



National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING

FINAL EXAMINATION PAPER: SECOND SEMESTER 2012/2013

DATE: MAY 2013
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 2012 tax year.
- iv.** Tax tables are provided in the attached Appendix, on page 8.

Question 1[20 marks]

- i. Mr Murimi acquired Donatan farm in Chegutu, on 2 January 2012 and immediately purchased the following livestock:
- | | \$ |
|------------|--------|
| 4 Bulls | 12 000 |
| 50 Cows | 38 000 |
| 20 Heifers | 14 500 |
| 30 Tollies | 22 500 |
| 10 Steers | 11 000 |
- ii. The livestock movements on the farm for the year ended 31 December 2012 were as follows:
- 13 calves were born
 - 8 calves became tollies
 - 2 bulls were stolen by cattle rustlers
 - 8 tollies became steers
 - 15 heifers became cows
 - 4 steers were slaughtered for rations
 - 26 cows were sold for \$32 000 during the course of the year.
- iii. On 2 November 2012, the farmer was forced to sell 32 cows for \$41 600, following an outbreak of foot and mouth disease at the neighbouring farms.
- iv. Mr Murimi incurred the following expenses during the year ended 31 December 2012:
- | | \$ |
|---|--------|
| General livestock expenses | 7 500 |
| Sinking boreholes and wells | 12 000 |
| Dip tanks | 15 300 |
| Construction of staff housing (3 equal units) | 60 000 |
| Tractor | 38 500 |
- v. Mr Murimi's policy on valuation of livestock as approved by ZIMRA is as follows:
- Bulls are valued at cost while other livestock are based on the following fixed standard values:
- | | \$ |
|---------|-------|
| Cows | 1 000 |
| Steers | 650 |
| Tollies | 700 |
| Heifers | 750 |
| Calves | 200 |
- vi. . On 20 December 2012, when the government lifted the quarantine, Mr Murimi purchased 16 cows for \$14 200 for restocking purposes. The assessed carrying capacity of his farm is 70 livestock.

Required

- a) Prepare a Livestock Reconciliation and Valuation Statement. (4)
- b) Compute the tax reliefs that are applicable to Mr Murimi and any other concessions applicable to him (10)

- c) Calculate Mr Murimi's minimum taxable income from his livestock farming business at Donatan Farm. (6)

Question 2[30 marks]

Goodlife Zimbabwe Mines Limited was incorporated on 1 January 2011, and operates a zinc mine in Mutorashanga. Goodlife Mines Holdings, a company incorporated in South Africa owns 80% of Goodlife Zimbabwe's equity capital.

It also advanced a long term loan of \$6 000 000 to Goodlife Zimbabwe for mining development purposes. Mining development commenced in February 2011 and by March 2012, the company had started exporting its minerals. The following is Goodlife Zimbabwe's abridged statement of financial position as at 31 December 2012:

	\$
Ordinary shares	5 000 000
Preference shares	1 000 000
Accumulated losses	(4 200 000)
10% mining development fund	6 000 000
Creditors	<u>670 000</u>
	9 870 000
Non-current assets	7 101 900
Inventory and consumables	2 000 000
Receivables	1 900 000
Bank	<u>(1 131 900)</u>
	9 870 000

Additional Information:

- (i) The accumulated loss was arrived at after adjusting for the following items:
- | | \$ |
|--|-----------|
| Interest on mining development loan for the 2 years | 1 200 000 |
| Salaries and wages prior to commencement of production | 450 000 |
| Depreciation | 680 000 |
| Mine Investment Licence | 250 000 |
| Head office allocable expenses (paid in July 2012) | 542 000 |
- (ii) Mine allowable expenditure for purposes of section 16(1)(q) of the Income Tax Act is \$5 600 000.

