



National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

FINAL EXAMINATION PAPER: 2012/2013

DATE: MAY 2013

**SUBJECT: INTRODUCTION TO
TAXATION: CAC 2204**

TIME ALLOWED: THREE (3) HOURS

MARKS: 100

INSTRUCTIONS TO CANDIDATES

1. Section A: Answer all questions
2. Section B: Answer any one question:
3. Use the examination book provided
4. Use black or blue pen
5. Begin each question on a new page and
6. Submit all answer books

Section A: Answer all questions

QUESTION 1: (25 MARKS)

The following items have been charged against profit in the accounts of Waramwa Oatea, sole trader a shoe manufacturer, for the year ended 31 March 2012.

- (i) In repairs and renewals, an amount of \$2,000 was included for the fitting of security bars over the factory windows as a precaution against theft.
- (ii) A loan of \$100 to a former employee was written off.
- (iii) Waramwa Oatea's calendars were sent as gifts in December 2011, they cost \$52 each.
- (iv) Incidental costs incurred in obtaining a bank loan for the business, \$350.
- (v) A donation of 5 pairs of running shoes, which came to a total of \$200, when sponsoring a local charity raising money by organizing a marathon.
- (vi) A lease rental of \$4,000 per annum on a car with CO2 emissions of 185g/km provided for a senior employee. The car cost \$14,000.
- (vii) Registering a patent for a new shoe design, \$1,275.
- (viii) A \$100 parking fine this was incurred by an employee on a business trip to Manchester.
- (ix) Payment of \$6,000 re-location expenses to a new employee.
- (x) In repairs and renewals, an amount of \$2,000 to re-condition a second-hand sewing machine bought for \$10,000. The repairs were necessary before the machine could be used in the business.
- (xi) Golf lessons for William, which cost \$350.

Required:

- (a) You are required to state how you would deal with each of the items when preparing the tax adjusted trading profit, for the year ended 31 March 2012. You should give a brief explanation for your treatment of each item and support with a relevant case.

(15)

- (b) Waramwa Oates made a trading profit of \$20,000 during the year ended March 2012, Calculate taxable income /loss for the business. (10)

QUESTION 2: (25 MARKS)

On 30 September 2011, Sibanda Precious ceased trading as a marketing consultant. He had been self-employed since 1 July 2006. On 1 October 2011, Sibanda Precious commenced employment as the marketing manager of Sleep-Easy Plc. The Company runs a hotel. The following information is available for 2011-12.

Self-employment

- (i) Sibanda Precious has **tax adjusted trading profits** of \$78,490 for the year ended 30 June 2011 and \$17,400 for the three month period to 30 September 2011. These figures are before taking account of capital allowances.
- (ii) The tax written down values for capital allowances purposes on 1 July 2010 are as follows:

General pool \$43,800, Expensive motor car \$24,900 Simon uses an expensive motor car, 40% of the mileage is for private purposes.
- (iii) On 15 August 2011 Sibanda Precious purchased office furniture for \$8,900. All of the items included in the general pool were sold for \$42,310 on 30 September 2011. On the cessation of trading Simon personally retained the expensive motor car; its value on 30 September 2011 was \$15,400.
- (iv) Sibanda has unused overlap profits brought forward of \$9,800.

Employment

- (i) Sibanda is paid a salary of \$6,250 per month by Sleep-Easy Plc, from which income tax of \$1,890 per month has been deducted under PAYE.
- (ii) During the period from 1 October 2011 to 5 April 2012 Sibanda used his private motor car for business purposes. He drove 10,000 miles in order to perform his duties for Sleep-Easy Plc, for which the company paid an allowance of 20 cents per kilometre. The relevant HMRC authorised mileage rates to be used as the basis of an expense claim are 45 cents per kilometre for the first 10,000 kilometres, and 25 cents per kilometre thereafter.
- (iii) On 1 October 2011 Sleep-Easy Plc provided Sibanda with an interest free loan of \$100,000 so that he could purchase a new main residence.
- (iv) During the period from 1 October 2011 to 5 April 2012 Sibanda was provided with meals in Sleep-Easy Plc's staff canteen. The total cost of these meals to the company was \$1,200.

