



**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 2015  
TAXATION ACCOUNTING [CFS 4105]  
TIME ALLOWED: THREE (3) HOURS**

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**INSTRUCTIONS TO CANDIDATES**

- 1) Answer **ALL** questions.
- 2) Read questions carefully and address all parts of the question.
- 3) Questions may be written in any order, but must be legibly numbered.
- 4) Write neatly and legibly.

**ADDITIONAL INFORMATION FOR CANDIDATES**

- 1) The paper contains **FOUR (4)** questions.
- 2) This paper consists of **EIGHT (8)** printed pages, including cover page.

**ADDITIONAL MATERIAL**

- 1) None

### **QUESTION ONE [30 MARKS]**

(a) ABC Ltd (ABC) is a company that owns undeveloped land in Bulawayo. The company has been experiencing cash flow problems for quite some time now. It plans to use the undeveloped land to build an Industrial building. ABC enters into a 20 year lease agreement with DEF Ltd (DEF) for the development of the land. The terms of the agreement are as follows:

1. DEF to construct an industrial building and a Dura wall on the land at a cost of not less than \$300,000 for the industrial building and \$100,000 for the wall.
2. DEF to make use of the property for the duration of the lease subject to payment of a monthly rent of \$16,000 and a once off premium of \$120,000.
3. The lease agreement was signed on the 1<sup>st</sup> of January 2014, on which date the rent and premium were duly paid. The construction of the building and Dura wall commenced soon after signing of the lease agreement. The construction period was 3 months.
4. The industrial building and the Dura wall were constructed and with the agreed costs and time frame and brought into use by DEF on 1 May 2014.

DEF was granted a loan by CBC Bank of \$100,000 on 1 February 2014 in order to be able to complete the construction of the industrial building and Dura wall. The interest rate on the loan was 15% per annum. DEF paid a total of \$56,000 in provisional tax for the year ended 31 December 2014. Mr Ncube the accountant calculated the taxable income for the year ended 31 December 2014 at \$560,000 without taking into account the lease agreement provisions and the bank loan.

#### **Required**

- (i) Calculate the adjusted taxable income and tax payable by DEF Ltd for the year ended 31 December 2014. **[10]**
- (ii) Discuss with the aid of calculations how the lease would be treated in the books of ABC Ltd. **[5]**

- (b) Wayne Ronaldo runs a business in Plumtree. He was retrenched from employment recently. In Bulawayo, he owned a lot of properties including a house which was his principal private residence. He relocated to Plumtree on 31 May 2012. On his location he found a tenant Mr Mafu and started to rent the property from 1 June 2012.

After many years of working in Plumtree, Wayne decided to sell his property in Bulawayo. One of the properties that he wanted to sell was his PPR. He entered into an agreement with Mr Mafu on 15 September 2014. The sale price agreed as is as follows

	<b>Date acquired</b>	<b>cost</b>	<b>selling price</b>
Principal residence	31 May 2010	240,000	400,000
Security Wall	25 February 2011	60,000	100,000
Permanent shed	27 July 2012	100,000	140,000
Swimming pool	20 July 2012	40,000	60,000
Equipment (swimming pool)	20 July 2012	20,000	40,000
Furniture	22 May 2012	80,000	120,000

Wayne incurred expenses amounting to 10% of the selling price in connection with the disposal of his property

### **Additional information**

On 25 December, Wayne offered his son Matty a wedding gift of his other property valued at \$10,000. Wayne had originally acquired this house in Emganwini for \$6,000 in 2009.

Wayne has always claimed maximum capital allowances

### **Required**

- (i) Explain the capital gains implication of the wedding gift. Calculate the capital gains if any associated with the gift. **[4]**

- (ii) Calculate the income tax and capital gains tax payable by Wayne as a result of the disposal of his principal private residence in the year ended 31 December 2015. [9]

- c) Outline the tax treatment of a principal private residence which is used for business purposes [2]

## **QUESTION TWO [20 MARKS]**

NUST Ltd is a company that is involved in the retail trading. It has been operating for the past three years in the retail sector. The current year of its trading is 31 December 2014. The company has been facing difficulties, and had assessed tax losses for the past two years of \$70,000 and \$44,000 respectively.

