



**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 TWO questions from section B.
2. Quote relevant legislation where applicable.
3. Write legibly.
4. Show workings

**INFORMATION FOR CANDIDATES**

The paper contains Six (6) printed papers including cover page.

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 (COMPULSORY)**

1. List any 5 foodstuffs that are zero rated in terms of the Value Added Tax (General) Regulations of 2003. **(3 marks)**
2. Mbare High School, a secondary school registered with the Ministry of Primary and Secondary Education, owns a state- of- the- art gymnasium used by its students. However, every school holiday, the gymnasium is hired out to the Mashonaland 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 marks)**
3. Explain the fundamental difference between a "tax invoice" and an ordinary "invoice". **(2 marks)**
4. South African Airways on the Cape Town - 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 marks)**
5. State and explain three (3) instances where input tax incurred on 'entertainment' can be claimed by a registered operator. **(3 marks)**
6. Contrast a taxable supply from an exempt supply. **(1 marks)**
7. What are the four conditions governing voluntary registration of any person for VAT purposes? **(4 marks)**
8. Explain the concept of 'notional' input tax in as far as purchase of fixed property is concerned. **(3 marks)**
9. Under what circumstances will goods sold in execution of debt not attract VAT? Where VAT is payable, when is the return submitted and who is liable for the payment of tax? **(4 marks)**
10. State five (5) circumstances in which the Commissioner may issue an assessment of VAT. **(5 marks)**
11. What are conditions governing the submission of special returns for goods sold in execution of a debt? **(4 marks)**
12. What are the three specific times of supply rules for supplies between connected persons? **(3 marks)**
13. PPC, a Registered Operator, in the business of manufacture of cement has decided to promote sales of cement by issuing discount vouchers to their customers for redemption at Mohamad Mussa Wholesalers in Harare. A client

tenders the voucher to Mohamad Mussa Wholesalers and is offered a 20% discount on purchase of cement that normally costs \$15. How much output tax does Mohamad Mussa Wholesalers have to account for? Are there any input implications? If they are to whom and how much is claimable? **(5 marks)**

14. What is time and value of supply rules for the following deemed provisions:

- a. Cessation of trade.
- b. Lay by agreements.
- c. Repossession under an instalment credit agreement. **(2; 2; 2 marks)**

15. What are the sanctions governing failure by the messenger of court to pay VAT in terms of Section 29 of the VAT Act? **(2 marks)**

## **SECTION B: 50 MARKS (ANSWER ANY TWO QUESTIONS)**

### **QUESTION B1**

On the 2<sup>nd</sup> of February 2012, Montana Investments, a VAT registered operator in the business of soap and cosmetics manufacture, decides to cease trading as a result of the fall in business due to competition from Chinese products. The company has the following goods on hand before cessation of trade.

<b>Item</b>	<b>Date Purchased</b>	<b>Qty</b>	<b>Cost</b>	<b>Open Market Value</b>
Stock	2011	3	\$400,000.00	\$300,000.00
Tea urn for staff teas	2006	2	\$150.00	\$ 200.00
5 tonne truck	2008	3	\$35,000.00	\$45,000.00
Machinery and Equipment	2007	1	\$222,000.00	\$ 222,500.00
Mazda 6	2010	3	\$90,000.00	\$95,000.00
Computers	2011	1	\$2500.00	\$2,000.00
Office refrigerator	2010	2	\$1200.00	\$900.00
4 – plate stove	2011	1	\$500.00	\$450.00

### **Notes**

- Refrigerator used in the subsidized staff canteen
- Tea urn for staff teas;
- The mazda6 were used by the company's marketing executives

**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 B2**

The following is extracted from Delta Beverages management accounts for February 2010.

