



**National University of  
Science and Technology**  
*Think in Other Terms*



**FACULTY OF COMMERCE  
DEPARTMENT OF FINANCE  
BACHELOR OF COMMERCE HONOURS DEGREE IN FISCAL STUDIES  
FINAL EXAMINATION – DECEMBER 2014  
VALUE ADDED TAX I [CFS 2103]  
TIME ALLOWED: 3 HOURS**

**INSTRUCTIONS TO CANDIDATES**

1. Answer **ALL** questions in Section A and choose any **TWO (2)** questions from section B.
2. Quote relevant legislation where applicable.
3. Write legibly.
4. Show **ALL** workings

**INFORMATION FOR CANDIDATES**

1. The paper contains Seven (7) printed papers including cover page.
2. This paper contains FIVE (5) Questions.
3. Part marks are indicated in brackets at the end of each part question.

**ADDITIONAL MATERIAL**

1. The VAT Act (Chapter 23:12) and the General Regulations may be allowed in the Examination room.

## **SECTION A: 50 MARKS**

1. The Sheriff of the High court receives a court order to dispose of Mr John's household goods to satisfy a debt owed by Mr Johns to Meikles Hotel. The household goods are disposed of on the 15 of June 2015 under an auction carried out by Gallant Auctioneers under instructions from the Sheriff. The goods are sold for \$5600.00.

What are the responsibilities of the sheriff in as far as VAT is concerned.

(4)

2. List any 3 non - foodstuffs that are zero rated in terms of the Value Added Tax (General) Regulations of 2003.

(3)

3. What three elements do not constitute 'trade' as defined in the VAT Act?

(3)

4. Mr Mbambo, a sole trader, is a registered operator who runs a retail shop. He decides to cease trading due to the economic environment. He has the following goods on hand: Stock, purchased on the 13<sup>th</sup> of June 2015 valued at \$12,500.00; a generator, purchased on the 20<sup>th</sup> of January 2015 and valued at \$2500.00; two bar fridges for the MD, purchased on the 14<sup>th</sup> of March 2015, and valued at \$1,200.00; a mazda familiar purchased on the 12<sup>th</sup> of December 2012, valued at \$22,000.00. The open market value of the above is \$10,000.00; \$1,200.00; \$600.00; \$6,900.00, respectively.

Calculate the tax payable by Mr Mbambo.

(4)

5. Great Zimbabwe University, a state university registered with the Ministry of Higher and Tertiary Education, owns a state- of- the- art gymnasium used by its students. However, every school holiday, the gymnasium is hired out to the Masvingo Under 21 Gymnastic Team to practice and the charge is \$100,00 per day.

What are the VAT consequences of such a supply, if any?

(3)

6. Explain the fundamental difference between a "tax invoice" and an ordinary "invoice".

(2)

7. British Airways on the Johannesburg - Harare route develops a mechanical problem whilst in Harare. Air Zimbabwe Corporation, being a registered operator supplies the requisite parts for an amount of \$10,500, 00.

What are the VAT consequences for such a supply, if any?

(2)

8. State and explain three (3) instances where input tax incurred on 'entertainment' can be claimed by a registered operator. (3)

9. Ruvarashe an association not for gain which is registered for VAT was paid \$10,000.00 by BancABC to assist in the preparation of an all stakeholder event of be hosted by Ruvarashe to raise awareness of its programmes. However, the bank requested Ruvarashe to host the bank's banners showing its products.

What are the VAT implications in these transactions? (2)

10. What are the key elements of the definition of 'trade'? (3)

11. Explain the concept of 'notional' input tax in as far as the purchase of fixed property is concerned. (4)

12. Under what circumstances will a person not be required to register for VAT even when he has surpassed the registration threshold of \$60,000.00? (2)

13. The return of goods in consequence of repossession from a defaulting debtor is deemed to be a supply of goods.

Under what circumstances will such a supply not be subject to VAT? (2)

14. State two (2) circumstances in which the Commissioner may issue an assessment of VAT. (2)

15. What are the three specific times of supply rules for supplies between connected persons? (3)

16. PPC, a Registered Operator, in the business of selling cement s decided to promote sales of cement by issuing discount vouchers to their customers for redemption at selected hardware shops. A client tenders the voucher to Mahommed Mussa and is offered a 20% discount on purchase of cement that normally costs \$12.

