



National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING

FINAL EXAMINATION PAPER: FIRST SEMESTER 2013/2014

DATE:	DECEMBER 2013
SUBJECT:	TAXATION 1: CAC4102
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 8.

Question 1 [25 marks]

Grace Limited is a manufacturing company in the Belmont Industrial area of Bulawayo. The company is a registered VAT operator under category C. The company is intending to submit its VAT returns on 10 March 2013 for the month ended 28 February 2013.

The following transactions took place within the tax period:

Purchases	USD
Mercedes Benz E270	75 000
Raw materials	35 000
Manufacturing equipment	49 000
Plant & machinery	90 000
	249 000
Sales	
Sales of finished products	250 000
Disposal of furniture	60 000
	310 000
Expenses	
Salaries	10 000
Marketing expenditure	7 500
Accounting and audit fees	5 000
Security services	4 500
Manufacturing overheads	15 000
Entertainment provided to customers at new product launch	6 000
Staff canteen equipment	19 000
	67 000

Additional Information:

- a) The company is providing fringe benefits to its employees such as motoring benefits, cell phone allowances and clothing allowances. The total value of these benefits to the company for the month in question was \$22 000, excluding VAT.
- b) Due to price increases, the company has been forced to issue debit notes to some of its customers worth \$30 000.
- c) The company also received debit notes from its suppliers for \$15 500, inclusive of VAT.
- d) The company also issued credit notes in respect of returned goods for \$17 000, excluding VAT.

- e) A tax invoice worth \$37 000 for the goods purchased in December 2012, has just been received and remained unclaimed.
- f) The company also purchased second hand equipment worth \$8 000, exclusive of VAT.

Required

Compute the VAT liability of Grace Limited for the period of assessment to 28 February 2013. **(25 marks)**

Question 2 [25 marks]

- (a) Blessing & Blessed (Pvt) Ltd started trading as a grocery retailer on 2 March 2009, when it bought two properties. However, due to the harsh economic conditions prevailing in 2013, the company has decided to scale down its operations in order to get a reasonable return for the shareholders.

In order to achieve this, one property had to be disposed of.

The property sold was purchased for \$75 000 and was immediately partitioned, at a cost of \$9 700, in order to create office space.

A year later, the company had constructed a warehouse on the disposed property at a cost of \$22 500 and a dura-wall on the property at a cost of \$9 800. A drive way was added in 2011 at a cost of \$2 700.

The agreed selling price was \$210 000 and the terms of payment are as follows:

1 st instalment 2013	\$90 000
2 nd instalment 2014	80 000
3 rd instalment 2015	<u>40 000</u>
Total	<u>210 000</u>

The company paid 3% on the selling price as commission to the Estate Agent handling the transaction.

Required

Calculate the capital gains accruing to the company and indicate how much will be taxable in each year under the terms of the sale agreement.

(15 marks)

(b) Max bought his residential house in Famona, on 2 February 2009, for \$45 500. In 2010, he constructed a swimming pool at a cost of \$12 500. He put a dura-wall on the property in February 2011 at a cost of \$9 800.

In 2013, Max was transferred by his company to go and head the company's branch office in Gweru. He decided to move with his family and hence he disposed of his Famona home for \$120 000. Selling expenses amounted to 3% of the sales proceeds. He bought a house in Lundi Park for \$125 000 using the proceeds from the sale of his Famona house.

Required

Calculate Max's capital gains tax liability (refund) from the sale of his house, on the understanding that he elects to invoke the provisions of section 21 of the Capital Gains Tax Act. **(10 marks)**

Question 3 [25 marks]

Mr Moyo, a lawyer, has been running his law firm on his own until the end of May of the current year, on which date he admitted his son, Mike, as a partner to form a new partnership, M & M Legal Practitioners.

The terms of the agreement are that all the assets which he had used in his firm be transferred to the new concern other than the Isuzu double cab which he was allowed to retain as a personal vehicle. The car had been used 100% for business purposes.

