



National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER: SECOND SEMESTER 2012/2013

DATE: SEPTEMBER 2013

SUBJECT: TAXATION 11: CAC4202

TIME ALLOWED: THREE (3) HOURS

MARKS: 100

INSTRUCTIONS TO CANDIDATES

1. Attempt all questions and begin each answer on a new page.
2. In marking papers, the examiner takes into account clarity of expressions, effective arrangement and presentation, as well as legibility of handwriting.
3. Apply the Tax Law provisions for the 2012 tax year.
4. Tax tables are provided in the attached Appendix, on page 7.
5. Submit all answer book

Question 1 (25 marks)

Kings Brothers (Pvt) Ltd, a company incorporated in S.A. in May 2007 manufactures cleaning agents (soaps, toothpaste and detergents etc). The accounts submitted by its Zimbabwean branch in support of the return for the year ended 31 December 2012 include the following:

Profit and Loss Account

	\$		\$
Accountancy fees	1 000	Gross profit	294 470
Electricity	2 124	Rent	12 000
Rent	24 000		
Travelling expenses	2 500		
Legal expenses	150		
General expenses	6 220		
Pension	10 000		
Depreciation	20 000		
Salaries	39 200		
Net profit	<u>201 258</u>		
	<u>306 470</u>		<u>306 470</u>

Appropriation Account

Provision for directors fees	10 000	Net profit	201 258
Provision for dividends	20 000		
Unappropriated profits	<u>171 258</u>		
	<u>201 258</u>		<u>201 258</u>

Notes to the accounts

- i. Directors' fees were voted in June 2012.
- ii. Rents received and paid:- some years ago the branch owned its own factory but due to business expansion a larger factory was required and a construction company was duly contracted to build the required factory – construction started in November 2011 and completed and occupied in April 2012. The branch vacated the small factory and let it out at \$12 000 a month (it was occupied by the tenant at the beginning of December 2012). Before moving into the bigger factory some of the company's operations were carried out in rented premises, hence rent payable.
- iii. \$500 of the travelling expenses claimed relate to the cost of sending a technician to South Africa for instruction on the conversion of parts of a machine to cater for fluoridisation of toothpastes. The balance of the claim relates to sale of manufactured products.
- iv. Legal expenses were in respect of alterations to the company's Memorandum and Articles of Association in order to enable the branch to have its own Managing Director.
- v. Pension paid comprise :

	i)	\$6000 employer's contribution to an approved staff pension scheme.	
	ii)	\$4000 annual pension to a retired employee.	
vi.	General expenses:		\$
	New parts and labour for conversion of machine	600	
	Compensation	20	
	Research and development	5 000	
	Dividend distribution	200	
	Municipal water connection	<u>400</u>	
		<u>6 220</u>	
	i)	Compensation was in respect of a batch of half filled liquid detergents sold to customers.	
	ii)	Research and development- this was the branch's share of the total cost comprising:	\$
		Patent 2000	
		Fees <u>18 000</u>	
		<u>20 000</u>	

vii.	Assets		\$
	New factory	150 000	
	Mercedes Benz for the MD	120 000	
	Showroom in town for use by the tenant	20 000	
	Storeroom for tenant's finished goods	20 000	
	Canteen for staff at new factory	30 000	
	Toyota sedan used by sales manager 30% private	25 000	
	New forklift truck	35 000	

NB In addition to the above costs architects' fees of \$10 000 were incurred in respect of the new buildings and these have been allocated in proportion to the cost of each building.

viii.	The I.T.V of assets at 31/12/2011 were as follows:		\$
	Factory owned by company but rented out to tenant (original cost \$85 000)	50 000	
	Plant and machinery	50 000	
	Vehicles	10 000	

Required
Calculate the total tax liability of the Zimbabwe branch for the year ended 31 December 2012 on the basis that the company wishes to minimize the tax impact.(25)

Motor vehicles and forklifts are depreciated at 20% p.a.

Question 2(25 marks)

a). Trader "A" commenced trading on 30 June 2007 after buying a building for \$120 000 from another person who had erected the building in September of the previous year. The building is used 95% for the purposes of his business.

He also bought a Mazda 626 for \$37 500 and it is accepted by the tax authorities that he uses the car 30% for private purposes.

During 2010 he bought a truck for \$25 000 and claimed S.I.A. on it.

In September 2012 he decided to close his business completely and therefore disposed of his assets as follows:

		\$
i)	Building	97 500
ii)	Mazda 626	8 500
iii)	Truck	22 000

Required

Work out the tax implications of the sale of these assets and give explanations to your answer.

