

Jan (15 marks):

Jan is employed by Paint Deco as a sales manager from 1st January 2012. His monthly salary amounted to N$22 000. In addition he received a housing benefit (in terms of an approved housing scheme) which consists of a house leased by his employer. The lease agreement provided for a monthly lease of N$8 000. N$2 000 of this amount is deducted from Jan’s salary every month. Jan enjoyed the free use of a Toyota Hilux. The vehicle was bought on 1st September 2015 at a cost of N$165 217. Paint Deco is a VAT registered person. The total expenses of N$14 000 related to the vehicle were paid by Paint Deco. This amount included fuel of N$3 000. Paint Deco contributed 5% of his basic salary towards a pension fund while Jan contributed the same amount. Jan invested surplus funds in a bank account held at First National Bank Namibia and earned interest of N$9 000 for the year.

His father passed away during June 2015 and as the only child, he inherited a cash sum of N$500 000 and a property in Swakopmund. The property is subject to a lease agreement signed by his father 2 years ago. Total rent of N$18 000 accrued to Jan during the current year of assessment. Jan had to do some maintenance and repairs on the property and paid N$11 000 to a local contractor.

Martha (13 marks):

Martha works for her brother as a part time office assistant and earned a total salary of N$100 000 for the current year of assessment. Her brother a medical practitioner assisted her with medical advice and medication and did not charge her for these services. However, should she be treated as one of his regular patients, the services would cost her N$14 000. She is working on Mondays and Wednesdays afternoons at the Cancer Association which is a registered welfare organisation. Her
income for the year from the Cancer Association amounted to N$11 000 for the year. She purchased an annuity for a consideration of N$200 000 from Sanlam during the year and received N$2 000 per month from 1st September from this annuity. Martha contributed an amount of N$26 000 towards a retirement annuity fund. Jan and Martha used her brothers’ holiday cottage in Struisbaai for 10 days. Her employer deducted N$600 from her salary for the use of the holiday cottage. The cottage is normally rented out for R800 per day. Martha contributed towards a study policy from Sanlam to pay for studies for her son which is currently in grade 12. The total contributions amounted to N$15 000.

**Required:**

Calculate Jan’s and Martha’s taxable income for the 2016 year of assessment. Round all amounts of to the nearest N$. When an amount is excluded from your calculation the reason therefore will earn marks.

**Assignment 2**

**Total: 60 Marks**

All the work covered during the course

**Question 1**

Tommy Sales, a resident of Namibia, started a printing business in Windhoek. He signed a 10 years lease agreement for a premises in Prosperita on 1st July 2015. A monthly rental of N$9 000 is payable from the commencement of the lease. In addition, he is obliged to improve the buildings at a cost of N$500 000. A lease premium of N$40 000 was also payable on 1st July 2015. The improvements were completed on 1st January 2016 at a cost of N$525 000.

The income statement for the year of assessment 2016 revealed a gross profit of N$790 000.

The following transactions took place during the year of assessment.

**Receipts and Accruals:**

Local dividends were received from Old Mutual Namibia, N$9 000.

Interest from a loan granted to Tommy’s brother, N$11 000.

**Expenses:**

Wages totalling N$112,000 were paid to employees. This amount consists of:

- **Permanent staff**   N$ 80 000
- **Casual workers**   N$ 23 000
- **Pension fund contribution for permanent staff**   N$ 9 000

**Administrative expenses:**
Rent N$112 000
Municipality N$ 14 400
Telephone expenses N$ 24 000

Included in the telephone amount is the purchase of a switchboard system valued at N$10 000

Annuities paid to employees:

Amos was killed during the construction of the building. Due to the poor financial status of his widow, the business decided to pay her an annuity of N$2 000 per month for the next 2 years. Total amount paid for this year amounted to N$6 000.
Sam was injured in the same accident. Due to the severity of his injuries, he will not be able to take up employment. An annuity of N$5 000 per month is payable to him for the past 3 months.

Depreciation:

<table>
<thead>
<tr>
<th>Item</th>
<th>Purchase date</th>
<th>Cost Price</th>
<th>Depreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nissan Bakkie</td>
<td>1/7/2014</td>
<td>125 000</td>
<td>16 667</td>
</tr>
<tr>
<td>Printing Equipment</td>
<td>1/7/2015</td>
<td>200 000</td>
<td>3 333</td>
</tr>
<tr>
<td>Office Furniture</td>
<td>1/1/2015</td>
<td>60 000</td>
<td>2 000</td>
</tr>
</tbody>
</table>

Bad Debts:

A loan was granted to Amos to enable him to do repairs on his private vehicle. Tommy Sales decided not to recover the sum from his widow. The amount of the loan was N$5 000 and interest was charged at a rate of 10%. Interest of N$125 was charged.

