



National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING

SUPPLEMENTARY EXAMINATION: SECOND SEMESTER 2013/2014

DATE:	AUGUST 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 7.

Question 1 [25 marks]

Brumby (Pvt) Ltd sells farming equipment and the following information is submitted by the company's accountant to the tax authorities for the year ended 31 December 2013.

Gross sales		\$148 000
<u>Less</u>		
Opening stock	41 000	
Purchases	<u>36 000</u>	
	77 000	
<u>Less</u>		
Closing stock	<u>32 000</u>	<u>45 000</u>
Gross profit		103 000
Add income		
Profit on sale of motor vehicle (note1)	5 000	
Bad debts recovered (note 2)	7 000	
Zimbabwean company dividends	<u>5 400</u>	<u>17 400</u>
		120 400
<u>Less expenses</u>		
Depreciation	15 300	
Bad debts provision	7 250	
Bad debts incurred	4 100	
Bank charges	1 500	
Interest on late payment of tax	2 300	
Tax consultancy fees	1 200	
Interest on bank overdraft	2 000	
Cost of moulding machinery	3 500	
Delivery motor vehicle purchased	<u>18 000</u>	<u>55 150</u>
Profit		<u>62 250</u>

Notes

- a) The motor vehicle sold had been bought for \$15 000 at the beginning of September 2009 when the company started business. It was a passenger motor vehicle and the company had opted not to elect SIA on the car. It was sold for \$9 096 during the current year under review.
- b) The company started trading in September 2009 after acquiring the entire shareholding of Plough Ltd. The bad debts recovered relate to the debts bought on acquisition.
- c) The bank overdraft was used to purchase shares floated by Telecel Zimbabwe.
- d) A Toyota Hilux costing \$56 500 was purchased for the marketing manager during the year.

Required

Compute the total taxable income and tax payable by the company on the basis that the company wishes to minimise the tax impact on its operations. **[15 marks]**

Briefly explain the valuation and treatment of farm trading stock in terms of section 15(2) (u) as read with the provisions of the 2nd schedule. **[10 marks]**

Question 2 [25 marks]

John Bulu, a farmer in Gwanda, submits the following information in support of his return of income for the year under review.

Livestock Account

<u>Opening Stock</u>		<u>Normal Sales</u>		
3 Bulls @ cost	1 800	1 50 oxen		120 000
300 oxen @ 400	120 000	50 cows		40 000
100 cows @300	30 000		<u>Drought Sales</u>	
60 heifers @ 250	15 000	100 oxen	50 000	
70 tollies @ 200	14 000	50 cows	17 500	
50 calves @100	5 000	50 tollies	7 500	
300 purchases	180 000	30 heifers	6 000	81 000

Livestock profit 36 900

Closing Stock

3 bulls	1 800
336 oxen @ 400	134 400
38 cows @ 300	11 400
30 heifers @ 250	7 500
20 tollies @200	4 000
26 calves @ 100	<u>2 600</u>

883

402 700

883

402 700

Statement of Profit and Loss

Herdsmen wages	1 500	Livestock profit	36 900
Interest on loan (note 2)	2 750	Grazier rental income	4 500
Depreciation	3 000		
Livestock feed	5 000		
Repairs to fencing	400		
Net profit	28 750		
	<u>41 400</u>		<u>41 400</u>

Notes:

1) He sold 200 head of cattle on the 15th of April. Later his farm was declared drought stricken and he was forced to dispose of 230 head of cattle per the accounts submitted. Eventually the grazing improved due to the late rains and on December 20 he restocked his head with 300 beasts.

2) Agritex officials determine the carrying capacity of his land at 375 head. He claims the maximum relief and restocking allowance.

3) The loan was used to purchase the farm and he is now only servicing that loan.

4) In addition he claims the maximum allowances but not SIA on the following expenditure he incurred during the year:

i) Erection of fencing	\$2 500
ii) Sinking two boreholes	7 500
iii) New tractor bought	22 000
iv) Mazda B1800	17 500

No other assets ranking for statutory allowances were owned.

Required

Calculate the tax payable or assessed loss for the year.

[25 marks]

Question 3 [25 marks]

Minesweep (Pvt) Ltd is a gold mining concern operating from Shurugwi.

At the close of business on 31 December 2013, the company recorded a loss of \$550 000 after charging the following expenses:

Administration fees	\$30 000
Extraction costs	47 000
Salaries and wages	52 000
Depreciation	27 000

The company had an unredeemed balance of capital expenditure at the beginning of the year of \$160 000.

Assets sold during the course of the year were:

- A Mazda B50 for \$35 000. The car had been bought for the production manager some two years back for \$55 000.
- A crusher for \$75 000 whose original cost was \$52 000.

Capital expenditure during the year under review was:

a. Shaft sinking	\$13 000
b. Plant and equipment	35 000
c. House occupied by on of the shareholders	120 000
d. Mules	10 000
e. Bull dozer	190 000

Sales of ore amounted to \$600 000 after deducting assay fees and selling expenses of \$130 000.

The estimated life of the mine is calculated at 9 years from the end of the year under review.

Required

Compute the taxable income, if any, on the assumption that the taxpayer had elected:

- a. Paragraph 2 of the 5th schedule.
- b. Paragraph 4(2) of the 5th schedule.
- c. Paragraph 4(4) of the 5th schedule

[25 marks]

Question 4 [25 marks]

You are a tax consultant in private practice. You receive the following tax queries in respect of the year ended

31 December 2012 which relate to one of your clients, Nust Techno Trading (Pvt) Ltd

- a) The company advanced a loan of \$12,000 to the operations manager for him to seek medical treatment for his mother in South Africa.
In addition to the loan of \$12,000, the company gave the manager an additional \$2,000 to cover travelling expenses which would be incurred by the mother while seeking medical treatment in South Africa.

The company has not made any tax adjustments in respect of this transaction.

4 MARKS

- b) The company advanced a loan of \$1,000 to the technical manager for the purchase of a computer on 1 July 2011. No PAYE has been deducted in respect of this benefit.

2 MARKS

- c) On 29 December 2012, the company paid an amount of \$12,000 being insurance premiums for motor vehicles in respect of the period 1 January 2013 to 31 December 2013.

The amount has not been debited to the income statement but is shown in the balance sheet as a prepayment.

The company's directors are not sure on how to treat this amount for tax purposes.

3 MARKS

- d) The company paid directors fees amounting to \$20,000 to the four Zimbabwean non executive directors of the company. No tax was deducted on these payments.

3 MARKS

- e) The company has claimed the following expenditure as repairs and maintenance :

(i) Cost of replacing window panes in two offices \$50

(ii) Replacement of driveway surface of gravel with pavers \$2,000

Repair of cracks caused by faulty foundations and the cost of underpinning the foundations \$2,500.

4 MARKS

- f) The company had an estimated income tax liability of \$200,000 in respect of the year ended 31 December 2011. No payments have been made to ZIMRA in respect of this liability.

3 MARKS

- g) The company provides free lunches in the canteen to all its employees. No tax adjustments have been made to take into account this benefit.

2 MARKS

- h)) In August 2011, the company sent its Technical Manager for a course in Germany. Fees for attending this course were duly paid to the Germany company but no withholding taxes were withheld.

2 Marks

- i) It has been established that payments amounting to \$100,000 were made to suppliers who had not provided the company with tax clearance certificates. The directors would like to know the potential tax risks associated with this issue.

2 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
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%.