The Statement of Profit or Loss for the year ended 31 December 2014 was as follows:

	\$
Gross profit	900,000
Bank interest received	4,000
Company dividend received	40,000
Prior period suspense account	70,000
Motor vehicle expenses	(28,000)
Insurance and licensing	(14,000)
Marketing expenses	(50,000)
Depreciation	(74,000)
Salaries and wages	(230,000)
Staff pension contributions (5 employees)	(70,000)
Staff medical aid contributions	(80,000)
Entertainment	(20,000)
Repairs and maintenance (1)	(60,000)
Legal fees (2)	(6,000)
Donations to a local church	(16,000)
Renewal of operating licence	(18,000)
Other administrative expenses	(90,000)
Interest paid (3)	<u>(24,000)</u>

Net profit before tax

**234,000**

**Notes**

1. The repairs and maintenance costs all relate to the purchase of permanent fixtures and fittings
2. The legal fees were in respect of employee contracts
3. The interest paid was in respect of a loan to purchase shares in another company

**Additional information**

Nust Ltd non- current assets register shows the following assets which have been used since the commencement of trade

	\$
Furniture and fitting	80,000
Commercial vehicles	200,000
Office equipment	60,000
Three passenger Motor vehicles	<u>100,000</u>
	<b><u>440,000</u></b>

**Required**

Calculate the taxable income and corporate tax payable by Nust Ltd for the year ended 31 December 2014

**[20]**

**QUESTION THREE [25 MARKS]**

You have just been employed as an editor of a popular tax magazine. The following issue have been raised:

**Issue 1**

Nat Meal is a popular restaurant in Bulawayo. The restaurant mainly serves crocodile meat which is a popular dish for mainly tourists. The major reason why it is popular is for the fact that it is poisonous. This meat is considered a delicacy, and an expert chef removes the poisonous part of the meat during the preparation.

A customer of Nat Meals recently was hospitalised after having consumed the crocodile meat that had been incorrectly prepared by the chef. Following a claim for damages, the restaurant was compelled to pay the customer \$15,000 as compensation.

**Required**

Advise Nat Meals, whether the compensation payment for damages will be allowed as a deduction for tax purposes. Use relevant case laws to help you answer the question. [8]

**Issue 2**

Mrs Dube decided to withdraw her interest-bearing investments at CBC bank and move her money to the her residence. This meant that she missed out on the opportunity to earn interest (some \$22 000 according to her calculations, based on the period since realising her investments and moving such money to her safe).

Mrs Dube has approached you for advice regarding the possibility that ZIMRA will include the \$22,000 as part of her gross income for the 2014 year of assessment.

**Required**

Discuss with relevant case law and legislation the amount that will be included in her gross income for the 2014 year of assessment [10]

**Issue 3**

Peter earned a salary of \$16,000 at DAJ Ltd for the year ended 31 December 2013. He elected to receive only \$12,000. The unpaid balance was credited to Peter's accounts in the books of DAJ and paid to her on 15 March 2014.

Because of the good years profit in 2014 the directors of DAJ declared a profit sharing in 2014 and Peter was entitled to \$22,000. The money was only paid to him on the 20<sup>th</sup> of June 2015.

**Required**

Advise Peter on the amount that must be included in his gross income for the 2014 year of assessment. Include relevant case law and legislation in your answer [7]

#### **QUESTION FOUR [25 MARKS]**

With reference to legislation and case law, explain how the following items will be treated in the 2014 year of assessment:

##### **Alfonso Zvebanu**

Due to Alfonso's magnificent performance for the Zimbabwean boxing team during the 2015 All Africa Games, he received a new BMW 1 series vehicle from one of the official All Africa Games sponsors, to the value of \$60,000 on 1 September 2015.

He wants to know whether he will be taxed on this award. [5]

##### **Lucky B**

Lucky B inherited money from his grandmother in 2006. He used the money to buy two houses in Nketa at a price of \$20,000 each. He has been receiving rental money from the houses of \$200 per month, which he has since declared to ZIMRA.

On 1 June 2014 he decided to sell the houses for \$30,000 each since he was immigrating to Australia.

##### **Required**

Discuss with reference to case law whether the money that he received as rental and the one that he received from the disposal of houses will be included in his gross income for the 2014 year of assessment. [10]

##### **Mrs Thief**

Mrs Thief a bookkeeper at Nust Ltd misappropriated a sum of \$180,000 over a two year period. When she was confronted, she broke down and confessed to the crime. Since she had used the money to pay for the hospital fees for her son, she had no assets to be sold to give back the money to Nust. She was found guilty by the court, but due extenuating circumstances found by the judge she was given a suspended sentence. The employer took no further action.

**Required**

Discuss with relevant case law and legislation as to whether the amount of \$180,000 should have been included in Mrs Thief gross income. **[10]**

**END OF EXAMINATION PAPER**