



National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING

FINAL EXAMINATION PAPER: SECOND SEMESTER 2013/2014

DATE: APRIL 2014

**SUBJECT: INTRODUCTION TO
TAXATION: CAC2204**

TIME ALLOWED: THREE (3) HOURS

MARKS: 100

INSTRUCTIONS TO CANDIDATES

- i.** Attempt all questions and begin each answer on a new page.
- ii.** In marking papers, the examiner takes into account clarity of expressions, effective arrangement and presentation, as well as legibility of handwriting.
- iii.** Apply the Tax Law provisions for the 2013 tax year.
- iv.** Tax tables are provided in the attached Appendix, on page 6.

Question 1 [25 marks]

The following information is submitted in support of Mr Ngangira's return of income for the year ended 31 December 201:

Salary	\$109 200
Production bonus	37 500
Injury benefit	<u>12 000</u>
	<u>158 700</u>

Expenses paid and claimed against income received are:

Contributions to RAF	.7 200
Medical Aid contributions	5 000
Prescription drugs	750
Hospital shortfalls	1 500
Burial society contributions	850
PAYE deducted as per Tax Certificate (P6)	<u>37 100</u>
	<u>52 400</u>

Notes

1. Employees contribute 7 ½% of their basic salary towards an approved pension scheme run by their employer.
2. The injury benefit was paid in terms of an insurance policy which covers injury at work.
3. He was involved in a car accident which left him with a bad limp on his right leg, however, the doctors advise that a successful operation can actually be done in India but the costs will be astronomical. He advises the tax authorities that he is saving some money to go and be operated upon since he does not want to limp for eternity.
4. Hospital shortfalls emanate from his father's hospitalisation for which he has to make good.
5. He uses his company's motor vehicle with an engine capacity of 3200cc's. It is established that he was issued with this vehicle in May of the current year, prior to that he was using a vehicle with an engine capacity of 2700cc.
6. An audit of his tax affairs reveals that he had been paid the following amounts which he did not disclose to the authorities(the authorities however accepted his explanation that there was no intention to evade tax, the omission was due to a temporary loss of memory caused by the accident).

i.	Entertainment allowance	\$15 000
ii.	Telephone allowance	2 400
iii.	Domestic worker's wages	1 800

Required

Compute Mr Ngangira's taxable income and tax position for the year ended 31 December 2013. [25 marks]

Question 2 [25 marks]

Max is a Quantity Surveyor consultant operating from Bulawayo. He submits the following information in support of his return for the year ended 31 December 2013.

Fees received	\$ 65 300
Interest ex Barclays Bank	2 000
Interest on loan to a friend's company	1 700
Zimplow dividends	950
Retrenchment package (see note)	36 000
Salary up to 31.May 2013	15 000
Interest paid (see note)	3 280
PAYE deducted from salary	14 100

Notes

1. He was employed by Hawk Construction up to 31.May 2013 but the company faced viability challenges due to the liquidity crunch and it decided to lay off some of the senior employees; hence the retrenchment package of \$36 000
2. Included in the figure for retrenchment is \$4 000 being his quarterly production bonus which is performance based.
3. Assets purchased for his consulting business are:
 - A second hand Isuzu D/Cab 21 500
 - Desk top computer and laser jet printer 1 000
 - Office furniture 560
 - Delivery cycle for messenger 150

The assets are used exclusively for business purposes except the motor vehicle which is used 25% for private purposes.

4. Expenses claimed are:

a) Motor vehicle running costs	6 200
b) Car insurance	1 500
c) Salary for the messenger	2 700

5. Interest paid is in respect of a loan of \$30 000 from the bank. The money was used to purchase the assets used in the business and home furniture costing \$ 5 000 with the balance to purchase consumable stores for the business.

Required

Compute Max's tax liability on the basis that he wants to minimise any tax impact given that he is just starting his business. **[25 marks]**

Question 3 [25 marks]

Henry bought a house in Hillside in 2009 at a cost of \$65 000. The house needed some improvements and he added the following in the same year of purchase.

Durawall	\$ 4 500
Driveway	2 100

In the following year he demolished and re-built staff quarters at a cost of \$10 000.

In 2011 he purchased a 6 hectare piece of land which is adjacent to his property at a cost of \$84 000 (this was registered at the Deeds Registry as a separate entity). Later during that same year Henry sold his old home for \$110 000 and bought a new one in Khumalo for \$150 000. Part of the proceeds from the old house amounting to \$80 000 was used to purchase the new home, the balance being used to buy a truck to ferry produce from the land adjacent to the old property as he had developed the land to have a market garden.

In June 2013 he sold his Khumalo house for \$210 000 and also the 6 hectares of land for \$ 95 000 as he had got a bigger place to grow crops and vegetables in the Nyamandlovu area, he used the proceeds to buy the place and also put up a homestead there.

Required

Calculate the capital gains accruing to him, if any, given that he made an election in terms of section 21 of the Capital Gains Tax Act.

[25 marks]

Question 4 [25 marks]

Mr Excited, an accomplished builder with a reputable constructing company, entered into a lease agreement with the Bulawayo city council to rent a piece of land close to the Khumalo shopping centre.

The terms of the lease agreement are such that Mr Excited is required to construct a retail shop building for not less than \$120 000 within 3 months of signing the lease. The lease term is 12 years commencing 1 January 2013. The monthly rent is \$1 300 and the city council also charged a once off lease premium of \$25 000. The construction of the shop was completed to specification on 31 March 2013 at a total cost of \$165 000. Mr Excited took occupancy of the building on 1 April 2013. He opened a grocery store on one wing of the building and subdivided the other wing, which he lets to tenants.

His records for the year ended 31 December 2013 show the following:

Turnover (VAT exclusive):	\$
Grocery store	430 000
Rent received	170 000
Grocery returns	(8 000)
	592 000
Purchases ledger (VAT inclusive as appropriate):	
Grocery store – standard rated supplies	200 000
Grocery store – zero rated supplies	60 000
	260 000
Overheads (VAT inclusive as appropriate):	
Lease premium	23 000
Rent	13 800
Communication expenses	7 500
Printing & stationery	3 000
Staff costs	35 000
Repairs & maintenance	6 500
Transport costs	14 000
Depreciation	4 000
Marketing expenses	7 000
	113 800

Required:

- Calculate the allowances that can be claimed by Mr Excited for the tax year ended 31 December 2013. **(8)**
- Calculate the VAT payable/(refundable) by Mr Excited. **(17)**

END OF EXAMINATION PAPER

APPENDIX:

Annual Tax Tables for the year ending 31 December 2013:

Tax band (\$)	Rate	Size of Band (\$)	Tax (\$)	Cumulative Tax (\$)
0-3 000	0	3 000	0	0
3 001-12 000	20%	9 000	1 800	1 800
12 001-24 000	25%	12 000	3 000	4 800
24 001-60 000	30%	36 000	10 800	15 600
60 001-90 000	35%	30 000	10 500	26 100
90 001-120 000	40%	30 000	12 000	38 100
120 001 and above.	45%			

AIDS levy is at 3%.