(iii) Capital expenditure was incurred as follows (\$):

	2011	2012
Site preparation buildings	150 000	-
Sumps, pumps chambers	200 000	-
Mineral storage buildings	-	340 000
Elevators	750 000	-
Excavation Equipment	335 000	-
Shaft sinking	760 000	-
Mining Equipment	188 900	126 000
Commercial Vehicles	270 000	-
Mineral loading bay	-	120 000
Standby generators	500 000	178 000
Forklifts	133 000	-
Non commercial motor vehicles (16)	700 000	200 000
Director's house (45km from mine)	175 000	-
Living quarters for workers (73 units)	1 971 000	-
Total	6 132 900	964 000

(iv) 12 of the non commercial vehicles were purchased in 2011 and the balance in 2012.

(v) The life of the mine is 12 years from 1 January 2012.

(vi) The mine has chosen to claim allowances in accordance with paragraph 2(1) of the 5th Schedule of the Income Tax Act.

Required

- a) Determine the deductible and non deductible component of interest on development loan, if any. (5)
- b) Comment on Head Office allocable expenses paid in July 2012. (2)
- d) Determine the unabsorbed capital expenditure, (if any), that would be carried forward to the 2013 year of assessment. (11)
- e) Compute Goodlife Zimbabwe Mines Limited's taxable income for the year ended 31 December 2012. (8)
- e) Explain briefly how mining losses are treated for tax purposes. (2)
- f) Compute withholding taxes due from Goodlife Zimbabwe and state when they should be remitted to ZIMRA. (2)

Question 3[25 marks]

Mr Mlalazi, a manager with a Bulawayo company died on 30 June 2012. A local firm of lawyers were appointed as the executors of the estate in terms of the will. The following information were provided for the period to death:

(i)	Income	\$
	Salary (PAYE 21 945)	68 542
	Net rent from a Harare house	8 380
	Net farming income	5 250

(ii)	Expenses Incurred:	
	Pension contributions	4 112
	Retirement annuity contributions	1 500
	Medical aid contributions	1 226
	Ambulance fees	45
	Life Insurance contribution	1 400

(iii) Rental Expenses include:

Repairs, being burglar bars fitted to the house for \$4 200 in April 2012.

Rates to 30 June 2012 were \$1 420

Rent was due on the first of each month in advance. The tenant paid rent on 28 June 2012 by depositing the amount into Mr Mlalazi's bank account. The rental was included in the income returned to date of death.

(iv) Mr Mlalazi suffered a stroke on 16 June 2012 and was hospitalised until he died on 30 June 2012.

The tenant in the Harare house continued to stay in the house after Mr Mlalazi's death.

(v) Mr Mlalazi's Will provided for the following:

- The Harare house was bequeathed to Linda, his 24 year old daughter who was doing her final year at NUST.
- The farm was left under the management of a trust created in terms of his will, but was to be transferred to Pritchard, his second son aged 17, who was doing his A level at Christian Brothers in Bulawayo, when he turned 21.
- The family house in Bulawayo was immediately left to Mrs Mlalazi.
- The executors were authorised to collect all the income of the estate and pay all the liabilities.
- From the residue of the estate, the executors would pay a living expenses allowance to the members of the family as they saw fit until the estate was wound up and the Mlalazi Family Trust formed.

(vi) The following was provided for, for the period 1 July 2012 to 30 November 2012, when the final Liquidation and Distribution Account was drawn:

	\$
Cash in lieu of leave	2 370
Death benefit from Pension fund	50 600
Gross rent to November 2012 at \$2 000 per month	8 000

Life insurance benefit	120 000
Production bonus	15 500
Net farming income	18 200

(vii) The following expenses were paid by the estate:

- | | |
|---|-------|
| | \$ |
| • Living expenses allowances | 25 00 |
| • Medical bills & shortfall | 7 200 |
| • Linda got a job with Mbada Diamonds in Mutare and was given a sum of \$ 12 000 to settle down in her new job. | |
| • Pritchard's third term fees and uniforms cost \$6 500 | |
| • Rates for the Harare house amounted to \$432 and were paid for just before the house was transferred into Linda's name on 16 November 2012. The value of the house as agreed by the Master was \$180 000. | |

(viii) The Bulawayo house was transferred to Mrs Mlalazi at a value of \$100 000 and the farm to the Mlalazi Family Trust at \$250 000.

(ix) The cash in lieu of leave was paid for the leave days that had accrued to Mr Mlalazi at the time of his death and the amount was paid into his bank account on 14 July 2012.