Other Information

- (i) During 2011-12 Sibanda received dividends of \$2,880 (amount received).
- (ii) Sibanda's payments on account of income tax in respect of 2011-12 totalled \$24,000.

Required:

- (a) Calculate Sibanda's trading income assessment for 2011-12. You should prepare separate capital allowance computations for each period of account **(10)**
- (b) Calculate the income tax payable by Sibanda for 2011-12, and the balancing payment or repayment that will be due for that tax year **(12)**
- (c) Advise Sibanda as to how long he must retain the records used in preparing his tax return for 2011-12, and the potential consequences of not retaining them for the required period **(3)**
Assume that the official rate of interest is 4%.

QUESTION 3: (25 MARKS)

Recovery of input VAT and cash accounting scheme- Ruva Ltd

Ruva Ltd commenced trading as a manufacturer of computer equipment on 1 May 2011. The company registered for value added tax (VAT) on 1 January 2012. Its inputs for each of the months from May 2011 to December 2011 are as follows:

	Goods purchased	Services incurred	Fixed assets
	\$	\$	\$
2011 May	12,300	1,400	42,000
June	11,200	5,100	-
July	12,300	7,400	-
August	16,400	6,300	14,400
September	14,500	8,500	-
October	18,800	9,000	-
November	18,500	9,200	-
December	23,400	8,200	66,600

During December 2011 Ruva Ltd sold all of the fixed assets purchased during August 2011 for \$12,000.

On 1 January 2012 \$92,000 of the goods purchased were still in stock.

The above figures are all exclusive of VAT. Ruva Ltd's sales are all standard rated.

The following is a sample of the new sales invoice that Ruva Ltd is going to issue to its customers:

SALES INVOICE

Ruva Ltd Customer: Macompoyuta Plc

123 The Mazai Street Address: 99 The Muchingwe Road

Harare

Telephone 04-8889823

Invoice Date and Tax Point: 1 January 2011

Item Description Quantity Price

	\$
Hard Drives	220.00
Motherboards	100.00

Total Amount Payable (Including VAT) 320.00

Directors: Panashe & Ngoni

Company Number: 1234567

Registered Office: 123 The Mazai Street, Harare, Zimbabwe

Ruva Ltd pays for all of its inputs one month after receiving the purchase invoice. However, many customers are not paying Ruva Ltd until four months after the date of the sales invoice. In addition, several customers have recently defaulted on the payment of their debts. In order to encourage more prompt payment, Ruva Ltd is considering offering all of its customers a 5% discount if they pay within one month of the date of the sales invoice. No discount is currently offered.

Required:

- (a) Explain why Ruva Ltd was able to recover input VAT totalling to \$43,610 in respect of inputs incurred prior to registering for VAT on 1 January 2012. **(10)**
- (b) State what alterations Ruva Ltd will have to make to its new sales invoices in order for them to be valid for VAT purposes. **(5)**
- (c) Explain the VAT implications of Ruva Ltd offering all of its customers a 5% discount for prompt payment **(5)**
- (d) Advise Ruva Ltd of the conditions that it must satisfy before being permitted to use the VAT cash accounting scheme, and the advantages of joining the scheme **(5)**

Section B: Answer any one question:

QUESTION 4 (25 MARKS)

Personal pension contributions – Nyasha, Batsirai and Chaibva

You are a trainee accountant and your manager has asked for your help regarding three taxpayers who have all made personal pension contributions during the tax year 2011-12.

Nyasha Pito

Nyasha, aged 30, is self-employed as an estate agent. Her trading profit for the year ended 5 April 2012 was \$48,000. Nyasha made contributions of \$50,000 (gross) into a personal pension scheme during the tax year 2011-12.

Batsirai Piroro

Batsirai, aged 42, is employed by the Banana Bank plc as a fund manager. During the tax year 2011-12 Batsirai was paid a gross salary of \$120,000. Batsirai made contributions of \$60,000 (gross) into a personal pension scheme during the tax year 2011-12. He is not a member of Banana Bank plc's occupational pension scheme.