The Income Tax Value (ITV) of assets transferred were as follows:	USD
• Furniture and fittings	1 500
• Computers and printers	750
• Legal books	500
• Delivery motor cycle	650

It is established that the assets were transferred to the new partnership thus: USD

• Computers and Printers	500
• Legal books	650
• Motor cycle	700
• Furniture and Fittings	at I T V

The profit sharing ration is 3:2 in favour of Mike who becomes the senior partner in view of his age and qualifications.

Accounts submitted in support of the year ended 31 December 2013 show a profit of \$65 700 after charging the following: USD

• Depreciation of assets		3 500
• Subscription to professional body		700
• Joint life policy		1 600
• Life policy on Mike- ceded to the partnership		1 000
• Drawings:		
	Mr. Moyo	500
	Mike	900
• Medical aid contributions:		
	Mr. Moyo	400
	Mike	600
• Rent paid (note 1)		4 000
• Salaries:		
	Mr Moyo	9 050
	Mike	12 000

Notes

1. The premises from which the partnership is operating belong to Mr Moyo.
2. Accounts submitted by Mr Moyo for the period before forming a partnership show a loss of \$2 550 after charging depreciation of \$750 on all assets.
3. The ITV of the Isuzu car at the end of May was \$25 000 and it is deemed to have been sold for that value.
4. Mr Moyo's spouse had a car accident some years back and as a result her left arm is bent below the elbow. Mike paid \$1 500 to Mater Dei hospital as maternity fees at the birth of their first son in December 25 the previous year.

Required.

Calculate the tax payable/refundable for both Mr Moyo and Mike for the year ending 31 December 2013.

(25 marks)

Question 4 [25 marks]

Ms Tashinga resigned from her employment as the Finance manager of Trusted bank limited, after 30 years of loyal service. For the month of December 2013, she received the following income:

	USD
Salary	2 500
Bonus	2 500
Housing allowance	300
Cell phone allowance	150
	5 450

Additional Information:

- a) Ms Tashinga was born on 2 June 1964.
- b) The bank has always been paying for her children's school fees. In 2013, \$750 was paid in this regard.
- c) Her salary and benefits have remained fixed for the whole year.
- d) She was supposed to go for an annual leave in October 2013, but was instead given cash valued at \$2 500.
- e) She was also using a bank vehicle, a Nissan Navara, with an engine capacity of 2 700 cc.
- f) During the year, she received \$500 cash to host an important client, and only spent \$270 and kept the remainder for her own use.
- g) PAYE of \$7 800 was withheld by Trusted bank limited for the 2013 tax year.
- h) On her resignation, she received the following:
 - Pension refund of \$30 000. She transferred the whole amount to a retirement annuity fund.
 - Laptop free of charge. The market value of the laptop was \$750.
 - Cell phone worth \$800 and she was asked to pay only \$50.
 - Office furniture worth \$1 000 and she was asked to pay only \$100.

i) For the month of December 2013, she incurred the following expenditure (which have been constant from January 2013):

- Pension contributions \$150
- N SSA contributions \$125
- Medical aid contributions \$200

j) She has a disabled child and she purchased a wheel chair for him for \$1 500 and the medical aid society reimbursed her \$650.

k) She is a fellow member of the Institute of Chartered Secretaries and administrators and she paid an annual subscription of \$350.

l) Apart from employment, Ms Tashinga received the following income from various sources:

- Dividends from a South African company of \$3 500 (net of \$150 expenses and non residents tax of \$365).
- Australian bank interest of \$750 (net of 10% expenses and \$60 tax).
- Rent income from a property in Botswana for \$1 300.
- Dividends from OK Zimbabwe for \$4 500.

Required

a) Calculate Ms Tashinga's tax liability from employment for the assessment period ending 31 December 2013. **(18 marks)**

b) Calculate her tax payable on income from investments for the same assessment year as above. **(7 marks)**

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%.