- a) Delta Beverages, a Registered Operator, has decided to promote sales of Sprite, an aerated beverage drink, by issuing discount vouchers to their customers for redemption at selected supermarkets on purchase of a crate. A client tenders the voucher to Marimba Spar and is offered a 10% discount on purchase of a crate of the drink that normally costs \$25.
- b) The company also operates soft drink vending machines at Meikles Hotel. Meikles Hotel buys tokens for drink vending machine provided on its premises by Delta Beverages amounting to \$2500 (VAT included). Delta Beverages issues Meikles with a tax invoice for the payment on 26 January 2010. The tokens are used by residents of the hotel on the 2nd of January 2010 but are only cleared from the machine on the 15<sup>th</sup> of February 2010.
- c) Mr Moyo, the Marketing Executive for Delta Beverages attended a two day business conference held at Lake View Hotel in Kariba. The company incurred the following expenses for the trip:
  - Accommodation for two nights , inclusive of bed and breakfast - \$550.00
  - Business lunch and drinks with associates - \$250.00;
  - Sunset cruise with business associates -\$200.00);
  - Bunjee jumping - \$150.00;
  - Drinks in the hotel bar - \$95.00

**REQUIRED:**

- a) How much output tax does Marimba Spar have to account for? **(5 marks)**
- b) Are there any input implications? **(5 marks)**
- c) If they are to whom and how much is claimable? **(5 marks)**
- d) What is time of supply for both the recipient and the supplier and when does Meikles claim input tax? **(5 marks)**
- e) What are the VAT implications? **(5 marks)**

### QUESTION B3

The following transaction was recorded at the Mutare Polytechnic College an education institution registered with the Ministry of Higher and Tertiary Education.

- The institution upgraded its software by installing the latest version of anti-virus in its computers. It contracted M-web, a local company to install the anti-virus at a cost of \$1,500.00 (VAT at 15% included). It also contracted Linux Computers, a Mozambican based company, which charged \$1,800.00 for the upgrade. The open market value for the upgrade is \$1,500.00
- The institution hired out its students residents to churches for conferences during semester breaks in 2012 and 2013 the following is the information:
  - Roman Catholic Church conventions in the last two years at a cost of \$35,000.00 per semester break.
  - UFI conventions in the last two year at a cost of \$35,000.00 per semester break.
- The sports field is leased to Manicaland Rugby Club, for its training, for a monthly rental of \$2,000.00 per month and Buffaloes Football Team, for \$2,000.00 per month, for the last two years.

#### REQUIRED:

Briefly discuss the VAT implications, if any, of the above citing the relevant sections of the Act. Calculate the VAT payable if any and by whom. **(25 marks)**

### QUESTION B4

World Vision, a registered operator, is an association not for gain registered under the Private Voluntary Organisations Act [*Chapter 17:05*]. The main purpose of the organization is sourcing for and distribution of relief food and clothing to vulnerable communities in Zimbabwe. The following transactions were recorded in the organization's books.

- The Zimbabwean Government through the Ministry of Finance gave the organization an amount of \$12500,00 as a transfer payment to enable the foundation to buy clothing for distribution to the community.

- Bulawayo City Council also donated \$15,000.00 to World Vision with the condition that the full amount be used to purchase basic foods for distribution to beneficiaries of the organization.
- The organization purchased food items and clothing worth \$1,500.00 (VAT Inclusive) and a valid tax invoice was obtained.
- Pick 'n Pay also donated food hampers worth \$250.00 to the foundation for onward distribution to beneficiaries.
- Mutare Fabric donated cotton fabric, buttons, zippers and sewing thread worth \$2,000.00. The foundation procured free services of local tailors to sew children's garments. All the items were sold at a flea market for \$7,000. 00.
- BDO, an accounting firm donated \$10,000.00 cash. The money will be used to purchase a variety of basic foods. The firm request that a banner with their name be displayed at the tables where this food is handed out. The people that will be handing out the food will also be required to wear an apron with the firm's logo reflected on it.

**REQUIRED:**

You are a VAT Consultant and World Vision has asked for your opinion on the VAT implications of the above transactions. **(25 marks)**

**END OF EXAMINATION PAPER**