



National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SECOND SEMESTER 2011/2012

SUPPLEMENTARY EXAMINATION PAPER

DATE:

JULY

SUBJECT:

TAXATION 11: CAC 4202

TIME ALLOWED:

THREE (3) HOURS

MARKS:

100

INSTRUCTIONS TO CANDIDATES

1. Answer all questions
2. Use the examination Answer booklets provided
3. Use black or blue pen
4. Begin each question on a new page and
5. Submit all Answer Booklets.

Question 1 [25 marks]

Jamboree Clothing (Pvt) Ltd is company involved in the manufacture of protective suits. The company submits it's return of income and accounts for the year ended 31.12.2011.

Trading Account

	\$		\$
Purchases	99 950	Sales	216 500
Closing stock	<u>10 125</u>		
Cost of sales	89 825		
Gross profit	<u>126 675</u>		
	<u>216 500</u>		<u>216 500</u>

Profit and Loss Account

Accounting fees	2 600	Gross profit	126 675
Depreciation	3 200	Wankie dividends	11 225
Salaries and wages	16 500	Bank interest	9 600
Interest	8 500	TB interest	4 200
Motor expenses	7 000		
General expenses	8 250		
Advertising	480		
Provision for directors' fees	7 000		
Net profit	98 170		
	<u>151 700</u>		<u>151 700</u>

Notes

1. A new factory complex was constructed and completed in March 2011 at a cost of \$95 000. However it was first put into use in August when manufacturing processes were commenced.

2. A security durawall was put up around the factory in September at a cost of \$12 750.

3. A wholesale business was carried out from an adjacent building purchased for \$20 000, the building had been constructed by the previous owner in December 2009.

4. Interest charged is in respect of a loan secured for the construction of the factory.

5. Additions during the year were as follows:

• Staff canteen	15 000
• Storeroom for raw materials	11 000
• Loading bay	7 950

6. Some assets which were purchased before commencement of business were brought into use at commencement in August; these are:

• Plant and equipment	34 000
• 7 tonner truck	35 000
• Furniture and fittings	4 500
• Isuzu D/Cab for factory manager	42 000

7. General expenses include:

- Installation costs for plant and equipment 3 200
- School fees for director's son at UZ 1 050
- Lease expenses 4 000

8. Due to an increase in business activity the company entered into a lease agreement with the owner of an adjacent piece of land. The lease period is 15 years and stipulates that a building to the value of \$35 000 be erected on that land and should be used for retail purposes. However due to incorrect specifications supplied to the architects the building eventually was completed in October at a cost of \$80 000. the company claims lease expenses of \$4 000.

9. Directors' fees were voted for in January 2012 and paid in March.

Required

Calculate the minimum taxable income or maximum assessed loss of the company for the year ended 31.12.2011.

Question 2 [25 marks]

A Zimbabwean farmer commenced farming operations after purchasing the following herd:

		\$
1	bull cost	900

5	cows	700 each
20	oxen	650 each
10	heifers	600 each
15	tollies	550 each
30	calves	200 each

It cost him \$7 500 to maintain the herd. For the purposes of valuation of stock he adopts PPV for the bull and FSV's for the other stock as follows:

Cows	790
Oxen	700
Heifers	650
Tollies	600
Calves	250

During the year he sold 14 oxen for \$14 500, one died and two were donated towards the Independence day celebrations. Promotions during the year were as follows:

- 4 heifers became cows
- 6 tollies to oxen
- Of the 14 calves half became heifers and the other half tollies.

Required

Draw up the livestock reconciliation account and his trading account for the year ended 31.12 2011.

Question 3 [25 marks]

Drummond Mining (Pvt) Ltd is a gold mining company located in the Insiza area. The company mines gold and is owned by three shareholders. It submits its accounts for the year ended 31.12.2011 with the following information.

	\$
1. Net profits per accounts	190 100
2. Mining claims written-off	17 500
3. Assets depreciation	12 000
4. Net sales of gold during the year were \$350 000 after deducting selling expenses of \$65 000.	
5. The following expenses were incurred during the year:	
• Mining equipment \$65 000 (the figure is inclusive of \$15 000 replacement of a burnt out mule).	
• Shaft sinking \$60 000	
• Fencing \$15 000	
• Dwelling for shareholder who is the managing director of the company \$75 000.	
6. A Tipper lorry was sold for \$32 700 (original cost \$21 700).	

7. The unredeemed balance of capital expenditure (UBCE) at the beginning of the year was \$120 000.
8. The estimated life of the mine is 14 years from the end of the year.

Required

Calculate the taxable income/assessed loss of the company assuming that:

1. The company claims current capital expenditure in terms of paragraph 4(4) of the 5th schedule.
2. It claims capital redemption allowance under the life of mine (LoM) basis making an election under paragraph 6 of the 5th schedule.
3. The company claims capital redemption allowance in terms of paragraph 4(2) of the 5th schedule.

Question 4 [25 marks]

The following expenses have either been allowed or disallowed as a deduction under the General Deduction Formula S15 (2)(a). Indicate how each of these will be treated for tax purposes and give brief explanations for your answer.

1. Legal costs incurred by the lessor in drawing up a lease agreement.
2. Legal costs incurred in disputing a transaction for the purchase or sale of trading stock.

- 3.** Costs incurred by landlord in seeking an increase or opposing a decrease to rental income or to secure an ejection of a tenant for non-payment of rent.
- 4.** Interest on funds used to purchase shares in a foreign company in which no dividends have been received.
- 5.** Cost of installing plant and machinery in a factory.
- 6.** Interest on funds raised to purchase vacant plots held for future development (not for the purposes of re-sale) by a trading concern.
- 7.** Advances to employees which later prove to be irrecoverable.
- 8.** Travelling expenses and allowances paid to a Human Resources manager to go and recruit an employee.
- 9.** Irrecoverable contributions to ZESA towards the cost of a power line.
- 10.** Fees charged for professional advice in a dispute over the amount of liability for income tax.

End of examination paper