(x) The production bonus was calculated on the company's performance to 31 March 2012. The company's accounts were drawn up to that date but were only finalised mid June. The company then paid the bonuses on 1 July 2012.

(xi) Estate administration fees amounted to \$8 600. The balance of the capital from the estate was also transferred to the Trust which also operated the farm from 1 December 2012 until Pritchard turned 21.

(xii) The trust continued paying allowances to Mrs Mlalazi and for December 2012, she was given \$3 500.

(xiii) The tenant in Harare paid rent into Linda's account when the property was transferred. Linda was earning \$2 500 per month, and was on probation for the first 3 months.

(xiv) The farm's net income for December 2012 was \$4 500.

Required.

Calculate the tax payable for each of the above **taxpayers** for the year ended 31 December 2012. (25)

Question 4[25 marks]

Lifesytle (Pvt) Limited is a Zimbabwean registered company which carries on business in Harare as manufacturer of a popular range of furniture. The company's financial statements for the year ended 31st December 2012 showed a net profit before tax figure of US\$830,000 after the following debits and credits:

Credits		US\$
Insurance proceeds received	note 1	11,500
Profit on sale of machinery	note 2	1,600
Debits		
Bad debt	note 3	2,100
Bursary	note 4	5,000
Depreciation		15,000
Donations	note 5	340,000
Doubtful debts	note 6	37,000
Entertainment	note 7	4,400
Export promotion expenses	note 8	6,200
General expenses	note 9	9,600

Notes

(i) Insurance payment

In July 2012, a Toyota corolla vehicle which had been purchased in the previous tax year for \$15,000 was involved in an accident and written off. The company received \$11,500 from an insurance company.

(ii). Profit on sale of asset Machinery which had been purchased for \$3,000 in May 2011 was sold for \$4,000 in the current year.

(iii) Bad debt

In March 2011, the company although not a money lender advanced a loan of \$2,000 to an employee to partly finance his studies. The employee unfortunately died in June 2012 before repaying the loan and interest due.

The company has therefore decided to write off the amount of the loan as well as the interest amount of \$100 as a bad debt.

(iv) Bursary

The bursary of \$5,000 is for a technical course in South Africa closely related to the company's furniture business.

The course was undertaken by the company driver's son who is employed by the company.

(v) Donations to:

Cancer research institute	\$ 10 000
National bursary fund	150 000
Anti-retroviral drugs to Harare government hospital	<u>180 000</u>
	340 000

(vii) Doubtful debts:	\$
General provision for doubtful debts	13 000
Specific amounts owed by government departments	<u>24 000</u>
	37 000

The specific amounts owed by government departments although disputed, have been outstanding for over 90 days due to cash flow problems faced by the government.

(vii) Entertainment	\$
Christmas party for customers	3,400
Staff Christmas party	<u>1,000</u>
	4 400

(viii) Export promotion expenses

This was the cost incurred by the marketing manager on a trip to Zambia to explore new markets.

(ix) General expenses	\$
Theft of petty cash by employee	500
Registration of new trade mark	2,300
Replacement of factory car engine	4,000
Replacement of factory roof damaged by storm	<u>2,800</u>
	9 600

(x) Non current assets

The income tax values (ITVs') of assets as at the 31st December 2011 were:

	Cost	ITV at 31 Dec 2011
Computers	5,000	2,500
Machinery	12,000	6,000
Toyota corolla	15,000	5,000

Special initial allowance (S.I.A) had been claimed on these assets in the year of purchase.

Disposals

Machinery which had been purchased for \$3,000 in May 2011 was sold for \$4,000 in the current year.

Required

Calculate the minimum tax payable by Lifestyles Ltd in respect of the year ended 31st December 2012. (25)

END OF EXAMINATION PAPER

APPENDIX

Tax Tables for the year ending 31 December 2012:

Income Band Tax Rate

up to 3 000	0%
3001 - 12 000	20%
12001 - 24 000	25%
24001 - 60 000	30%
60 001 - 90 000	35%
90 001 - 120 000	40%
120 001 and above	45%
AIDS levy is at 3%	