(15)

b). The General Deduction Formula S15(2)(a) is the Second Corner Stone of the Zimbabwean tax legislation; explain the import of the key words or clauses used in the definition, where applicable refer to the relevant case law.

(10)

Question 3 (25 marks)

a) Transfer Pricing and Thin capitalization are two tax avoidance schemes used by Multinational Corporations to minimise the effect of tax on their global profits, examine how each works by giving worked examples of the operations of the schemes. What other tax avoidance schemes are often used by taxpayers (name and describe any four such schemes).

(15)

b) Tax evasion, unlike avoidance, is illegal and often leads to prosecution in a criminal court. What methods are used by taxpayers worldwide to evade paying taxes and duties and what counter measures do tax authorities resort to in order to combat evasion?

(10)

Question 4 (25 marks)

Mr. S. Khumalo, a farmer in the Nyamandlovu area, submits the following accounts in support of his return of income for the year ended 31 December 2012.

Livestock Account

Opening stock

<u>Head</u>	<u>FSV</u>	<u>Value</u>	<u>Head</u>	<u>Value</u>	
		\$		\$	
2 bulls at cost		2 300	100 sales	150 000	
60 cows	650	39 000	20 deaths	---	
20 oxen		600			
30 heifers		450			
20 tollies	400	8 000	100 cows	65 000	
50 calves		250	12 500	30 oxen	18 000
<u>Purchases</u>			9 000		
20 heifers					
3 Bulls at cost		3 600	80 tollies	32 000	
60 cows at cost		30 000	100 calves	25 000	
100 tollies at cost		25 000			
120 calves		18 000			
Profit	<u>141 000</u>				
<u>465</u>	<u>304 900</u>	<u>465</u>	<u>304 900</u>		

Profit and Loss Account

<u>Expenditure</u>	\$	<u>Income</u>	\$
Livestock expenses	7 500	Trading profit	141 000
Crop expenses-wages	1 500	Maize sales	5 000
Fertilizer	500	Sugar beans sales	2 500
Electricity	2 950	Interest P O S B	7 005
Motor vehicle expenses	3 800	Profit on sale of car	450
Interest	6 720		
Depreciation	20 000		
Sundry expenses	4 350		
Insurance	5 100		
General expenses	2 200		
Net profit	<u>101 335</u>		
<u>155 955</u>	<u>155 955</u>		

Notes

- i. Due to the prevailing dry conditions the area was" declared drought stricken" by the relevant ministry and Mr.Khumalo was forced to sell 50 tollies for \$ 22 500 (this figure is included on the sales figure of \$150 000 per the livestock account). He makes an election in terms of paragraph 5 of the 7th schedule.
- ii. Interest was in respect a loan which was used to construct the homestead.
- iii. The motor vehicle was sold in September of the current year for \$8 130, it had been purchased in October 2009 for \$15 000 and had been used 35% by Mr.Khumalo for private purposes.
- iv. Additions during the year were: \$
- | | |
|--|---------|
| Maize and beans shed | 8 000 |
| Homestead for the Khumalos | 56 000 |
| Land cruiser(second hand) | 24 000 |
| Farm school (used 80% by children of farm workers) | 120 000 |
- v. Income tax values (I.T.V.) as at beginning of the year were as follows:
- | | |
|---------------------|--------|
| Plant and equipment | 7 250 |
| Tractor | 11 350 |
| Truck | 7 900 |
- vi. Sundry expenses:
- | | |
|---|-------|
| Aerial survey | 1 250 |
| Contour ridging | 750 |
| Temporary roads | 500 |
| Donation to church fund raising party | 350 |
| Loan raising fee- on loan to build a homestead <u>1 500</u> | |
| <u>4 350</u> | |
- vii. Insurance
- | | |
|--|-------|
| Crop Valuation fee in case of destruction by storm | 1 375 |
| Life policy Mr.Khumalo <u>3 725</u> | |
| <u>5 100</u> | |
- viii. General expenses included convention fees -\$1 700- which Mr.Khumalo attended from the 27th of December 2012 until the 4th of January 2013 (this was convened by the National Farmers' Union in Vhumba). He also contributed \$500 towards a research carried out by the Union on ways to control livestock pests. The total cost of the research was \$5 000 made up of: \$3 500 researches and \$1 500 purchases of computers and software for the research.

Required

Calculate his taxable income or assessed loss and any tax payable, if any, for the year ended 31 December 2012. What are the implications of the drought sales on his tax?

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%	