How much output tax does Mahommed Mussa have to account for? Are there any input implications? If they are to whom and how much is claimable? (3)

17. A registered operator in the business of accepting bets accounts for output tax and claims input tax from which sources. (2)

18. What is the "time and value of supply rules" for the following provisions:

a. Goods imported into Zimbabwe;

- b. Cessation of trade
- c. Repossession under instalment credit agreements. (3)

## **SECTION B: 50 MARKS**

### **QUESTION 1**

Jonso P/L is a VAT registered operator specializing in manufacturing paint and dyes. The company opened a new factory in Graniteside near the residential suburb of Sunningdale. Some of Jonso's employees failed to find accommodation near its factory due to the lack of residential accommodation in the area. A local builder, Mr Nkomo, identified this as an opportunity and constructed a mixed-use building near Jonso's factory consisting of 150 one-bedroom flats as well as office space. Mr Nkomo then sold the property to Jonso for \$57 million (including VAT) on 1 June 2013. This price is made up as follows:

- Land: \$5 700 000.
- Residential accommodation: \$17 100 000.
- Commercial space: \$34 200 000.

The Commissioner has ruled that 40% of the property is used for commercial purposes. Jonso let the residential accommodation (all 150 flats) to its employees at a monthly market-related rental of \$1 000 per flat from 1 June 2013. The finance and human resources divisions of Jonso occupy the commercial space.

Because Jonso did not have sufficient cash to pay for this property, Mr Nkomo agreed to accept equity shares in Jonso instead of a cash payment. Jonso accordingly issued 30 000 of its equity shares to Mr Nkomo on 1 June 2013. The market value of an equity share in Jonso, as determined by an accredited valuation expert, was \$1 900 at that date. In determining the value per share, the valuation expert took into account the value of Nkomo after the purchase of the property.

### **REQUIRED:**

What are the VAT implications of the above transactions? Calculate the VAT payable, if any. Please cite relevant legislation. [25 Marks]

## QUESTION 2

Muzungu Incorporated is a Zimbabwean registered company with interests in property development and sales imported goods. The company's major assets are the following:

- Commercial property in Southerton;
- A block flats in Chitungwiza;
- Shares in Makewood Ltd, a local company; and
- Shares in Dopiro Plc, a foreign company.

The following is an extract from the accounting records of Muzungu for the year ended 31 December 2014:

|  | Notes | \$        |
|--|-------|-----------|
| <b>Income</b>  |       | 2 028 400 |
| Sales of goods   |       | 650 000   |
| Rental from Southerton commercial property             |       | 540 000   |
| Rental from a block of flats in Chitungwiza            |       | 175 000   |
| Local interest   |       | 125 000   |
| Local dividends  |       | 188 400   |
| Other Income   | 2.1   | 350 000   |
| <b>Expenditure</b>                                     |       | 1196528   |
| Maintenance cost of the Southerton commercial property |       | 244 840   |
| Maintenance cost of block of flats in Chitungwiza      |       | 100 000   |
| Trustee remuneration                                   |       | 21 388    |
| Audit fees   | 2.2   | 20 420    |
| Air tickets and travel costs for the MD                | 2.3   | 26 880    |
| Annuity  |       | 105 000   |
| Other expenditure                                      | 2.4   | 678 000   |

## Notes

2.1. Included in this figure is a receipt of insurance claim amounting to \$140 000 for the Finance Director whose Mercedes Benz ML350 was damaged beyond economic repair. The motor vehicle is a property of the company. An amount of \$100,000.00 is also included and represents credit notes received and debit notes issued by Muzungu.

