

### **Solution 1a**

*What are the deferred tax implications for the trucks in note 5?. Calculate the deferred tax relating to these trucks.*

KK will claim capital allowances on the trucks for tax purposes. For accounting purposes KK will allocate the cost over the useful life by way of deducting depreciation. These two deductions will differ due to the difference in the rates of deductions. This creates temporary differences every year until both the carrying amount and the tax base become nil. Below is a computation of deferred tax for the year ended 31 Dec 2015:

	CARRYING AMOUNT	TAX BASE	TEMPORARY DIFFERENCE	DEFERRED TAX 25.75%	Marks
01-JAN-15	-	-	-	-	
31-DEC-15	630,300	525,000	(105,300)	(27,115)	4
Movement in Temporary Differences			<b>(105,300)</b>	<b>(27,115)</b>	

Therefore, recognise a deferred tax asset of \$27,115. 1

### **Solution 1d**

*Discuss the VAT consequences of transactions in Notes 1,3,4 and 6. Support the discussions with calculations*

Vat consequences of Notes 1 and 3

Note 1

- ) The sale of the garage is a supply of both the land and building.
- ) The garage is not an exempt item as per VAT Act nor is it zero rated. It is therefore a standard rated supply.
- ) KK is a registered operator and therefore must charge VAT.
- ) The time of supply is the earlier of receipt or accrual of the purchase price.
- ) The value of supply is the consideration less VAT.
- ) The garage however is a trade that is capable of operation separately.
- ) KK may dispose this as a going concern.
- ) The disposal of a going concern results in a zero rated supply if:
  - The parties to the sale are both registered vendors.
  - The parties agree in writing.

- The parties include in their written agreement that the trade has been supplied as a going concern.
- The supply is a turnkey business. i.e. all assets necessary for the trade to continue have been transferred by the vendor

### Note 3

- ) The 12,000 salary is not a trade or deemed supply.
- ) The housing allowance is a fringe benefit and therefore a deemed supply by KK.
  - The Value of Supply is the value of the fringe benefit for PAYE purposes.
  - The value in this case is the cost to employer of 1,000 per month.
  - The time of supply is the month which the benefit was enjoyed.
  - The service supplied is for accommodation and such a service is exempt and therefore no VAT consequences arise.
- ) The motoring benefit is a fringe benefit and therefore a deemed supply.
  - The value of supply is the value for PAYE purposes.
  - In this case it 600/month.
  - The tax fraction of 15/115 shall be applied to the value of supply.
  - The time of supply is the month in which the benefit was enjoyed.
- ) Consultancy fees to Eva
  - KK will seek to claim VAT on the invoice.
  - Eva has supplied a local accounting service which is not exempt.
  - Eva should have been a VAT registered operator for her to have charged VAT and therefore for KK to claim it.
  - KK should have a valid tax invoice from Eva.  
Invoice must be clearly marked TAX INVOICE.  
Invoice must quote the vendor's number.  
Invoice must show the VAT charged.  
Invoice must show customer name.  
Invoice must be an original copy.
  - Eva must have actually charged VAT.