Other deductible expenses amounted to N$192 000.

Required:

Calculate the taxable income of Tommy Sales for the 2016 year of assessment (28th February 2016). Commence your answer with the gross profit of N$790000 and show all your workings. Marks are allocated for the reasons where applicable. Round all amounts of to the nearest N$. 

Question 2 (27 marks)

Checkmate CC manufactures marble chess sets. The accountant has nearly completed compiling the taxable income for the current year of assessment ended on 31st March 2016. He has worked from the net profit according to the trial balance to a taxable income of N$1 580 000 so far. The following information concerns the assets of Checkmate CC.

The depreciation as per trial balance is as follows and included in the figure of R1 580 000:

<table>
<thead>
<tr>
<th>Description of asset</th>
<th>Depreciation in N$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing equipment</td>
<td>102 632</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>60 856</td>
</tr>
<tr>
<td>Vehicles</td>
<td>16 082</td>
</tr>
</tbody>
</table>

Repairs as per trial balance and included in the figure of N$1 580 000:

<table>
<thead>
<tr>
<th>Description of asset</th>
<th>Amount in N$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicles</td>
<td>5 400</td>
</tr>
<tr>
<td>Factory</td>
<td>32 500</td>
</tr>
</tbody>
</table>

Notes:

1. Manufacturing equipment consists of the following:
   - New manufacturing equipment (A) purchased on 8th May 2006 for N$480 000
   - New manufacturing equipment (B) was damaged due to malfunctioning of circuitry on 1st August 2015. Equipment (B) had been purchased on 3rd May 2013 for N$510 000. The insurance company paid out N$400 000. The accounting profit was N$119 738, which is also taken into account in the figure of N$1 580 000.
   - New manufacturing equipment (C) was purchased to replace equipment (B) on 30th September 2015 for N$670 000.

2. Computer Equipment:
   - Equipment Alpha was purchased on 1st April 2013 for N$150 000.
   - Equipment Betha was purchased on 30th June 2015 for N$R170 000.

3. Due to limited storage in the delivery vehicle, the vehicle became redundant to the company. It was therefore donated to a charity organisation on 31st January 2016. No certificate was obtained from the organisation. The cost of the vehicle amounted to N$120 000 on 1st October 2013. It was brought into use on the same date. The market value at the date of donation was N$130 000. This donation was not entered in the accounting records.

4. The vehicle was serviced at a cost of N$3 000 on 1st May 2015. Tyres were replaced on 1st December 2015 for N$2 400.

5. The factory roof was repaired at a cost of N$5 000 and a separate parking area outside the factory for factory workers was erected at a cost of N$5 000 on 10th May 2015. The factory was also painted on 15th July 2015 for N$15 000 and the damaged floor was repaired at a cost of N$7 500 on the same day. The factory was purchased new 3 years ago for N$4 000 000 (including the land of N$1 000 000).
6. Loose tools to the value of N$5 000 was bought during the year. This amount was accounted for in the Income Statement.

7. Checkmate CC did obtain manufacturing status.

8. Ignore VAT in all calculations.

Required:

a) Calculate Checkmate CC's taxable income for the 2016 year of assessment (ended 31st March 2016) starting with the net profit of N$1 580 000. Please show detailed calculations and account for each transaction. Support your answer with reference to the Act where applicable.

Taxation tables

<table>
<thead>
<tr>
<th>Where the taxable amount does not exceed N$50 000</th>
<th>No tax payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exceeds N$40 000 but does not exceed N$100 000</td>
<td>18% of the amount by which the taxable amount exceeds N$50 000</td>
</tr>
<tr>
<td>Exceeds N$100 000 but does not exceed N$300 000</td>
<td>N$9 000 plus 25% of the amount by which the taxable amount exceeds N$100 000</td>
</tr>
<tr>
<td>Exceeds N$300 000 but does not exceed N$500 000</td>
<td>N$59 200 plus 28% of the amount by which the taxable amount exceeds N$300 000</td>
</tr>
<tr>
<td>Exceeds N$500 000 but not N$800 000</td>
<td>N$115 000 plus 30% of the amount by which the taxable amount exceeds N$500 000</td>
</tr>
<tr>
<td>Exceeds N$800 000 but does not exceed N$1 500 000</td>
<td>N$205 000 plus 32% of the amount by which the taxable amount exceeds N$800 000</td>
</tr>
<tr>
<td>Exceeds N$1 500 000</td>
<td>N$429 000 plus 37% of the amount by which the taxable amount exceeds N$1 500 000</td>
</tr>
</tbody>
</table>