2.2. The amounts relate to an audit done on the company's pension fund arm.

2.3. Air tickets are inclusive of VAT and were for the MD's holiday. However, of this amount, \$3,000.00 related to payments for the MD's children.

2.4. this amount includes export development expenditure incurred in Switzerland amounting to \$179 000; purchase of 3 flats to let out as residential units valued at \$260 000 from a VAT registered property developer and the remainder being for trading stock and purchased from a registered operator;

Amounts are inclusive of VAT where applicable.

## REQUIRED:

Discuss the VAT implications of the transactions above. Calculate the VAT payable by the company in the relevant financial year. Support your answers with appropriate legislation. [25 MARKS]

## QUESTION 3

On the 23<sup>rd</sup> of November 2013, Solomon Trading, a VAT registered operator who is in the business of diamond exploitation decides to cease trading as a result of the new government policy compelling all diamond companies to merge into one company.

The company has the following goods on hand before cessation of trade:

- 2 x double cab Isuzu vehicles (total cost at purchase, was \$40000.00);
- tea urn for staff teas (cost \$150,00),
- 1x refrigerator used in the subsidized staff canteen ( cost , \$1,200,00),
- 1 x 4 – plate stove for the canteen ( cost \$500,00),
- a 5 tonne truck (purchased for \$25000. 00);

- mining rights to Sengwe Coal Mine (purchased for \$12000.00);
- 2 x Excavators ( cost \$350 000.00);
- Computers and accessories (purchased for \$2500.00);

The open market value of the above goods was, \$30000.00; \$220,00; \$1100,00; \$550,00; \$ 15000.00; \$15000.00; \$230 000.00 and \$ 2000.00, respectively.

**REQUIRED:**

Discuss the VAT implications of the above transactions, citing relevant sections of the VAT Act. Calculate any VAT payable or refundable if any.

[25 Marks]

**QUESTION 4**

- a) Marengwa Logistics (Pvt) (Ltd) operates a truck and local bus transport service. The company is registered for VAT on an invoice basis and accounts for VAT on a monthly basis and has a financial year end of the 28<sup>th</sup> of February.

On the 1st of March 2013, Marengwa Logistics (Pvt) (Ltd) imported a high- tech wheel balancing machine for \$35000.00 (including import VAT). The company's financial statements for the previous financial year shows that of the total revenue figure of \$1 300 000, 00 one-third came from the haulage truck business. In the same tax period the company purchased a second building from Mr Madala, a non-registered operator, for \$150 000,00. The building is to be used as workshop for servicing the company's truck. The building was registered in the company's name at the Deeds Registry during the same period and Stamp Duty in terms of the Stamp Duty Act was paid. The rate of stamp duty is 10% of the purchase price.

**REQUIRED:**

- What are the VAT implications of the above transactions?
- Calculate input tax, if any, that is payable by Marengwa Logistics.
- Calculate any input tax deductible by Nice Village Lodge;
- Please cite relevant legislation;

[12.5 MARKS]

- b) Nice Village Lodge, a registered operator for VAT purchases food valued at \$15,000.00 (including VAT), for the purpose of providing meals to its guests at a charge which covers both direct and indirect costs. However food valued at \$4,000.00 is prepared and under the lodge's social responsibility programme, is donated to Nherera Children's Home. The lodge, during the same tax period, stages a promotion in honour its clients who have stayed at the hotel more than twice in a month. It purchased neck ties, hand bags and pens and personalized these in the names of its clients. It also offered 1 free night bed, breakfast and lunch. The total value of the promotional items is \$1,200.00 (including VAT). Of the remainder of the food valued at \$10,000.00, employees consume food, being left overs, valued at \$1,250.00.

**REQUIRED:**

- i. What are the VAT implications of the above transactions?
- ii. Calculate input tax, if any, that is payable by Marengwa Logistics.
- iii. Calculate any input tax deductible by Nice Village Lodge;
- iv. Please cite relevant legislation;

[12.5 MARKS]

**END OF EXAMINATION PAPER**