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:	**TAXATION 11: CAC4202**
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 10.

Question 1 [25 marks]

Simba Rinoshamisa (58), the former marketing director of United Brothers (Pvt) Ltd died on 30 September 2013 after a long illness. He had retired from employment two months earlier, on health grounds and had worked for the company for the past 25 years.

His receipts and accruals up to the date of his death were as follows:

	Note	$
Salary		39 000
Bonus	c	6500
Cash in lieu of leave		3 700
Travel expenses	d	2 900
Medical expenses borne by the employer	d	5 800
Medical contributions paid by employer		8 900
Lumpsum payment from pension fund	a	45 000
Annuity from pension fund	a	2 400
Directors fees	e	13 500
Rental income	f	6 750
Medical aid contribution paid		(3 600)
P.A.Y.E. withheld		(16 700)

Additional Information:

a) In April 2013, Simba received a lump sum payment of $45 000, being a commutation of his pension. The gross entitlement prior to the commutation amounted to $112 500. His monthly pension with effect from 1 April 2013 was $250.

b) On 1 February 2011, United Brothers Pvt Ltd had purchased a Toyata Prado for Simba who enjoyed use of the car from that date until the date of his retirement. The vehicle had an engine capacity of 3 000cc. The car was sold to Simba for $6 200. Three car dealers had been asked to make a valuation of the car and the average valuation was $32 000.

c) The bonus was voted for on 28 March 2013.

d) In May 2013, Simba required urgent medical attention in South Africa. His employer paid for the travel expenses as well as the medical expenses that were incurred.

e) Simba was a non executive director of Tirivakundi Travel (Pvt) Ltd and he received director's fees amounting to $18 000 on 13 June 2013. A further $12 000 was payable to Simba's estate on 1 November 2013 in recognition of the tremendous service rendered to tyhe company over the years.

f) Rental income at the rate of $750 per month accrued to Simba in respect of a flat let out. A total of $8 250 in rentals accrued to date the estate was distributed.

g) The executor of Simba's estate paid $3 500 in respect of medical expenses incurred in July 20123. The estate was wound up on 30 November 2013, after the preparation of the fFinal liquidation and distribution account.

h) Simba's will provided the following bequests:

   (i) An amount of $30 000 to his only sister, Wadzanai.

   (ii) The residue of his estate to his wife, Essy.

Required

Assuming none of the parties mentioned had other taxable income, calculate the minimum tax payable by Simba Rinoshamis, his estate, his wife and his sister. **(25)**

Question 2 [25 marks]

Mr Rwaunza is an accomplished veterinary surgeon, who was based in South Africa for 35 years. During the 2012 Christmas holidays, he returned from the Diaspora and incorporated Rwaunza Ranchers (Pvt) Ltd.

In February 2013, the company acquired land in the Mwenezi area of Masvingo province under the government sponsored A2 resettlement scheme. Rwaunza Ranchers (Pvt) Ltd immediately commenced livestock farming operations on the farm, after purchasing the following:

	$
Ranching land	nil
Farm manager’s house	20 000
Staff housing (10 equal units)	30 000
Dam	245 000
Farm implements	45 000
	120 000

In April of the same year, the company purchased the following livestock:

	$
3 bulls	2 400
150 cows	60 000
90 oxen	32 000
28 heifers	7 000
35 tollies	5 600
50 calves	5 200
	112 200

Livestock movements between 1 April 2013 and 31 December 2013 were as follows:

- 25 calves were born on the farm during the year.
- 40 calves were reclassified to heifers.
- 10 calves were reclassified to tollies.
- 5 tollies were slaughtered for rations.
- 20 tollies were reclassied to oxen and
- 22 heifers were reclassified to cows.

Additional Information:

a) 40 cows and 50 oxen were sold for $45 000 to some private abattoirs during the first half of the year.

b) In July 2013, the farm was declared an epidemic area by the Minister of agriculture, due to an outbreak of foot and mouth disease. The company was forced to sale 30 cows for $21 000 as a result of the epidemic disease.

c) Eventually, in October 2013, the epidemic disease was brought under control and the farm was declared , by the Minister of Agriculure, to be free from the foot and mouth disease that had ransacked the area.

d) The company restocked the farm with 50 cows whci were purchased for $30 000 in October 2013.

e) The department of AGRITEX determines the carrying capacity of the farm to be 290 herd.

f) The herd's direct running expenses for the year amounted to $8 000. All expenses are allowable for tax.

g) The following expenditure was incurred during the course of the year:

	$
Stumping and clearing of land	3 000
Sinking of boreholes and wells	12 000
New fencing	2 600
Borehole equipment	15 000
	32 600

h) The approved fixed standard values (FSVs') of the livestock are as follows:

	$
Bulls	800
Cows	600
Heifers	500
Oxen	450
Tollies	250
Calves	150

Required

Calculate the minimum tax payable (refundable) by Rwaunza Ranchers (Pvt) Ltd for the year ended 31 December 2013. **(25)**

Question 3 [25 marks]

Miss Rudo and Mrs Vimbai B, products of the organisation "Women in Mining", are engaged in a mining partnership and trade as Ruvi Mining in Southern Zimbabwe and share profits in the ration 3:2 respectively. Their financial statements for the year ended 31 December 2013 reflect a profit of $550 000. The following income and expenses were taken into account in arriving at the stated profit:

Income		**$**
Mineral sales		750 000
POSB Interest		30 000
Interest on debtors		15 000
Dividend from ZSE listed company		120 000
Expenses		
Administration (all tax deductible expenses)		240 000
Depreciation		85 000
Salaries- Miss Rudo		42 000
-Mrs Vimbai		14 000
Insurance premiums Partnership joint life policy		50 000
Life policy for Mrs Vimbai's benefit		10 000
Loss of profits		37 500
Medical aid society contributions	- Miss Rudo	18 000
	- Mrs Vimbai	16 000
Interest on capital accounts	- Miss Rudo	21 000
	- Mrs Vimbai	15 000

Additional Information:

a) The Unredeemed Balance of Capital Expenditure (UBCE) at the beginning of the year was $20 000.

b) The partnership's capital expenditure for the year was as follows:

		$
(i)	Shaft sinking	50 000
(ii)	Plant and equipment	150 000
(iii)	Office building	80 000
(iv)	Isuzu Double Cab vehicle	35 000

c) During the year, a Toyota Alteeza sedan vehicle was sold for $30 000. It had been bought on 1 January 2005 for $20 000 (the cost of passenger vehicles in that year were restricted to $10 000 in accordance with the provisions of the 5th schedule to the Income Tax Act).

d) Miss Rudo contributed $8 000 to the partnership pension fund (approved) and Mrs Vimbai, not being a member of the latter, contributed $2 500 to an Old Mutual retirement annuity fund. The amounts have not been charged to the income statement.

e) The estimated life of the mine on 1 January 2010 is 5 years.

Required

Calculate each partner's tax payable for the tax year ending 31 December 2012.

The partnership uses the "Life of Mine" basis in claiming capital expenditure. **(25)**

Question 4 [25 marks]

The potential of the Zimbabwean market caught the attention of Joy Unlimited in 2012, contrary to the view of other players who became very pessimistic towards the country's elections. The main business of Joy Unlimited is the assembling of cars. Its parent company is incorporated in South Africa. Joy Unlimited purchases its entire inventory of car parts for assembling at its Willowvale premises in Harare. The car parts are manufactured in South Africa and are distributed to the rest of the African continent.

The Willowvale premises were constructed in 2012 on a stand the company had purchased for $37 000. The cost of construction was as follows:

$

Car assembling building	240 000
Storage buildings- car parts	40 000
-newly assembled cars	80 000

The head office and the car showroom are situated in the Graniteside industrial area in Harare. This building was constructed in terms of an eight year lease agreement entered with the Harare City council on 25 March 2012. The lease agreement provided that:

i. Joy Unlimited would construct two buildings, with minimum structural specifications, valued at not less than $140 000 and $60 000 respectively.

ii. The first building was to be used as the administration block and the other as the car showroom.

iii. Joy Unlimited was obliged to pay a premium of $50 000 upfront and thereafter monthly rentals of $3 200, until the expiry of the lease.

The construction of the buildings was completed on 25 August 2012, according to specifications, at an actual cost of $135 000 and $75 000 for the administration block and showroom respectively. Joy unlimited then commenced business on 1 September 2012.

The following is the company's statement of profit and loss for the year ended 31 December 2013:

	Note	**$**	**$**
Turnover			1 960 000
Less Cost of sales	a		(980 000)
Gross profit			980 000
Other operating income	b		45 000
Administrative expenses:			
Staff costs	c	220 000	
Repairs & maintenance	d	135 000	
Motor vehicle expenses	e	104 000	
Office expenses	f	182 000	
Donations	g	23 000	
Finance costs		165 000	(829 000)
Profit			**196 000**

Additional Information:

a) The parent company sells the car parts to Joy Unlimited at cost plus 35% but at cost plus 25% to unrelated parties.

b) Other operating income comprised:

• Bank interest received	$6 000
• VAT refund	$10 000

c) Included in staff costs is $32 200 by the company towards the pension for its three managers at $10 733 each.

d) Repairs and maintenance were made up of:

• Replacement of faulty electrical installations at the showroom	$76 500
• Paving around the Graniteside premises	$53 200
• Computer repairs	$5 300
	$135 000

e) Motor vehicle expenses comprised;

• Fuel and maintenance costs	$28 000
• 2 passenger vehicles procured under a HP agreement	$62 500
• Traffic fine	$1 200
• Insurance and licensing costs	$12 300
	$104 000

f) Office expenses included:

• Outsourcing of payroll function	$15 000
• Fit & supply contract for the Graniteside premises kitchen	$29 000
• Utility payments	$27 700
• Depreciation	$37 000
• Rental expenses	$58 000
• Interim audit fees	$12 000

g) Donations comprised:

• Mayor's Christmas cheer fund	$5 000
• Ministry of Health for Harare hospital paedtriatic's unit	$13 000
• Heartfelt Prayer church	$5 000

h) Joy Unlimited acquired Furniture and Fittings for $70 000 and brought these to use at the commencements of operations.

Required

Calculate the minimum tax payable by Joy Unlimited (Pvt) Ltd for the year ended 31 December 2013. **(25)**

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
3001-12 000	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%.