Chaibva Pendi

Chaibva, aged 54, lets out unfurnished property. For the tax year 2011-12 her property business profit was \$23,900. Chaibva made contributions of \$5,200 (gross) into a personal pension scheme during the tax year 2011-12.

Neither Nyasha nor Batsirai nor Chaibva has any other income.

Required:

For each of the three taxpayers Nyasha Pito, Batsirai Piroro and Chaibva Pendi, state, giving reasons the amount of personal pension contributions that will have qualified for tax relief for the tax year 2011-12, and calculate their income tax liabilities for that year.

Note: Marks are allocated: Nyasha Pito 8 Marks; Batsirai Piroro 9 Marks; and Chaibva Pendi

(8)

QUESTION 5 (25 MARKS)

Ndaida and Lawley Washe

Ndaida and Lawley Washe are brothers. Ndaida has more income than Lawley, so he is surprised that for the tax year 2011-12 his total income tax liability and national insurance contributions were much lower than Lawley. The following information is available for the tax year 2011-12:

Ndaida Washe

(i) Ndaida is a self-employed musician. His income statement for the year ended 5 April 2012 was as follows:

	\$
Fee income	86,240
Expenses	
Depreciation	1,980
Motor expenses (Note 2)	5,600
Professional fees (Note 3)	2,110
Repairs and renewals (Note 4)	2,360
Telephone (Note 5)	830
Travelling and entertaining (Note 6)	960
Other expenses (Note 7)	2,050
	(15,890)
Net profit before taxation	70,350

- (ii) During the year ended 5 April 2012 Ndaida drove a total of 8,400 kilometres, of which 7,560 kilometres were for business journeys. Ndaida's motor car which was purchased on 1 January 2010 had a tax written down value of \$32,800 at 6 April 2011.
- (iii) The figure for professional fees consists of \$840 for accountancy fees, \$510 for personal tax advice in respect of the tax year 2010-11, and \$760 for legal fees in connection with the defence of Ndaida's business internet domain name.
- (iv) The figure for repairs and renewals consists of \$1,900 for a new guitar, and \$460 for repairing this guitar when it was damaged.
- (v) Ndaida uses his mobile telephone to make business telephone calls. The total cost of the mobile telephone is included in the income statement as an expense, although \$160 of this cost relates to private telephone calls.
- (vi) The figure for travelling and entertaining includes \$370 for entertaining clients, and \$120 for parking fines.
- (vii) The figure for other expenses includes \$100 for a donation to a political party, \$230 for a trade subscription to the Institute of Musicians, and \$625 for Ndaida's golf club membership fee.

- (viii) In addition to his self-employed income, Ndaida received dividends of \$7,560 during the tax year 2011-12.

This was the actual cash amount received.

Lawley Washe

- (i) Lawley is employed as a music producer by Forever Ltd. The company runs a recording studio. During the tax year 2011-12 he was paid a gross annual salary of \$65,000.
- (ii) Throughout the tax year 2011-12 Forever Ltd provided Lawley with a diesel powered motor car which has a list price of \$32,400. The official CO2 emission rate for the motor car is 218 grams per kilometer. The company also provided Lawley with fuel for private journeys.
- (iii) On 6 July 2011 Forever Ltd provided Lawley with a new computer costing \$1,800. He uses the computer at home for personal internet browsing.
- (iv) On 6 August 2011 Forever Ltd provided Lawley with a mobile telephone costing \$350. This is the only mobile telephone that has been provided to Lawley by Forever Ltd.
- (v) Forever Ltd paid a golf club membership fee of \$580 for the benefit of Lawley.
- (vi) On 1 January 2012 Lawley paid a professional subscription of \$220 to the Guild of Producers, a HMRC approved professional body.
- (vii) In addition to his employment income, Lawley received building society interest of \$6,640 during the tax year 2011-12. This was the actual cash amount received.

Required:

- (a) Calculate Ndaida's income tax liability and national insurance contributions for the tax year 2011-12. **(15)**
- (b) Calculate Lawley's income tax liability and national insurance contributions for the tax year 2011-12. **(10)**

END OF EXAMINATION PAPER